

Monthly update

October 2016

The Basel Committee is reported to have made substantial progress towards completing its reforms by year-end. Feedback to its policy proposals and the results of its cumulative quantitative impact study will feed into a final package of reforms, aiming to reduce variability in risk-weighted assets and to restore credibility to banks' risk-based capital ratio. We will provide a more detailed report in our next edition.

Meanwhile, the Commission continues to seek to maintain momentum towards Capital Markets Union (CMU). In response to the UK referendum result, there is renewed recognition of the need to keep the CMU project on course and calls to accelerate reforms. The Commission's latest report outlines progress on various legislative initiatives and provides the forward agenda on other matters, including ambitious plans to tackle insolvency laws and withholding tax procedures.

▶ Key developments...

European banking regulators focus on liquidity stress testing

In recent weeks, the European Central Bank (ECB) has made it clear that the 2016 Internal Liquidity Adequacy Assessment Process (ILAAP) responses did not meet their expectations. There have been significant efforts from regulators to harmonise and improve the transparency of ICAAPs and capital management processes and it is reasonable to expect that harmonization of liquidity stress tests will be high on the agenda of the ECB throughout 2017. Banks should be working now to ensure that they have liquidity risk strategies that are proportionate to their business, compliant with regulatory requirements and, critically, provide value to the firm in mitigating future stresses and informing investment decisions. [More...](#)

EBA extends deadline on remuneration guidelines

On 28 September 2016, the European Banking Authority (EBA) published its final [Guidelines](#) on remuneration policies and practices related to employees involved in the sale of retail banking products and services. The EBA highlighted the link between poor remuneration policies and practices, and significant cases of misconduct and miss-selling by staff in financial institutions in recent years. The EBA has decided to postpone the application date of these Guidelines from 3 January 2017 to 13 January 2018. Therefore, firms do not need to change their remuneration policies and practices for the coming year, although they should consider the Guidelines when evaluating their remuneration policies and practices for 2017, to ensure a smooth transition when they come into force. [More...](#)

Meeting Basel 3 requirements

The Basel Committee and the European Banking Authority (EBA) have published their latest monitoring of how banks are performing against the fully phased-in Basel 3 (or CRR/CRD4 in Europe) capital, leverage and liquidity standards, using data at end-2015. Major European banks have improved their capital and leverage ratios but are well behind major banks elsewhere in the world on the leverage ratio and the net stable funding ratio (NSFR). 'Basel 4' may in due course reveal shortfalls that are not covered in the Basel and EBA exercises. [More...](#)

On-site supervision

Harmonization within the Single Supervisory Mechanism (SSM) community is a broadly understood goal of the new supervisory landscape. Such purpose is undertaken through the harmonization of methodologies and approaches and the close collaboration between the European Central Bank (ECB) and the National Competent Authorities (NCAs) with respect to different supervisory processes, such as the on-site inspections. In this regard, the ECB is currently drafting a 'Guide to on-site inspections', aimed at achieving higher transparency and a more efficient process. The aforementioned document will be published for public consultation soon in order to receive the industry feedback. [More...](#)

EBA draft guidelines on credit risk management and accounting for expected credit losses

In July 2016, the European Banking Authority (EBA) published its consultation paper on guidelines on credit institutions' credit risk management practices and accounting for expected loss, which provide guidance on how firms should implement the expected loss calculations contained within impending



Angela Manolache
Partner, Governance,
Risk & Reporting
amanolache@kpmg.com



Georgiana Nita
Senior Manager,
Governance, Risk &
Reporting
gnita@kpmg.com



Calina Iacob
Senior Manager,
Governance, Risk &
Reporting
ciacob@kpmg.com



Florin Mitrofan
Manager, Governance,
Risk & Reporting
fmitrofan@kpmg.com

KPMG Romania SRL

Victoria Business Park,
DN1, Soseaua
Bucuresti - Ploiesti
nr. 69-71, Sector 1,
Bucuresti, Romania
P.O. Box. 19 - 191
Tel: +40 (372) 377 800
Fax: +40 (372) 377 700

Internet: www.kpmg.ro

accounting standards like IFRS9 and CECL – Current Expected Credit Loss. The EBA paper follows closely the Basel Committee Banking Supervisions (BCBS) guidelines, with large amounts of text copied from one document to the other. However, there are some significant differences. [More...](#)

Keeping course on Capital Markets Union

A shadow fell over Capital Markets Union (CMU) after the UK's Brexit vote. However, Vice President Dombrovskis, the new European Commission official responsible for CMU, is showing determination to keep the project on course, including a recent communication sent to other EU institutions calling for an acceleration of reforms. The key challenge for those wanting CMU to succeed will be maintaining momentum on the major building blocks while factoring in optionality for the outcomes of the UK's Brexit negotiations. [More...](#)



On the radar...

26 October: EBA consultation deadline on guidelines on credit risk management practices and accounting for expected credit losses

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Our team believes in knowledge and passion for what we do builds value. As such, we strive to proactively bring our clients top products to enable them to succeed in their business activities. At the forefront of advising banks on regulatory change, we are here to help you successfully navigate the complex maze of interlinked European regulations.

Let's meet and discuss on how we can add tangible value to your organization.

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