KPMG's European Central Bank Quarterly Update

May 2016

The European Central Bank (ECB) issued its annual report in March in which it outlines some interesting facts and figures related to the general administration of its supervisory activities; for example, that the ECB conducted 250 on-site missions last year, is operating at full capacity with 1,000 members of staff and charged nearly €300mn in supervisory fees during 2015. The report also re-emphasised the ECB's supervisory priorities for 2016, for which we provide commentary in this newsletter on the progress on IFRS 9, risk data aggregation, and non-performing loans.

The ECB issued clarity around Maximum Distributable Amount (MDA) in February, which was viewed as relief by most in the industry, but it remains to be seen how the ECB will articulate Pillar 2 requirements and MDA's effect on additional tier-1 (AT1) bonds.

We are in the height of the EBA Stress Test; banks have issued their first round responses to the supervisor and the supervisor's challenge process has now started. It will be interesting to see the results published later this summer, and to see what progress has been made since the financial crisis, and also to identify trends across the EU banks and peer groups using our new KPMG Peer Bank tool.

ECB Annual Report on supervisory activities?

The ECB published its annual report on supervisory activities in March. It provides useful insight into the 2016 priorities and workings of the ECB as a supervisor. The report summarizes the ECB's supervisory priorities and acknowledges that the key priorities are unlikely to be fully addressed within one year and will remain on the list in future years.

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The hurdle rates in EBA's Stress Test 2016

The European Banking Authority's (EBA) stress test 2016 has reached its peak. Institutions submitted to the EBA the results and explanatory note for the first part of the test in April. Now, it's time for the supervisors to run their process of challenging the banks' submissions.

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European authorities' view on IFRS 9

The transition to IFRS 9 is one of the ECB's supervisory priorities for the coming years. From the Supervisor's perspective, IFRS 9 provides a better alignment between risk management and accounting practices; the ECB has a keen interest in accounting standards that properly reflect the economic substance of transactions and do not compromise financial stability.

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Maximum Distributable Amount – some clarity achieved

Maximum Distributable Amount is one of those areas that has brought about confusion for the sector in recent months; uncertainty around the EBA's interpretation of MDA even triggered huge sell-offs of Tier 1 bonds early in the year. The ECB issued a document offering clarity, but the coast is not yet clear as we wait and see how technical groups within the European Commission will view the proposals.

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The ECB’s 2016 thematic review on risk data aggregation and reporting

The ECB is conducting a thematic review to assess bank’s compliance with BCBS 239 principles; it will apply a two-tier, two-step approach in line with overall priorities within the SSM and thus will reinforce the follow-up actions on SSM’s 2015 thematic review of risk governance and risk appetite.

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The reason for peer analysis

The ECB’s requests for data and information have brought about significant change for banks. In the ECB’s effort for harmonisation, the data must meet strict requirements with respect to availability, internal consistency and quality.

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Non-performing loans – setting expectations to meet SSM priorities

Few subjects unite the views of Italian politicians, US bankers, Brussels technocrats, IMF economists and Frankfurt supervisors. One that does is the need for **European banks to deleverage their Non-Performing Loans (NPLs)**. Achieving this is one of the **SSM’s key priorities for 2016**, though in reality, it may prove to be a 10-year project.

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Integrated planning and management

Following the financial crisis banks – and their supervisors – are monitoring closely the wide range of regulatory key performance indicators (KPIs) that have been introduced. All of these are of more or less equal importance, since as a violation of any one of them may cause supervisory action, and in extreme cases more severe and formal disciplinary actions.

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- Contact the ECB Office: de-ECB-Office@kpmg.com
- Visit KPMG’s ECB Office online

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