



# KPMG's European Central Bank Quarterly Update

## September 2016



Welcome back from Summer holidays. With rest and relaxation behind us now, KPMG's ECB Office looks forward to refocusing on the SSM priorities and key regulatory issues facing banks across the Eurozone. Hot off the press, the ECB has published its [Draft Guidance to Banks on Non-Performing Loans](#). One interesting point is that all banks (even those with low NPLs) will be expected to apply several chapters of the guidance, so it will have a widespread impact. The ECB will invite comment on the Guidance in the coming months before the guidance goes into effect. KPMG's ECB Office will soon publish an alert on this and the combined impact of this Guidance and the [EBA report on NPLs](#).

At the end of July the European Banking Authority released the results of the Stress Test 2016, which have revealed that the banking sector is more resilient than in 2014, but this is offset by high credit risk, poor profitability and other factors. The stress test results should be seen in the wider context of continuing regulatory reform and the introduction of IFRS 9, the impact of which was not tested in this exercise. KPMG published an [alert](#) on this that covers further implications for banks.

One of the more interesting events of the summer was the historic Brexit referendum that sent a shudder through the financial services industry, and has left Europe in a quandary as to what will happen to its primary banking hub in London. While the market stresses have been contained, there have been a [wide spectrum of reactions](#) from the ECB.

Despite the uncertain economic landscape derived from Brexit, firms must continue to manage the complex suite of issues before them, including SREP 2016, cyber security as one of the top risks among banks, and the recently adopted AnaCredit Regulation that will bring significant changes to banks' reporting systems, credit databases and processes. We cover each of these topics in this newsletter along with MREL and a high-level comparison of ECB and recently published EBA priorities.

## SREP 2016 vs. SREP 2015 – how will they compare?

4 November will mark the second anniversary of the European Central Bank (ECB) as banking supervisor. This second year of supervision will end with a communication to the significant banks regarding the capital decision on the SSM common Supervisory Review and Evaluation Process (SREP) methodology for the ongoing assessment of credit institutions' risks, governance arrangements and capital and liquidity situation, which have been carefully tailored to the Eurozone banks' situations. The question on the mind of many in the banking sector is, "Is SREP 2016 going to be comparable to SREP 2015?"

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## The ECB adopts AnaCredit Regulation

On 18 May 2016 the Governing Council of the European Central Bank adopted the regulation of the collection of granular credit and credit risk data, known as the Analytical Credit and Credit Risk Dataset (AnaCredit). This is a project and definitely the largest project undertaken by the statistics team of ECB, with the aim is to use the detailed information not only for monetary policy purposes but also for macroprudential and for microprudential purposes in the context of the Single Supervisory Mechanism (SSM).

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## Cyber security is the most prevalent IT risk among banks

Two recent KPMG surveys have found that cyber security issues rank highest among risks and facing G-SIFIs. This seems to confirm the trend over recent years where the industry has been stricken by a number of cyber-attacks on banks. There are a number of initiatives taking place around the world, but what is needed is a harmonized European guideline.

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## MREL – Impact on funding and business strategy still unknown

The Banking Recovery and Resolution Directive (BRRD) which entered effect on 1 January 2016 sets out the EU approach to avoiding the bailout of banks with public money. This is achieved by requiring banks to have a funding structure with a certain proportion of liabilities that can be written off or converted into equity in the event of a bank failure (that is: “bailed-in”). Such liabilities, in combination with equity, are known as MREL (Minimum Requirement for Own Funds and Eligible Liabilities). The MREL-requirements and criteria within the BRRD have recently been elaborated further by the EBA in the final version of a Regulatory Technical Standard.



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## Joint efforts: A comparison of the EBA key areas of focus 2016 with ECB’s priorities 2016

On June 15 the European Banking Authority (EBA) published its annual report where it laid out its key areas of focus for 2016. Not surprisingly, the EBA’s work areas for 2016 overlap with some of the [European Central Bank \(ECB\) priorities for 2016](#), however, it is interesting to see how these are intertwined in detail.



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## Further insights

### EBA stress test 2016

The EBA 2016 stress test results were released on 29 July 2016. Today’s European banking system appears to have a deeper loss-absorbing capacity, combined with a heightened concern over profitability and a diminished appetite for equity from investors.

One would expect to see improved resilience of the banking sector compared with 2014, and while the overall picture of banking stability has improved, measures of banking sector strength show a mixed picture. [This KPMG alert](#) offers more detail on the results of the EBA stress test results and its implications for banks.

### Banks strategies and business models: Capital myths and realities

Responding to regulatory policy and managing supervisory expectations continue to be high on the agenda at many banks. Banks must continue to manage the complex suite of new rules enacted – or still being formulated – by global, regional and national policy setting bodies, while also navigating an uncertain economic and competitive landscape. This is complicating – and in some cases inhibiting – strategic, business model and operational decisions by banks that need to change their strategies and business models in order to address fundamental issues around profitability, viability and sustainability. This [paper](#) unpacks six myths around regulation and their impact on banks’ strategies and business models.

## Useful Links

- Contact the ECB Office: [de-ECB-Office@kpmg.com](mailto:de-ECB-Office@kpmg.com)
- Visit [KPMG’s ECB Office online](#)

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