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KPMG SSM Insights

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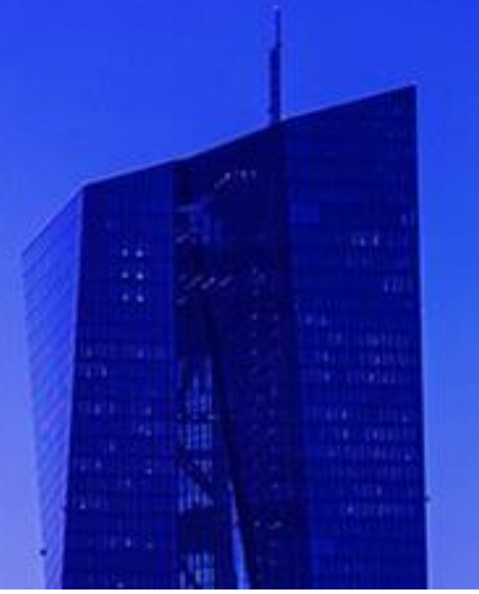


October 2024

Welcome to the latest edition of KPMG's SSM Insights Newsletter.

As we approach the end of the year, the ECB's priorities continue to evolve in response to a fast-changing landscape. Recent months have seen an increasing focus on organisational culture, with the publication of the ECB's new draft guide on governance and risk culture - which emphasises the vital role of management bodies in driving good risk management and sound decision-making.

The ECB is also paying more attention to leveraged finance. At a time of economic uncertainty and higher interest charges, prudent risk management by European banks is viewed as critical. The recent Supervision Newsletter gave an update on the ECB's review of 12 banks' portfolios using the Asset Quality Review methodology. Following significant pushback from banks and adjustments to its initial provisioning demands, the ECB now shares its AQR reports with banks. Key next step is for JSTs to specify bank specific quantitative and qualitative requirements.

The ECB's revised Guide to Internal Models only appeared in February, but changes are already afoot. As previously discussed, the revised Guide did not take the requirements of CRR III into account. The Guide must now therefore be updated in areas including the use of machine learning, the treatment of market risk following the BCBS' Fundamental Review of the Trading Book, and new levels of internal ratings-based approvals for different credit exposures. Since CRR 3 takes effect in January, the ECB has opted for virtual roundtables during Q4 instead of a full consultation.

In addition, the ECB continues to scrutinise banks' digitalisation progress and their resilience against increasing cyber-threats and operational risks. The recent conclusion of the first cyber resilience stress test and the ongoing implementation of DORA (applicable from Jan 2025) underline the ECB's expectation for banks to keep enhancing their frameworks for resilience and ICT risk management.

One particular area of concern is banks' increasing use of cloud services. The ECB has identified vulnerabilities in banks' outsourcing strategies and has released a guide on managing cloud risks, stressing the importance of robust third-party risk management and business continuity planning. This ties in with the ECB's broader efforts to bolster operational resilience.

Banks clearly face a busy few months which also includes preparations for next year's EBA and ECB macro-economic stress test! KPMG will remain alert too as we continue to monitor the evolving supervisory landscape.

Henning Dankenbring

Partner,
Head of KPMG ECB Office

Latest Insights

Anti-Money Laundering Authority

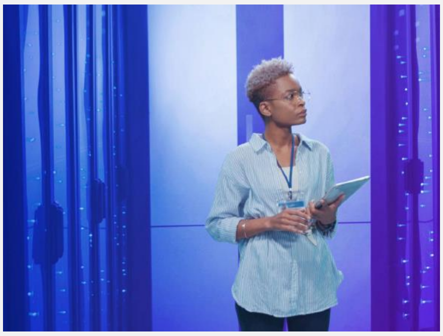
The EU's Anti Money Laundering Authority (AMLA) has been created; the coming months will see the recruitment of key decision-makers and the development of key infrastructure. Operations should commence in 2025, with the completion of the single AML rulebook in 2026. Despite this gradual start, banks should act now to begin preparing for major changes to the supervision of their AML activities.

Read more

2025 EBA stress test exercise

The 2025 stress test cycle has begun, with the ECB expected to put more weight on the results during the SREP and when setting P2G. The ECB is making increasing use of forward-looking assessments, and now expects stress test data to comply with BCBS 239. To prepare for 2025, banks should strengthen data frameworks, develop playbooks, and align stress test work with CRR 3 implementation.

Read more



Cyber risk

Banks and supervisors alike are seeking to mitigate the growing range of cyber risks facing the industry. Third party outages like this year's CrowdStrike event are a particular area of concern, given banks' growing reliance on external technology providers. Banks working towards compliance with DORA can boost their resilience to third party outages by focusing on six key areas of improvement.

Read more

IRRBB and CSRBB

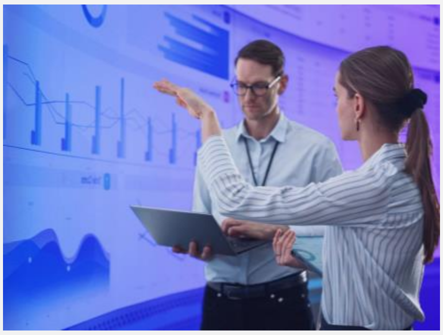
A period of volatile interest rate and credit spreads led to growing supervisory expectations around IRRBB and CSRBB. Interest rate risk management is a stated priority for the ECB, which is currently conducting targeted OSIs. KPMG benchmarking suggests that banks should prioritise data governance, changes to non-maturity deposit modelling, and a proper argumentation on banks' CSRBB scope including own issuances.

Read more

IFRS 9

The ECB has raised concerns that banks may not be sufficiently provisioning for new risks under IFRS 9. The report calls for improvements in identifying and accounting for emerging risks, as well as better stage allocation. Banks are encouraged to strengthen governance and ensure cross-functional cooperation to meet the ECB's expectations as year-end approaches.

Read more



Risk culture

The ECB has published a new Guide on governance and risk culture, placing a strong emphasis on behavioural aspects of risk management within banks. Boards and leadership teams are urged to embed risk culture as an integral part of daily decision-making, with a focus on accountability and transparency. Banks should anticipate increased scrutiny from supervisors to ensure that internal practices align with these expectations.

[Read more]

BCBS 239 compliance

The ECB is intensifying its expectations around risk data aggregation. Recent guidance highlights the need for robust data frameworks, timely data reporting, and comprehensive data governance to meet evolving supervisory standards. In our view, banks should invest in their data capabilities to align with these enhanced requirements and mitigate regulatory risks.

[Read more]

Further KPMG ECB Office insights

Find all our latest insights here and practical expertise to help you dealing with the ECB supervisory approach under the Single Supervisory Mechanism (SSM). If your colleagues would like to receive KPMG SSM Insights, they can sign-up here.

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