



# KPMG's European Central Bank Quarterly Update

## December 2016



This time of year always seems to be one of reflection and anticipation. As we look back at 2016, many likely never anticipated what the year had in store. In this newsletter we consider a few of the topics changing the landscape in Europe – new and proposed regulations and the looming Brexit negotiations. It remains to be seen what the political changes in the US will mean for the world over, while the ‘promise’ of de-regulation could most definitely alter the progress that has been made since the financial crisis to ensure that reforms are agreed and coordinated at a global level.

With that said, as we look forward to the new year, many of us will look for greater stability across the sector and the ECB has made this again its highest priority for 2017 – much of the areas of focus are consistent with the priorities from 2016 with particular focus on NPLs, business model and profitability, as well as IFRS 9 and BCBS 239, all of which are covered in more detail below.

By now, all of the SSM banks have heard back from the ECB regarding their SREP letters. KPMG has conducted its annual SREP benchmark exercise, which reveals a significant achievement in harmonization – an important step toward levelling the playing field in Europe. We include highlights from this year’s SREP and what we anticipate from the 2017 program below.

KPMG’s ECB Office wishes you a happy holiday season and best wishes for a successful new year. Look for more information from us in the coming months with a new Basel 4 series coming out in anticipation of the release of new papers from the Basel Committee early next year.

### Supervisory priorities: what to expect for 2017


With continuity and stability remaining a primary goal of the SSM, we expect most of the supervisory priorities for the next year to remain broadly unchanged from the 2016 priorities. During 2016, several supervisory initiatives that were undertaken have been successfully addressed, and such priorities have obvious future relevance into 2017 and beyond. In addition, new priorities derive mainly from changes in the economic environment and regulatory developments expected in 2017 (such as review of CRR/CRD IV package and completion of Basel III package)

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### SREP 2016 vs SREP 2017

By now, banks should have received their final SREP letters from the ECB. The 2017 quantitative results of the SREP decision differ in construction from last year. Some banks have reported that the wording in the letters can be confusing. Banks are now subject to the Total SREP Capital Requirement (TSCR) and an Overall Capital Requirement (OCR).

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### Leveraged finance – new guidance from the ECB

On 23 November 2016, the ECB published a draft guidance on leveraged transactions<sup>1</sup> (the Guidance) that will apply to all significant credit institutions supervised by the ECB. Leveraged finance has been an ECB priority and the Guidance is a response to a combination of the current economic environment (e.g. prolonged period of low interest rates) and the ECB’s identification of several areas for improvement in banks’ monitoring practices and significant discrepancies to define, measure and monitor leveraged transactions. The final deadline for submitting comments is 27 January 2017. The ECB will hold a public hearing on 20 January 2017.

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### An update on the ECB’s work on non-performing loans

As highlighted in our [previous article on the ECB’s NPL guidance](#), the ECB is intensively working to solve the over 1 trillion NPL problem of the European banking sector. At the end of November, the ECB published an [article in the Financial Stability Review](#) that focuses on market failures in the resolution of NPLs. Two recommendations caught our attention.

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## SSM pronouncements on Brexit

The SSM has said relatively little publicly on the impact of Brexit. Sabine Lautenschläger, vice-chair of the ECB Supervisory Board commented in July: "The good news is: there have been no funding, liquidity or operational problems in SSM banks since the referendum. Operationally, financial markets have been functioning well". She acknowledged, however, the risk that "a prolonged period of uncertainty about the future relationship of the UK with the EU creates a wait-and-see mood".

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## BCBS 239 thematic review: banks feel the pain

The ECB BCBS 239 thematic review is well underway and is already presenting challenges for banks. This two-phase review, which will conclude by the end of 2016, covers 25 European banks that have been divided into two groups: Group 1 comprises 11 Tier 1 banks and Group 2 comprises 14 Tier 2 banks.

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## PSD2 and the power of APIs

PSD2 aims to catch up with the fast technological advances and to further stimulate Europe's fintech industry. The regulators wanted to level the playing field between the banks and the new entrants and 'open up' the EU payments market by requiring banks to allow third party access to their customers' account information.

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## Further insights

### New Report: The profitability of EU Banks – Hard work or a lost cause?

Many European banks have struggled with low profitability since the financial crisis. This [report](#) uses analyses from [KPMG Peer Bank](#) to try and answer the questions of 'Why is bank profitability so low in Europe?' and 'How can banks increase their profitability?' Some EU banks may boost their profitability through hard work. For others this is likely to be a lost cause.

## Alert: Impact assessment of IFRS 9 on banks across the EU and good practise examples for IFRS 9 disclosures

The European Banking Authority (EBA) and the European Securities and Markets Authority (ESMA) have recently issued two separate reports on IFRS 9. The EBA report offers interesting observations on banks' progress toward implementing IFRS 9, while the ESMA report includes helpful insights about what banks should be including in their 2016 and 2017 financial statement disclosures. [This KPMG Alert](#) features a summary of the announcements from the authorities and key actions for firms to consider.

## Alert: EU Banking Reform – Revising CRR, CRD4 and the BRRD

The European Commission has published a substantial set of proposed revisions to the Capital Requirements Regulation ([CRR](#)) (PDF 1.98 MB) and the Capital Requirements Directive ([CRD4](#)) (PDF 196 KB), together with some related revisions to the Bank Recovery and Resolution Directive ([BRRD](#)) and the Single Resolution Mechanism Regulation ([SRMR](#)) (PDF 364 KB). Please check out alert [here](#).

## Alert: New EU rules for safer CCPs

The European Commission has published a proposed [Regulation](#) on the Recovery and Resolution of CCPs. This follows a consultation exercise back in 2012. The proposed Regulation will be submitted to the European Parliament and the Council of the EU for their approval and adoption. Check out our [alert](#) covering the proposed regulation and implications to banks here.

1 ECB 'Draft guidance on leveraged transactions', 23 November 2016.

## 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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