



KPMG's SSM Insights

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Welcome to the first ECB Update of 2018 – a chance for us to consider the kind of supervisory changes which European banks can expect in 2018.

As we predicted in the last edition of 2017, the rapid evolution of banking technology seems certain to be a recurring theme. Several of the articles in this edition touch on the increasingly important connections between technology, management and supervision.

Like it or not, political uncertainty is also likely to make itself felt during 2018. On a more positive note, we can also expect to see the ECB, EBA and other institutions continuing to push for greater harmonization and stability across the SSM. Again, several of our articles reflect on these themes.

In this edition, you can read about:

- How supervisors are taking a more direct approach to addressing perceived weaknesses in the skills, expertise and composition of banks' managing boards.
- The need for banks to prepare for all Brexit scenarios, with a particular focus on meeting the ECB's increasingly specific expectations.
- The EBA's final guidance on cloud outsourcing, and how supervisors are planning to ensure compliance with the new requirements.
- How the rapid evolution of modelling, including algorithms and artificial intelligence, is making a framework for sound model governance and risk management essential.
- The challenges that banks face as they respond to rapidly evolving data requirements relating to non-performing loans (NPLs).
- How IFRS 9 will affect supervision, not just financial results – banks should expect the way they implement the new standard to affect several elements of the SREP.

Banks themselves will make use of their own crystal balls in 2018 planning, for example through stress tests and the ICAAP and ILAAP. These are key tools for banks and the ECB is keen to set a high standard for their implementation and use. To this end the ECB published at the beginning of March its expectations on ICAAP and ILAAP for public consultation, following up on the principles published in 2017. While the new Guides are not a dramatic step change to previous versions and they remain rather general in nature, they include more examples and explanations as well as additional expectations for documentation and data quality. The final Guides are expected to appear later this year and take effect for the 2019 SREP.

As usual, we hope this update will help you stay on top of developments in Europe's supervisory landscape, and to plan responses to forthcoming changes.

The banking board of the future

Supervisors increasingly view the composition of banks' managing bodies as a key driver of future stability. This is part of the reason why some banks are reviewing the skills and expertise of board members as well as board compositions. We believe banks should take an active, self-critical approach to building the board of the future.



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SSM views on Brexit

What are the supervisory expectations of the SSM on Brexit, and what further pronouncements have been made since July 2016? The SSM has taken a more proactive stance, with steady progress in defining its expectations with respect to passporting and business planning, thereby giving banks a better understanding of what exactly the ECB expects when it comes to their preparations for Brexit. But what's next for banks?



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Steps on the stairway to cloud outsourcing

The EBA's recommendations on cloud outsourcing have been finalised and will enter into force in July. They place new responsibilities on banks and service providers alike, and it is clear that supervisors will soon begin to scrutinise compliance. Banks need to ensure they are fully aware of the new requirements, and should begin implementing them immediately - if they are not already doing so.



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Model Governance and Model Risk

Models are increasingly being used in different areas of banks. The scope of modelling and linked processes (such as algorithms and Artificial Intelligence) is fast expanding and should also be considered. This increasing reliance on models requires a sound model governance and model risk management framework for business reasons as well as to comply with supervisory requirements such as the ECB TRIM Guide.



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NPL Data: Building resilience

As EU authorities continue their focus on reducing Europe's overhang of non-performing loans (NPLs), banks face growing scrutiny on the quality and quantity of their NPL data. Requirements from regulators to improve data are evolving fast, raising concerns from banks on where to start to respond to this 'moving target'.



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IFRS 9: A lasting impact on SREP

IFRS 9 promises to have a marked effect on banks' financial results and it is becoming clear that it will have an equally significant impact on supervision. In particular, the quality of IFRS 9 implementation will affect several important elements of the Supervisory Review and Evaluation Process (SREP).



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Further insights

Basel 4: the way ahead

KPMG's [EMA FS Risk & Regulatory Insight Centre](#) and [ECB Office](#) are pleased to announce the launch of our article series 'Basel 4: The way ahead', which delves into the impact of what the industry is calling Basel IV (the standards that regulators view as finalising Basel III).

In December 2017, the Basel Committee on Banking Supervision (BCBS) finalised the Basel 4 standards, leading to intense debate about how these would affect risk weighted assets and the resulting amount of regulatory capital banks will be required to hold under the new rules. To assess the full impact of these final rules, we are leveraging the insights of our global network to publish a series of articles that focus on specific areas affected by the standards.



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