Welcome to KPMG’s latest edition of SSM Insights. We are now more than half way through 2019 and the ECB’s priorities for the year, originally published in late 2018, continue to shape its supervisory activities. Some of these topics – such as credit risk and the ICAAP – will remain high on the agenda into 2020. Issues such as Cloud Computing will also gather attention as technology reshapes the banking sector.

In the meantime the current SREP Cycle is coming to a close. Supervisory dialogues are due to be completed over the remaining summer months, after which banks will receive their SREP draft decision letters.

The articles in this edition focus on what we see as some of supervisors’ most pressing priorities. We hope that a better understanding of these issues will help banks to anticipate and meet the expectations of National Competent Authorities and the ECB.

Anti-money laundering (AML)

The creation of a new AML unit at the ECB is a sign of growing supervisory focus on this area to better include the work of national supervisors in the SREP of the SSM. This will only increase the scrutiny on banks’ AML defences.

Cloud computing

As use of the cloud grows, so too does supervisory interest. It remains to be seen how the EBA’s Guidelines on Outsourcing will be enforced, but banks making use of the cloud should look carefully at the new rules and engage pro-actively with JSTs.

Credit Underwriting and Loan Origination

The EBA and ECB are taking a more forward-looking, holistic view of credit standards that covers the whole life-cycle of a loan. Banks should see the ECB’s recent data gathering exercise as a sign of things to come.

ICAAP

The ICAAP is moving to the top of the ECB’s agenda, and will have a growing impact on supervisory capital. Banks should prepare now for closer scrutiny and ensure they’re ready to meet increasingly challenging data and documentation requests.
Internal audit

The ECB’s expectations for internal audit are coming into focus, and internal audit is at the centre of a growing number of on-site inspections. Banks should anticipate the JSTs’ approach; after all, assessments of internal audit are often included in SREP letters.

Non-performing loans (NPLs)

Banks face growing legal and supervisory expectations over NPLs. In particular, the requirements of the CRR have become clearer. But many banks are unsure how to implement these complex rules.

P2G Capital

It’s now clear that the ECB will apply the EBA’s new approach to regulatory capital from 2020 onwards. The elimination of double counting will alter the capital stacking order and could drive up CET1 requirements by as much as 150bps.

We hope this edition of SSM Insights will help readers stay on top of the changing supervisory landscape during the second half of 2019. Enjoy the summer!

The IBOR Reform: ECB Dear CEO Letter

In a letter addressed to the CEOs of significant institutions, the ECB has requested information from the boards of major banks within the euro area on the benchmark reform. This follows a similar exercise completed by the PRA and FCA in 2018, which gave UK banks two months to respond and the resulting feedback was recently published with one clear message: firms need to accelerate their preparations in order to meet the 2021 LIBOR cessation date. The responses of EU banks to the ECB will provide a quantitative as well as a qualitative assessment of the transition’s impact. It will make transparent how well banks have progressed in preparing for the cessation of EONIA and the change to €STR and reformed EURIBOR.

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