



KPMG SSM Insights

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Welcome to KPMG's Autumn edition of SSM Insights. Banks continue to face a rapidly changing operating environment, characterised by economic and political uncertainty. At the ECB too change is afoot, with the forthcoming arrival of Christine Lagarde at the head of the institution, as of 1 November 2019.

However, some things are more predictable! The annual SREP process is nearly at an end, and banks can expect their final decision letters to arrive within the next two months. The ECB has also published its SSM priorities for 2020. These make for fascinating reading and we're planning to review them in more detail in a forthcoming publication.

Recent weeks have also seen the publication of the results of 2019's Liquidity Stress Test exercise, which has been carried out in this form for the first time. It will be interesting to see the follow-up actions of the ECB. Click [here](#) to read more.

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.

Climate change and banking supervision

The ECB has again signalled that it views climate change risks as a key area of concern – but it has yet to state any supervisory expectations in this area. Banks would welcome any clarification of green finance definitions, and will need to monitor developments in this fast-changing area.

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BIRD and IReF

European central banks are working to develop a new integrated reporting dictionary (BIRD) and reporting framework (IReF). In time this could allow for huge improvements in the efficiency and effectiveness of regulatory reporting and oversight. Elements of BIRD are already public and some banks have begun implementation.

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ICT risks

The ECB continues to view IT and cyber risks as a key priority, and is stepping up its scrutiny of banks via a more detailed self-assessment questionnaire on IT for 2019. Perceptions of weakness could trigger further supervisory initiatives such as IT-focused on-site inspections, so preparation – including robust documentation – is crucial.

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Model Risk Management (MRM)

Model risk management is fast becoming a critical area for banks – and a major supervisory priority. The ECB's interim TRIM findings also point to weaknesses at many banks, especially on data quality. Banks should act now to avoid further scrutiny and reduce the scope for damaging errors.

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SREP

The current SREP process will soon conclude with the arrival of final decision letters. Quantitatively, 2019 is unlikely to herald much change, but the ECB continues to make its qualitative framework more technical as it implements the new SREP Guidelines and puts greater reliance on the outcomes of benchmarking, thematic reviews and other work.

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Non-performing loans (NPLs)

The ECB has taken some key steps to align its approach to NPLs with that set out by the Capital Requirements Regulation. This should make it easier for banks to develop a strategic approach to NPL management. Many details remain to be clarified, but these changes should be an encouraging sign for banks.

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Regulatory affairs offices (RAOs)

The need for efficient, effective centralised Regulatory Affairs Offices has never been greater, but developing one has never been harder. This is a vital and sensitive topic, especially for banks entering the SSM for the first time.

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As always, we hope that this edition of SSM Insights will help banks to get a feel for the evolving priorities of the ECB and National Competent Authorities. The closing months of 2019 promise to be as busy as ever!

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