KPMG SSM Insights

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

European banks continue to grapple with unpredictable economic and geo-political shifts. Other changes are afoot too — recent weeks have seen several major regulatory and supervisory developments.

Most notably, 27 June 2023 marked a key moment in the evolution of European banking regulation: Provisional agreement on the banking package that will finalise the EU's implementation of [Basel 3.1.](#) The agreement needs to be confirmed by the Council and the Parliament before formal adoption, and many details are yet to be announced. Even so, several additions — like the transitional cryptoasset prudential requirements and ESG risk management — go beyond the BCBS' proposals.

The Commission currently expects to implement the new framework from 1 January 2025, so time is of the essence. All EU banks, regardless of their size or business model, have just over a year to implement the new rules. In contrast, the current geopolitical and economic climate suggests that the UK and US may view this timeline as unrealistic, and opt to phase in changes at a later date.

We will also see banks receiving the results of the 2023 EU-wide stress test on 28 July 2023. This year's exercise included an extended list of banks and the most severe adverse scenario so far. The results will shed light on banks' resilience to external shocks under challenging macroeconomic conditions.

Still on the topic of stress testing, the cyber risk stress test for 2024 is taking shape. Early July saw the ECB share the timeline and draft methodology with participating institutions. The exercise is expected to begin on 2 January 2024, with banks needing to submit questionnaires and supporting evidence by 29 February 2024. The results are likely to inform 2024's SREP qualitatively, and perhaps also quantitatively. In addition, the ECB will perform a top-down climate risk stress test requiring similar inputs from banks to the advanced data collection of the EBA stress test exercise.

Beyond those announcements, the ECB's core supervisory activities continue as usual. Given the potential impact of macroeconomic uncertainty on asset quality it's no surprise that credit risk, forbearance and IFRS9 provisioning are among the topics receiving rigorous focus — as discussed in our latest blog.

Given the ongoing volatility that all European banks face, an understanding of supervisors' concerns is more valuable than ever for banks trying to anticipate their requirements. We hope you find this edition of the Newsletter helpful, and we wish you all an enjoyable summer.

Henning Dankenbring

Partner, Head of
KPMG ECB Office

Basel 3.1 Latest developments

After a preliminary agreement was reached in the trilogue procedure between the EU Commission, Parliament and Council on 27 June 2023, nothing more stands in the way of implementing the Basel 3.1 finalisation in the EU. Click here for a short overview.

Perspectives and insights here | Visit the Basel 4 homepage

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Latest Insights

DORA

The EU's new regulation for managing digital risks creates a holistic framework covering all of finance and, for the first time, related technology vendors. Consultation on the first detailed policy package has now begun. DORA builds on existing regulation, but financial institutions will still need to make many changes to their IT resilience strategies

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Governance

The bottom line is clear: better governance leads to better banks, which in turn leads to a stronger and safer banking system. Banks should act on the ECB's continued pressure on their topic, and review the recommendations to improve their governance structures.

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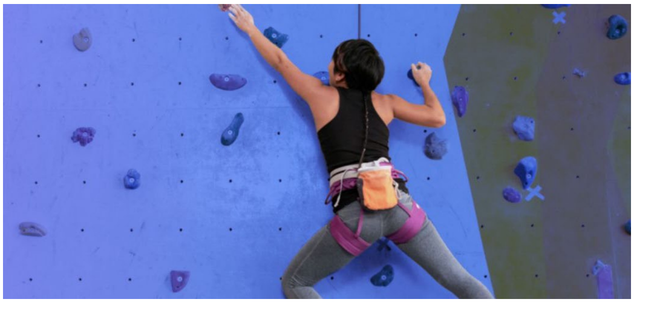
Internal models

The ECB is consulting on the revised version of its internal models guide. Key changes affect all four chapters - general topics, credit risk, market risk and counterparty credit risk. Banks should respond by 15 September 2023, and begin planning for changes in areas such as model calibration, C&E risks and IT implementation.

Read more



IRRBB and CSRBB

IRRBB and CSRBB are receiving renewed focus owing to recent spikes in interest rates and credit risk spreads – and the EBA's finalised guidelines. Our analysis shows that banks expect challenges to include IRRBB regulatory reporting, measuring the fair value effects of interest rate shocks, and uncertain regulatory expectations around CSRBB.

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Credit risk blog

The ECB's rigorous supervisory focus on credit risk continue in the first half of 2023, amid growing concerns about the potential impact of macroeconomic and geopolitical turmoil on banks' asset quality. Forbearance and the adequacy of risk identification and loan loss provisioning under IFRS9 are among the topics receiving particular attention from the ECB.

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C&E loan pricing

Integrating climate and environmental (C&E) factors into lending activities is a complex challenge that affects many elements of banks' balance sheet management. There is much to do, and little time.

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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).

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