



KPMG SSM Insights

kpmg.com/ecb

December 2023

Welcome to KPMG's last SSM Insights Newsletter of 2023.

For banks, this has been yet another year of global instability and adjustment. The inflationary cycle appears to be slowing, but the geopolitical and macroeconomic situation remains profoundly uncertain.

Against this background, the ECB leveraged the results from a targeted review of the Supervisory Review and Evaluation Process (SREP) conducted at the end of 2022 to enhance the efficiency and efficacy of their supervision. The 2023 SREP saw several new initiatives including the implementation of a risk-tolerance framework and the launch of a multi-year assessment. Future plans include incorporating Artificial Intelligence into supervisory data analytics and considering climate-related and environmental risks as part of other key supervisory initiatives.

Preliminary insights from the 2023 SREP indicate a shift towards a less 'capital-centric' approach, with overall Pillar 2 Requirements and SREP scores remaining rather stable, although some changes were made – such as introducing quantitative measures to address excessive leverage risk at some banks. As part of the shift, the ECB has yet increased the focus on qualitative findings and recommendations with supervisory escalation procedures becoming more likely.

Several key weaknesses were identified. These included slow progress with digitalisation and IT strategies, business concentration issues, shortcomings with data aggregation (including BCBS 239 compliance), and weaknesses in credit risk and liquidity risk frameworks. Banks should expect an increased supervisory focus on all these areas.

Looking ahead to 2024, we can expect the priorities of the ECB's current supervisory cycle - including credit risk, liquidity risk, cyber risk, operational resilience, governance, and climate-related and environmental risks - to remain firmly at the top of supervisors' agendas.

At the same time, banks should be aware of any changes in focus in the ECB's supervisory priorities for 2024-2026. We expect the new priorities to be published shortly before Christmas, and we look forward to updating you with our latest thinking in the New Year.



[Henning Dankenbring](#)

Partner, Head of
KPMG ECB Office

Spotlight article: 2024 ECB cyber stress test

Banks are rushing to prepare for January’s Cyber Resilience Stress Test. The test is based on a detailed questionnaire, which calls for extensive evidence. A minority of banks will also face an IT recovery test. Preparation is critical, and banks can learn from the ECB’s previous questionnaire based exercises. KPMG professionals recommend taking action in six key areas.

[Latest insights here](#)

Latest Insights



Commercial real estate

Economic headwinds and new patterns of work are fuelling a commercial real estate (CRE) downturn. The ECB is increasing its focus on CRE exposures, and inadequacies will trigger higher capital levels or enforcement action. Banks can prepare for greater scrutiny by strengthening risk warnings and ensuring that provisioning is fast and accurate

[Read more](#)



Risk culture

The ECB had intensified efforts to bolster governance, spotlighting risk culture as the pivotal ‘software’ shaping behaviour. Embarking on pilot “risk culture deep dives”, the ECB aims to refine the dynamics shaping risk culture in select banks. As measurement challenges loom, banks are urged to conduct internal risk culture assessments.

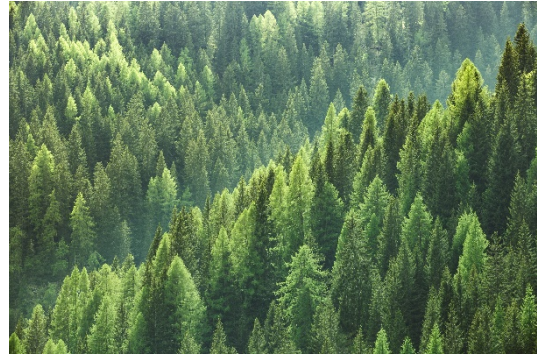
[Read more](#)



EU Anti-Money Laundering Authority (AMLA)

EU lawmakers reach a provisional agreement on the AML Reform Package, including the creation of AMLA. The agreement expands AMLA's supervisory scope, directly overseeing up to 40 high-risk financial institutions across EU member states. AMLA is expected to go live in 2024, impacting AML regulatory standards and supervisory practices across the EU.

[Read more](#)



Climate-related and environmental risks

Climate-related and environmental (C&E) risks need to be an urgent priority for banks. Compliance deadlines are approaching fast, and the ECB has warned that any failure to remedy shortcomings will be penalised. Faced with governance, data and implementation challenges, banks can draw on 2022's thematic review to prioritise key actions.

[Read more](#)

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).

If your colleagues would like to receive KPMG SSM Insights, they can [sign-up here](#).

kpmg.com/ecb



[Privacy](#) | [Legal](#)

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2023 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved. KPMG refers to the global organization or to one or more of the member firms of KPMG International Limited ("KPMG International"), each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. For more detail about our structure please visit home.kpmg/governance.

Designed by CREATE | Date | CRT150084B