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KPMG SSM Insights

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It gives me great pleasure to share the latest edition of KPMG's SSM Insights Newsletter with you.

The current uncertainties that surround the geopolitical landscape and macroeconomic outlook require European banks to remain agile. The disruption initiated by the invasion of Ukraine earlier in the year is now having a visible impact on energy and food prices. Financial markets have also proven highly sensitive to abrupt changes of sentiment over interest rates, as central banks fight the global surge in inflation.

In these circumstances, it is no surprise that banking supervisors are laser-focused on potential risks, and highly alert to a range of emerging economic scenarios. The ECB continues its targeted activities on credit exposures and asset quality, including collateral valuation processes. Lending books receiving particular focus include commercial real estate, residential real estate and leveraged finance.

At the same time, the ECB is continuing its efforts to improve banks' management of climate-related and other environmental risks. This month the ECB published the results of its thematic review, along with a summary of good practice. Banks were sent feedback letters detailing specific findings, together with timelines to address them by the end of 2024. It was clear that the results would have a qualitative impact on the 2022 Supervisory Review and Evaluation Process (SREP), but some banks' SREP scores and Pillar II capital requirements have also been affected. Supervisors are clearly taking this topic very seriously – further illustrated by the fact that several banks have undergone targeted on-site inspections (OSIs) within the last few months.

Looking ahead, while the ECB's supervisory priorities for 2022 to 2024 remain highly relevant, banks should be alert to targeted adjustments for the next supervisory cycle of 2023 to 2025. These are likely to be published towards the end of this year. We look forward to keeping you updated over the coming months.

Henning Dankenbring

Partner, Head of
KPMG ECB Office

KPMG blog

A European recession – the winter of our discontent?

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Latest Insights

IRB-relevant data

The EBA published four new principles aimed at ensuring that responses to the COVID-19 pandemic do not damage the representativeness of IRB model data. Supervisors are already asking about the new rules; banks must implement them quickly.

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Credit risk management

Rapid inflation, rising interest rates and the prospect of a recession are sharpening supervisory concerns. The ECB has begun a review of interest rate and credit spread risks, and banks can expect intense supervisory focus to continue.

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2023 EU-wide stress test

The EBA has finalised its methodology for its upcoming exercise, which will begin in January 2023. The addition of some 'top-down' elements represent a first step towards a new type of 'hybrid' approach. Banks should prepare for adverse macroeconomic scenarios — and remember that results will inform the upcoming SREP.

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Non-performing exposures (NPEs)

There are already signs that the worsening economic outlook may be pushing up NPEs. Supervisors are expected to maintain pressure on banks to monitor and control their NPEs, including the use of secondary market non-performing loan (NPL) transactions.

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Basel 4 – Moving the dial series

Read KPMG's latest series to understand the regulatory expectations globally and the actions institutions may wish to consider in the immediate term as banks around the world prepare for the implementation.
Perspectives and insights here | **Visit the Basel 4 homepage**

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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