



ECB Supervisory Priorities 2023-2025

Operating environment, risks and opportunities



ECB Banking Supervision, in close collaboration with national competent authorities, has reviewed its strategic priorities for the next three years to reflect the urgent challenges and more structural vulnerabilities in the sector



Post-COVID scenario

During the first half of 2022, supervised institutions **performed well overall**, supported by the economic rebound following the progressive **easing** of **restrictions by COVID-19** and the stepwise normalisation of interest rates.



Geopolitical context

The geopolitical shock caused by **Russia's invasion of Ukraine** and its immediate macro-financial consequences have increased uncertainties about the evolution of the economy and financial markets and elevated risks to the banking sector.



Inflationary pressures

While the direct impact of the war in Ukraine has remained contained so far for most supervised institutions, the macroeconomic shock, which has **exacerbated pre-existing inflationary pressures and lingering supply chain bottlenecks**, has spread, particularly in Europe.



Pre-existing risks


In addition to these more imminent risks, there are other risks of a structural nature: **interest rate and credit spread** risks; **counterparty** risk and **leveraged finance**; risks arising from the implementation of **digital transformation** strategies or **physical and transition risks**.


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Supervised institutions should strengthen their resilience to immediate macro-financial and geopolitical shocks, address the challenges of digitalisation and intensify their efforts to address climate change

Priority 1


Strengthening resilience to immediate macro-financial and geopolitical shocks.


Shortcomings in **credit risk management**, including exposures to vulnerable sectors  **Credit risk**


Lack of **diversification of funding sources** and deficiencies in funding plans  **Funding risk**

Priority 2

Addressing digitalisation challenges and strengthening management bodies' steering capabilities.


Deficiencies in **digital transformation strategies**  **Business model**

Deficiencies in **operational resilience** frameworks, namely IT outsourcing and IT security/cyber risk  **Operational risk**

Deficiencies in **management bodies' functioning** and steering capabilities. And, deficiencies in risk **data aggregation and reporting.**  **Governance**

Priority 3

Stepping up efforts in addressing climate change.

Material exposures to **physical and transition risk drivers**  **Climate related and environmental risks**

Vulnerabilities

Actions on credit risk, liquidity, digital transformation, outsourcing, cyber security and climate risk

Priority 1



Credit risk

- Targeted reviews of **loan origination and monitoring**, assessing compliance with the related EBA guidelines.
- **Targeted reviews of IFRS 9** aimed at assessing compliance of selected banks with supervisory expectations laid down in the 2020 “Dear CEO” letter.
- **On-site inspections:** i) **IFRS9**; ii) **energy and/or commodity** traders and iii) **internal model** investigations for some material portfolios.

Funding risk



- Review of **TLTRO III exit strategies** for selected banks.

Priority 2

Business model



- Publication of supervisory expectations and reviews of banks’ digital transformation strategies and OSIs on digital transformation.



Operational risk

- Collecting data from **outsourcing records** to identify interconnections between significant entities and external suppliers.
- **Targeted reviews and on-site** inspections of **outsourcing and cybersecurity management**.

Governance



- **Targeted reviews** of the effectiveness of banks’ management bodies and will update the **supervisory expectation**.

Priority 3

Climate related and environmental risks



- Targeted deep dives to follow up on shortcomings identified in the context of the 2022 climate risk **stress test** and **thematic review**.
- Review of banks’ compliance with **Pillar 3** disclosure requirements related to climate risk, and benchmarking of banks’ practices against supervisory expectations.
- Deep dives on **reputational and litigation risk** associated with climate-related and environmental strategies and risk profiles for selected banks.
- Preparatory work for reviews of banks’ transition planning capabilities and readiness for ESG related mandates expected in the sixth **CRD VI**.
- Targeted OSIs on climate-related aspects.

Why MS?

Management Solutions has in-depth knowledge of financial regulation and extensive experience in supporting on-site inspections (OSIs) through different types of collaboration, adapting to the needs of each entity and making available the different profiles that make up the Firm

REGULATORY EXPERTS

MS has a **Regulatory Observatory** that provides in depth knowledge of the regulatory requirements of financial and non financial institutions at the European level.

MS PROFILES



Functional profiles



Data scientist profiles (data processing and modelling)



Technical Profiles

POSSIBLE TYPES OF COLLABORATION



PMO SUPPORT

- Stakeholder coordination
- Development and monitoring of the OSI **work plan**
- Preparation of **meetings with the supervisor**



AREAs SUPPORT

- Support in the preparation of **documentation** associated with each area
- Support for necessary **qualitative and quantitative analyses**
- Support in the **Loan Tapes file**



DOCUMENTATION IMPROVEMENT

- **QA** support for **updating and improving existing documentation**
- Collecting and challenging **evidence**



SUPPORT FOR REMEDIATION PLANS

- Support in the identification and execution of **remediation plans**.
- **PMO** support for **plan execution tracking**



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