

# ECB Supervisory Priorities

*Operating environment, risks and opportunities*



EUROPEAN CENTRAL BANK  
EUROSYSTEM

Context

---

Priorities and vulnerabilities

---

Supervisory priorities work programme

---

Abbreviations

---



EUROPEAN CENTRAL BANK  
EUROSYSTEM

# 1 Context

The ECB Banking Supervision has reviewed its strategic priorities for the next three years to reflect the challenges and more structural vulnerabilities in the sector



## Stress in the US and Swiss banking sectors

The European banking sector demonstrated its high resilience to external shocks when the stress in the US and Swiss banking sectors in March 2023 triggered only limited and temporary spillover effects. European banks proved to be strong in terms of capital, liquidity and asset quality, and could also draw on well-diversified funding sources and customer bases.



## Geopolitical context

The growth outlook for the euro area remains subject to high uncertainty in the context of tighter financing conditions and heightened geopolitical tensions, while future energy and food price paths are subject to upside risks. Inflationary pressures are further shaping the challenging environment.



## Inflationary pressures

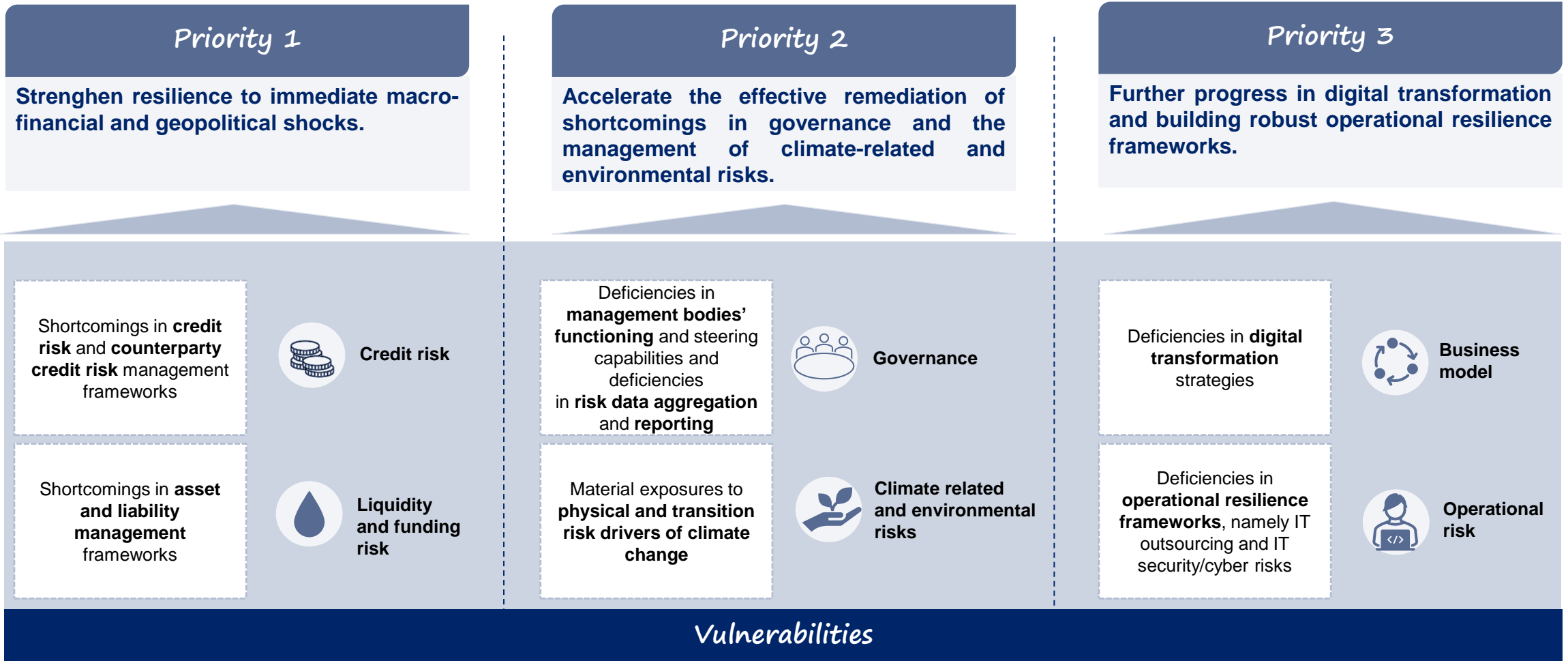
Headline inflation in the euro area is projected to continue on a downward path over the medium term, while core inflation is expected to fall more gradually. If monetary policy requires further tightening, or if interest rates stay at higher levels for longer in a scenario of persistently high inflation, the economic growth outlook may deteriorate.



[Access to Document](#)







# 2 | Priorities and vulnerabilities

The ECB set its supervisory priorities for 2024-2026 and has targeted a set of vulnerabilities in the banking sector for each of these priorities



# 3 Supervisory priorities work programme

For each vulnerability, the ECB has set dedicated strategic objectives and has developed work programmes in order to mitigate the underlying risks

Priority 1	Priority 2	Priority 3
<p><b>Credit risk</b> </p> <ul style="list-style-type: none"><li>Targeted reviews focusing on the <b>resilience of portfolios</b> that are more sensitive to the current macro-financial situation.</li><li>Follow-up on the <b>IFRS 9 targeted review</b>, monitoring progress on the ability of banks' expected credit loss models to capture emerging risks, with a focus on overlays.</li><li>Extension of the <b>deep dives on forbearance</b> and UTP policies, extension of the <b>OSIs, internal model investigations and follow-up by JSTs</b>.</li><li>Follow-up on the targeted review of <b>CCR management</b> conducted in 2022.</li><li>Targeted OSIs on specific aspects of <b>CCR management</b>.</li></ul>	<p><b>Governance</b> </p> <ul style="list-style-type: none"><li>Targeted review of the <b>effectiveness of banks' management bodies</b> and targeted OSIs.</li><li>Update and external publication of <b>supervisory expectations</b> and best practices regarding banks' governance and risk culture.</li><li><b>Refinement of supervisory expectations</b> related to the implementation of RDAR principles and publication of the Guide on effective RDAR.</li><li>Targeted reviews and OSIs of <b>RDAR practices</b>.</li></ul> <p><b>Climate related and environmental risks</b> </p> <ul style="list-style-type: none"><li>Targeted follow-up on shortcomings identified in the context of the 2022 climate risk <b>stress test</b> and <b>thematic review</b>, to assess full alignment to supervisory expectations by end 2024.</li><li>Review of banks' compliance with <b>Pillar 3</b> disclosure requirements related to C&amp;E risk, and benchmarking of banks' practices against supervisory expectations.</li><li>Deep dives on banks' capabilities of addressing reputational and litigation risk associated with C&amp;E related commitments.</li><li>Targeted OSIs on climate-related aspects.</li></ul>	<p><b>Business Model</b> </p> <ul style="list-style-type: none"><li>Targeted reviews focusing on the impact of <b>banks' digital transformation on their business model complemented</b> by JSTs' follow-up with banks where material deficiencies are identified</li><li>Targeted OSIs on <b>digital transformation</b>.</li><li><b>Publication of supervisory expectations</b> and sharing of best practices on digital transformation strategies.</li></ul> <p><b>Operational risk</b> </p> <ul style="list-style-type: none"><li>Data collection and horizontal analysis of <b>outsourcing registers</b> to identify interconnections among supervised institutions and third-party providers and potential risk concentrations in certain providers.</li><li>Targeted reviews and OSIs of <b>outsourcing and cyber security management</b>.</li><li><b>System-wide cyber resilience stress test</b> in 2024 focusing on the response and recovery capabilities of banks after a cyber security incident, and their ability to contain the impact.</li></ul>
<p><b>Liquidity and funding risk</b> </p> <ul style="list-style-type: none"><li>Targeted reviews of the <b>soundness and reliability of funding plans</b>, contingency planning, and ALM governance and strategies.</li><li>Targeted OSIs assessing <b>funding and recovery plans</b>. Follow-up on findings.</li><li>OSIs campaign on <b>IRRBB</b>.</li></ul>		

# A

## Abbreviations

ALM	Assets and Liabilities Management
CCR	Counterparty credit risk
C&E	Climate related and environmental
ECB	European Central Bank
IFRS	International Financial Reporting Standard
IRRBB	Interest Rate Risk in the Banking Book
IT	Information Technology
JST	Joint Supervisory Teams
PMO	Project Management Office
RDAR	Risk Data Aggregation and Reporting
OSIs	On-site inspections
UTP	Unlikelihood to pay

# MS Management Solutions

Making things happen




International  
One Firm



Multiscope  
Team



Best practice  
know-how



Proven  
Experience



Maximum  
Commitment

EUROPEAN CENTRAL BANK  
EUROSYSTEM

**Javier Calvo**  
Partner at Management Solutions  
[javier.calvo.martin@managementsolutions.com](mailto:javier.calvo.martin@managementsolutions.com)

**Marta Hierro**  
Partner at Management Solutions  
[marta.hierro@managementsolutions.com](mailto:marta.hierro@managementsolutions.com)

© Management Solutions, 2024

All rights reserved. Cannot be reproduced, distributed, publicly disclosed or transformed, whether totally or partially, free of charge or at no cost, in any way or by any means, without the express written authorization of Management Solutions.

The information contained in this publication is merely to be used as a guideline, is provided for general information purposes and is not intended to be used in lieu of consulting with our professionals. Management Solutions is not liable for any use that third parties may make of this information. The use of this material is not permitted without the express authorization of Management Solutions.

For more information please visit

[www.managementsolutions.com](http://www.managementsolutions.com)

Or follow us at: 