EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Guide on the supervisory approach to consolidation in the banking sector

§ 1 Transactions leading to consolidation are generally initiated and executed by market participants with the goal of optimising their opportunities by forging new combinations of existing business activities.[1] In the banking sector, consolidation transactions are also scrutinised by the prudential supervisor. Its prudential mandate is neither to assess whether consolidation efforts are beneficial as such nor to push for particular types of transactions – this needs to be decided by market participants – but to make sure that the resulting business combination complies with prudential requirements and ensures effective and prudent risk management. The reorganisation of banking activities can bring benefits, which nevertheless need to be weighed up against the potential risks. Indeed, when well designed and executed, business combinations can contribute to the overall financial soundness of the banking system without weakening the diversity of different business models. They can be a means of addressing longstanding issues in the European banking sector, such as low profitability and overcapacity. At the same time, a reorganisation entails execution risks and, in some cases, could pose challenges related to resolvability, which also need to be considered.

§ 2 With this Guide, ECB Banking Supervision intends to clarify, within the current regulatory framework,[2] the principles underpinning the prudential supervisory approach it follows when determining whether the arrangements implemented by a credit institution resulting from a consolidation ensure the sound management and coverage of its risks.[3] This will increase its transparency vis-à-vis the market by helping stakeholders understand the supervisory expectations aimed at ensuring the safety and soundness of credit institutions resulting from a business combination, particularly when it comes to mergers and acquisitions of supervised entities.

§ 3 This Guide should enhance the transparency and predictability of supervisory actions and help credit institutions design prudentially sustainable projects. The Guide covers: (i) the overall approach to the supervisory assessment of consolidation projects, (ii) the supervisory expectations regarding consolidation projects, (iii) the supervisory approach to key prudential aspects of the consolidation transaction, (iv) the ongoing supervision of the newly combined entity, and (v) the

[1] The term "consolidation" is used in this document to mean any business combination of pre-existing independent legal entities that is relevant from the perspective of prudential supervision of institutions by the SSM, including mergers between institutions and acquisition by one institution of another institution, but excluding intra-group transactions.

[2] This Guide does not establish new regulatory requirements, and the specifications and principles it sets out should not be construed as legally binding rules.

[3] Macroprudential matters are not within the scope of this Guide. However, consolidation may also concern macroprudential policy, in particular designation of other systemically important institutions and global systemically important institutions and corresponding buffer levels.

application of this framework to consolidation transactions involving less significant institutions (LSIs). This Guide does not cover banks under resolution.

§ 4 The approach taken is founded on the baseline case whereby a bank subject to the Single Supervisory Mechanism (SSM) intends to acquire the control of another bank subject to the SSM.[4] These principles remain valid – with the necessary adaptations – in all other cases, for instance when a non-bank or non-SSM bank is involved. All cases involving the proposed acquisition of a bank subject to the SSM fall under the common procedures of the ECB and the relevant national competent authorities (NCAs).

§ 5 Past experience shows that there is no “one size fits all” approach when it comes to banking sector consolidation. Consequently, a case-by-case approach based on proportionality in the application of these principles should be expected. The principles laid out in this document are intended to serve as a starting point for ad hoc supervisory decisions, which will be tailored to the specificities of each transaction.

1 Overall approach to the supervisory assessment of consolidation projects

1.1 Objectives

§ 6 ECB Banking Supervision examines from a prudential perspective the consolidation projects brought to its attention. This assessment is aimed at ascertaining that:

(a) the entity resulting from the business combination will meet all prudential requirements when the transaction is implemented;

(b) the business combination resulting from the transaction is sustainable,[5] and therefore likely to allow permanent compliance with the prudential requirements also in the future.

1.2 Process

§ 7 Depending on the circumstances, the process for the supervisory assessment of consolidation transactions[6] can encompass up to three phases, namely early communication, application and implementation.

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4 Business combinations of banks subject to the SSM include: (i) mergers of two SSM entities, and (ii) proposed acquisitions of one SSM entity by another SSM entity. In these cases, these supervisory expectations will be embedded in the ECB’s assessment of the applicable criteria for the approval of the merger or the proposed acquisition of a qualifying holding.

5 Business model sustainability is one of the SSM supervisory priorities for 2020 – see Section 2 of ECB Banking Supervision: SSM Supervisory Priorities 2020.

6 See also What is the ECB’s role in bank mergers and acquisitions?

1.2.1 Early communication

§ 8 Without prejudice to the Market Abuse Regulation,[7] parties involved in a banking consolidation transaction are encouraged to liaise as soon as possible with ECB Banking Supervision to obtain preliminary feedback on the project, including on whether or not a formal decision to approve the transaction will be required. In order to maximise the benefits of this early communication, whenever possible, involved parties are encouraged to liaise with the ECB before publicly informing market participants.

§ 9 During the early communication phase, involved parties are expected to present the key characteristics of the proposed business combination to ECB Banking Supervision. They are expected to provide a robust, credible and informative firm-wide or group-wide integration plan so that ECB Banking Supervision can carry out an accurate and thorough preliminary assessment.[8] Provided that the information submitted is sufficient, ECB Banking Supervision will provide feedback to the involved parties on the supervisory approach as appropriate, which then gives them the possibility of taking the preliminary feedback into account in the further development of their plans, including in interactions with other authorities.

1.2.2 Application phase[9]

§ 10 In the baseline case, the application phase is triggered following either notification of a proposed acquisition of a qualifying holding in a credit institution in accordance with national law implementing Article 22 of Directive 2013/36/EU[10] and the European Supervisory Authorities' Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector,[11] or of an application to obtain permission from a competent authority for a business

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7 Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (OJ L 173, 12.6.2014, p. 1).

8 The level of detail expected in the integration plan will take into account the nature of the transaction, acknowledging in particular that, in hostile takeovers, the acquiring bank has limited information on the target institution. In this regard, it should also be taken into account that, pursuant to Paragraph 8.6 of Title II, Chapter 1 of the European Supervisory Authorities' (ESA) Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector (JC/GL/2016/01), "… the supervisor should not oppose the proposed acquisition on the sole basis of the lack of some required information, the absence of which can be justified by the nature of the transaction, if the information provided appears sufficient to understand the likely outcome of the acquisition ..."

9 Not all cases of consolidation require authorisation by ECB Banking Supervision and therefore a formal application under European Union or national law.

10 Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (OJ L 176, 27.6.2013, p. 338).

11 ESA, Joint Guidelines on the prudential assessment of acquisitions and increases of qualifying holdings in the financial sector (JC/GL/2016/01).

combination.[12] The application phase is governed by the rules that apply specifically to this procedure.[13]

§ 11 During the application phase:

(a) the involved parties submit the formal application for business combination;

(b) ECB Banking Supervision assesses the application and takes a decision[14] on whether or not to object to the notified project within the qualifying holding procedure or to grant a necessary permission under national law and, whenever appropriate, any other supervisory decisions related to business combination outside of the application phase (see Section 3). A positive outcome of the application, that is a decision to allow the parties involved to proceed with the project, triggers the implementation phase.

1.2.3 Implementation phase

§ 12 During the implementation phase, the consolidation is expected to progress in line with the integration plan, in a sustainable manner and in full compliance with the prudential requirements and conditions, or with commitments resulting from the application phase.

§ 13 Implementation is subject to close supervision. In particular, enhanced monitoring is part of the ongoing supervision of the newly combined entity as described in Section 4.1. and in case of materialisation of execution risks, such as delays or shortcomings in the business combination, a supervisory response can be expected.

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12 Depending on the specificities of each case and on the jurisdiction where the supervised entities are established, the transaction might be subject to one or several additional authorisation requirements under national law, which also need to be assessed by the ECB for significant institutions. Where this is the case and the national law of the relevant Member States participating in the SSM includes specific assessment criteria, this needs to be taken into account, alongside any other expectations mentioned in this document.

13 For further reference on qualifying holding and authorisations, please refer to What is a qualifying holding?, Authorisations and Guide to assessments of licence applications.

14 This encompasses both a decision by the ECB, based on the assessment of a notification of a qualifying holding in the target institution, or a “national” power, where a national law requires permission from the competent authority for a merger/acquisition generally concerning the prudential situation of the acquiring credit institution.

2 Supervisory expectations regarding consolidation projects[15]

2.1 Sustainability of the business model[16]

§ 14 The strategy underlying the consolidation transaction will be assessed on a case-by-case basis, according to its objectives in terms of capital,[17] strategy, business and profitability (including expected efficiency gains) and risk profile (including quality of assets and operational risk) in order to ascertain, to the extent possible, the sustainability of the business model of the combined entity.

§ 15 For this purpose, a credible and comprehensive group-wide business plan:[18]

(a) is based on conservative assumptions, appropriately justified and documented, founded on data and experience, and is consistent with the microeconomic and macroeconomic assumptions that form the baseline scenario and at least one adverse scenario;

(b) explains how the initial balance sheet and profit and loss projections of the combined entity can be reconciled with the latest current situation of the entities involved in terms of capital position, business structure and strategy, and profitability;

(c) defines short, medium and long-term achievable targets and gives details on the roadmap and timeline to achieve those targets;

(d) establishes in a reasonable manner full compliance with applicable regulatory requirements, supervisory measures and expectations (for example, Pillar 2 requirements and guidance) and macroprudential buffers at all times.

§ 16 In particular, ECB Banking Supervision will look into:

- the plausibility of the assumptions of the plan, including those related to the external environment (for example, the projections for macro and financial variables);
- the valuation of assets (and liabilities), which is expected to be economically prudent, fully incorporating the accounting requirements and all adjustments required by prudential regulations;
- the existence of a realistic balance sheet development for the business combination, in particular avoiding over-reliance on expected high lending

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15 The expectations presented in this section should be read in conjunction with previously published accounts of the ECB's role in banking consolidations, in particular What is the ECB's role in bank mergers and acquisitions?

16 The expectations presented in this section are in addition to information already published on business model sustainability, in particular Section 2 of ECB Banking Supervision: SSM Supervisory Priorities 2020.

17 The supervisory expectation is that a sustainable business model is run through the cycle with a certain level of capital (management) buffer, closely monitored by the bank, above the required regulatory capital buffers, including systemic buffer requirements.

18 The term "group-wide" refers to the prudential scope of consolidation.

growth and/or overly optimistic cross-selling assumptions, and guaranteeing that the consolidation transaction does not lead to excessive risk-taking;

- the composition of the main profitability drivers, which are expected to remain well diversified and balanced in order to avoid overly optimistic assumptions regarding the contribution of non-recurring profits or of non-core or volatile income items;
- the assumptions related to the costs and synergies;
- the liquidity and funding structure, consistent with business developments and risk appetite;
- the integration plan, including the corresponding roll-out plan with due consideration of IT integration issues (see Section 2.2).

2.2 Governance and risk management framework[19]

§ 17 The governance and organisational structure of the business combination is expected to follow the principles set out in the European Banking Authority (EBA) Guidelines on internal governance under Directive 2013/36/EU[20] and to be adapted in order to manage possible integration challenges in a clear way.

§ 18 In particular, it is expected that:

- at the level of the management body,[21] there is a clear decision-making capacity, adequate composition (for example, in terms of adequate expertise, time commitment, appropriate size and, where applicable, the inclusion of independent members);
- the other governance arrangements of the business combination establish a clear allocation of responsibilities and decision-making processes for the new structure of the group, along streamlined management body structures and managerial reporting lines;
- a strong leadership team is in place with a proven track record in both the relevant banking business areas and mergers and acquisitions, as well as in the management of financial and non-financial risks, such as anti-money laundering and countering the financing of terrorism risk, and which pays due attention to the integration of different risk cultures.

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19 The expectations presented in this section are in addition to previously published expectations on governance and the risk management framework, in particular, Section 2 of ECB Banking Supervision: SSM Supervisory Priorities 2020, the SSM supervisory statement on governance and risk appetite, and Section 5 Element 2: Internal governance and risk management of the SSM SREP Methodology.

20 European Banking Authority Guidelines on internal governance under Directive 2013/36/EU (EBA/GL/2017/11). The ECB will check compliance and apply the provisions in the national implementations of the Capital Requirements Directive.

21 The term “management body” applies to the bodies in all governance structures that perform management or supervisory functions.

- the consolidation plan includes the timely integration of the risk management and internal control framework, in particular the mitigation of execution risk. The implementation of the plan should be managed and closely monitored by the management body in its management function, with strong oversight by the supervisory function, either in the management body or in any other specific body. Given the operational importance of IT integration, the plan should clearly articulate the governance of the integration process and should be overseen by management body members with adequate expertise.[22]

§ 19 These expectations remain subject to the proportionality principle, which should also be taken into account when weighing up the level of detail that can already be provided in the early communication phase against the complexity of large-scale IT integrations or major IT overhaul plans.

§ 20 Finally, the execution of the business combination is expected to be governed by adequate remuneration schemes in order to set the right incentives. Variable remunerations should be linked to and conditioned by some risk factors, for example key performance indicators linked to the milestones set out in the integration plan.

3 Supervisory approach to key prudential aspects of the consolidation transaction

§ 21 Past experience has shown that three supervisory factors can play a key role in determining the feasibility of a business combination: post-merger Pillar 2 capital requirements (P2R) and Pillar 2 Guidance (P2G), the prudential treatment of badwill and the transitional arrangements for the use of internal models.[23]

§ 22 It is therefore important to clarify the approach that ECB Banking Supervision intends to follow in these regards where no substantial supervisory concern has been identified during examination of the project. Projects for which supervisory concerns remain on the basis of the information provided will be specifically assessed in order to determine the most appropriate supervisory approach to apply for the transaction.

3.1 Timing for communication

§ 23 Without prejudice to the Market Abuse Regulation, the supervisory approach that ECB Banking Supervision intends to apply can be communicated as part of the feedback provided by credit institutions during the early communication phase, where the information provided by the involved parties is deemed sufficient and accurate enough to inform a sound first assessment, without precluding the final

[22] For further details on expectations regarding risk data aggregation capabilities and risk reporting practices, see the Letter from Andrea Enria, Chair of the Supervisory Board, to the Significant Institutions on Supervisory expectations on risk data aggregation capabilities and risk reporting practices.

[23] In addition, in some countries the possible application of structural separation measures provided for by the applicable law may play an important role.

decision that will be taken once a specific application has been filed and all the information foreseen in the legislation has been submitted.

§ 24 This timeframe will allow involved parties to benefit from clarity and predictability with regard to the supervisory approach that they can expect at a very early stage.

3.2 Pillar 2 capital requirements and Pillar 2 guidance

§ 25 The supervisory approach for the calculation of the ex post merger P2R and P2G will be guided by the following two key principles:

(a) a thorough assessment and mitigation of the main weaknesses of the combined entity and of the execution risk in the business plan;

(b) an appropriate level of Pillar 2 capital, which is aligned with the risk profile of the combined entity.

§ 26 In assessing the appropriate ex post level of capital requirements and guidance, consideration will be given to the fact that, in general, in a consolidation transaction, a large part of the costs deriving from the business combination are booked upfront, while the potential benefits of such a transaction are accrued only at a later stage. It should then be possible to take into account integration plans with credible trajectories for the level of capital in a reasonable time horizon.

§ 27 In line with these principles:

- The starting point for determining the P2R and P2G levels of the combined entity will be the weighted average of the P2R and P2G levels[24] applicable to the two entities prior to the consolidation.
- This starting point can be adjusted upwards or downwards based on a case-by-case assessment. On the one hand, an increase in P2R and/or P2G can be expected in the event of insufficient improvement of the risk profile of the combined entity, of the resilience of its business model and/or significant execution risks. On the other hand, lower levels of P2R and/or P2G could be envisaged if, according to credible scenarios, the business combination generates an effective improvement in the resilience of the business model and the risk profile of the combined entity, for example through well documented diversification effects of the combined credit portfolios, including reduced dependency on sovereign country exposures, and cost-cutting in back-office functions, IT and other shared services.

§ 28 The ECB intends to clarify the ex post capital requirements and guidance during the application process, with the aim of providing stability to the resulting business combination project in principle for at least a year (see Section 4.2), subject to

24 The weighted average of the P2R and P2G levels is expressed as a percentage of the total risk exposure amount.

revisions in the event of substantial new developments during the implementation phase.

§ 29 ECB Banking Supervision will coordinate with the relevant authorities when appropriate. In particular, it will liaise (i) with the Single Resolution Board with a view to facilitating its assessment of the resolvability of the combined entity and its determination of the minimum requirement for own funds and eligible liabilities (MREL) and total loss-absorbing capacity (TLAC) requirements, and (ii) with the relevant macroprudential authorities in order to assess potential issues for financial stability and calibrate the combined buffer requirements. Depending on the applicable national law and on the specific features of the proposed deal, this could include liaising with the national authorities with competence for structural measures.

3.3 Badwill

§ 30 A business combination transaction may result in the generation of goodwill[25] or badwill.[26] In the event of circumstances that exert downward pressure on the market valuation of banks, there appears to be a strong likelihood that badwill will be generated.

§ 31 The supervisory approach with regard to badwill is based on the recognition of the accounting value of badwill, unless there is specific supervisory evidence of valuation issues not yet recognised.[27]

§ 32 In principle, ECB Banking Supervision recognises duly verified accounting badwill from a prudential perspective, expecting it to be appropriately calculated after thorough accounting recognition and valuation of assets and liabilities. This valuation is also expected to fully reflect the adjustments required by prudential regulations and to take into account guidance[28] provided by the ECB.

§ 33 The badwill represents a bargain compared with the fair value of net assets acquired that usually reflects external investors' uncertainties on valuation and/or future profitability. Given these uncertainties, the acquirer is expected to take advantage of this relatively low acquisition price to increase the sustainability of the business model of the combined entity, for example to cover transaction or integration costs, or other investments, or to increase the prudence of assets' valuation in particular for non-performing loans. Given the uncertainties around its determination, it is generally expected that the potential profits from badwill will not be distributed[29] to

[25] In accordance with Appendix A of IFRS 3: Business Combinations, "goodwill" is defined as an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised.

[26] "Badwill", also known as negative goodwill, occurs when a company purchases an asset at less than its net fair market value. Typically, badwill occurs when one company purchases another at a price that is below its book value.

[27] IFRS 3 stipulates strict recognition requirements to avoid the potential risk of an inappropriate recognition of gain resulting from measurement bias or undetected measurement errors.

[28] Notably the ECB's supervisory expectations for prudential provisioning for new non-performing loans.

[29] ECB Banking Supervision may make use of its available supervisory measures, where appropriate, and on a case-by-case basis.

the shareholders of the combined entity[30] until the sustainability of the business model is firmly established.[31]

§ 34 The ECB will examine in particular the sustainability of the business model in a forward-looking perspective.

3.4 Internal models[32]

§ 35 As a general rule, ECB Banking Supervision grants approval to use internal models for the purpose of calculating capital requirements to a specific legal entity, and this approval is not transferable to another legal entity.

§ 36 In the event of a business combination, the formation of new legal entities or the transfer of exposures to existing legal entities incorporating other entities may raise questions about the continued use of internal models, as newly authorised legal entities cannot have approval to use internal models from the start, and existing legal entities may not have the approval to use their internal models for newly acquired exposures or may wish to use the model of the acquired entity for which they would not have any approval either.[33]

§ 37 In such cases, subject to a clear model mapping and a credible internal models roll-out plan to address the specific internal model issues created through the merger, as well as other conditions where appropriate,[34] ECB Banking Supervision acknowledges that there will be a limited period of time in which banks resulting from the business combination might continue to use the internal models that were in place before the merger. The aim is to avoid an unnecessary supervisory burden linked to undue volatility in risk-weighted assets and reduction in risk sensitivity if legal entities temporarily revert to the standardised approach.

4 Ongoing supervision of the newly combined entity

4.1 Enhanced monitoring of execution risks

§ 38 The SSM supervisory approach acknowledges that the benefits and synergies of consolidation may take time to materialise and that consolidation transactions also involve some risks. In this regard, it is all the more crucial to monitor the

30 Without prejudice to any special treatment provided for under national company laws.

31 It is generally expected that no distributions are made before the purchase price allocation is confirmed at the end of the measurement period as defined in IFRS 3.45.

32 General guidance on internal models can be found in the ECB guide to internal models.

33 For example, the acquirer may wish to use the internal models of the acquired entity on the acquired entity's assets for consolidated reporting until the acquirer has rolled out its own internal models (including IT implementation, staff training, internal model approvals as required, etc.) for those exposures. The issue to be considered is whether the acquirer has permission to use these models.

34 For instance, capital add-ons to address non-compliances with current regulation that lead to an underestimation of capital requirements.

implementation of the integration plan and, where justified, to take swift supervisory action in case of deviation from the agreed plan and timeline.

§ 39 The monitoring framework includes:

(a) specific reporting requirements for the combined entity in relation to the business combination implementation: progress made and issues encountered in the implementation of the integration plan, covering all aspects, for example governance, risk management, products, marketing, branches, the IT integration plan, the internal models roll-out plan and the legacy assets reduction plan;[35]

(b) a clear and detailed plan for ECB Banking Supervision to include a new entity in its supervisory activities, such as the standard supervisory review and evaluation process (SREP);

(c) supervisory measures under the ECB's supervisory powers (for example, under Article 16 of the SSM Regulation)[36] to address risks not covered by Pillar 1 as evidenced by deviations from the agreed plan, which, if the situation deteriorates, can lead to additional requirements on risk reduction, capital, funding and liquidity or additional reporting requirements.

§ 40 This enhanced monitoring of the integration plan implementation, consistent with the commitments made by the involved parties, will ensure that incentives are aligned throughout the process. In particular, it discourages the submission of overly optimistic plans at the beginning of the process.

§ 41 The duration of the enhanced monitoring phase will be based on the timeline of the integration plan.[37]

4.2 Foster the swift convergence of the newly combined entity with standard supervisory activities

§ 42 While allowing for sufficient implementation time, the general principle is for a return to standard supervisory activities – and in particular the standard Supervisory Examination Program (SEP) and SREP process – in a timely manner.

§ 43 For cases in which the entities involved were already under ECB Banking Supervision, this means, for example, that the first post-merger regular SREP assessment will not result in an increased own funds requirement for the bank,

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[35] For instance, reporting and supervisory reviews (JST deep dives/on-site analysis (OSI/IMI)) can be considered as sequential instruments: reporting to monitor the timeliness of the execution, followed by supervisory reviews when the actions are deemed to be concluded by the bank in order to obtain an informed supervisory judgement on the topic. Such supervisory reviews and, in particular the on-site analysis, are of particular relevance for the most complex processes (for example, internal models roll-out plan, outsourcing arrangements, IT infrastructure, recovery planning and risk data integration).

[36] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

[37] The enhanced monitoring can still be phased out if and when it is no longer needed.

unless the enhanced monitoring ascertains that additional risks are insufficiently covered, for instance if there is evidence that the implementation progress is falling short of the agreed milestones and yardsticks. Qualitative and quantitative requirements other than P2R and P2G, such as liquidity, will also be reviewed and adjusted if needed. Regarding the SEP, it will be adjusted taking into account the revised supervisory priorities for the new entity.[38]

§ 44 For cases in which there is no previous ECB Banking Supervision assessment, a specific approach will be applied.

§ 45 The supervisory decision imposing own funds requirements[39] with the new risk-weighted capital requirements is to be issued simultaneously with the business combination authorisation, where such authorisation is needed, and the supervisory measures related to the integration plan and the enhanced monitoring modalities. In principle, ECB Banking Supervision aims for the supervisory requirements to remain stable provided that additional risks are adequately covered. The initial capital requirements would then be expected to remain stable in the next SREP, provided there are no new substantial developments during the implementation phase.

5 Application of supervisory approach to consolidation transactions involving LSIs

§ 46 The SSM supervisory approach to consolidation can cover LSIs, with due consideration of the respective competences of ECB Banking Supervision and the NCAs. In particular, the competence of ECB Banking Supervision vis-à-vis LSIs is limited to business combinations requiring an assessment of a proposed qualifying holding notification, while NCAs have competence for merger approvals when provided for by national law.[40] In addition, NCAs are competent for the direct supervision of LSIs and thus for supervisory decisions related to capital requirements, internal models, etc., as well as for the follow-up supervision of the business combination.

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38 This could include revising on-site inspection and former obligations and recommendations.

39 Such a decision will constitute an update of capital requirements to the new consolidation perimeter and will not reflect a full ordinary SREP decision.

40 The vast majority of business combinations involving LSIs do not require a qualifying holding procedure given that they take place within the cooperative and savings banks sectors, usually at a local level, and do not result in a parent-subsidiary structure, but in a single institution, and as no qualifying holding threshold is met. They would thus not fall within the scope of the proposed framework. However, where an operation leads to a new significant institution, ECB Banking Supervision assesses the business combination.

Postal address 60640 Frankfurt am Main, Germany
Telephone +49 69 1344 0
Website www.bankingsupervision.europa.eu

For specific terminology please refer to the SSM glossary (available in English only).