



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

Template for comments

Public consultation on the draft Guide on the supervisory approach to consolidation in the banking sector

Type of respondent

Other

Non-profit civil company

Institution/company

Get Involved

Contact person

Mr/Ms

First name

Surname

Email address

Telephone number

Please tick here if you do not wish your personal data to be published.

General comments



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

Get Involved was founded in 2017 aiming at addressing financial illiteracy among university students regardless of their academic background using modern educational methods and tools. Get Involved activities include, inter alia, the first European Simulation Conference of the European Central Bank, the publication of the scientific e-journal Future Economic Lab Journal, Career Days and scientific seminars in Athens and Thessaloniki. Get Involved appreciates the opportunity to participate in the public consultation of the draft ECB guide on the supervisory approach to consolidation in the banking sector, acknowledging that a certain degree of consolidation in the European banking union would be useful in addressing some of the structural challenges that banks are currently facing. This in turn will enhance cost efficiency, promote more credible business models and support greater risk diversification. Therefore, Get Involved recognizes that ensuring enhanced supervisory measures for close monitoring and assessing the sustainability of the business models is of great significance. We consider the published supervisory guidelines on how ECB will evaluate merges and acquisitions is largely detailed and a step in the right direction. The case-by-case approach in the application of the supervisory principles, by retaining a certain degree of flexibility, is inevitable and the only solution for such complex projects. It is noteworthy that with this Guide the ECB recognizes and accepts the use of "badwill" expecting it to be used to increase the sustainability of the business model of the new entity. By clarifying that the potential profits from "badwill" will not be distributed to the shareholders of the combined entity until the sustainability of the business model is firmly established the ECB explicitly encourages consolidation plan and makes a big step forward, provided that the new entity will be subject to enhanced supervision. Nevertheless, Get Involved would like to take this opportunity to point out to the ECB a few general remarks by commenting on the Guide. We remain at your disposal, should you be interested in discussing any specific issue of ..the comments on the Guide

Template for comments

Public consultation on the draft Guide on the supervisory approach to consolidation in the banking sector

Please enter all your feedback filling in the table below as following :

- Fill in the 5 green columns only: "Paragraph", "Type of comment", "Detailed comment", "Concise statement as to why your comment should be taken on board", "Proposal for adjusted wording";
- Respect drop-down menus. Do not alter the drop-down menus.
- Other columns, blue columns, are filled in automatically; do not alter them;
- Each comment shall deal with a single issue only; you can enter two comments for the same paragraph if you see several issues in the same paragraph; you can enter the same comment several times if it applies to several paragraphs;
- Indicate whether your comment is a proposed amendment, clarification, deletion or addition to the guide;
- Propose an alternative wording when appropriate.

Please do not make any changes to the structure of the template. Any feedback provided in a modified template will not be processed.

To ease the feedback process, please ensure you provide your feedback in an xls format only (i.e. not pdf)

Deadline: 1 October 2020

Id	Paragraph	Page	Section	Type of comment	Detailed comment	Concise statement as to why your comment should be taken on board	Proposal for adjusted wording	Type of respondent	Institution/company	Name of commenter	Personal data
1	1	1	Introduction	Amendment	We request a modification of the following sentence "They can be a means of addressing longstanding issues in the European banking sector, such as low profitability and overcapacity." as "They can be a means of achieving economies of scale and addressing longstanding issues in the European banking sector, such as low profitability and overcapacity."	This would enhance completeness of this section.		Other	Get Involved	,	Don't publish
2	2	1	Introduction	Addition	Although guidelines are drafted more as expectations than rules, it would be useful to add to this paragraph that banks should explain and substantiate any deviations upon them.	This would enhance completeness of this section.		Other	Get Involved	,	Don't publish
3	6	2	1.1. Objectives	Amendment	We request a modification of section's b wording as follows: "(b)the business combination resulting from the transaction is feasible and sustainable, and therefore likely to allow permanent compliance with the prudential requirements also in the future."	This would enhance completeness of this section.		Other	Get Involved	,	Don't publish
4	8	3	1.2.1. Early communication	Amendment	We request a modification of the following sentence "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." as "In order to maximise the benefits of this early communication, whenever possible, involved parties should liaise with the ECB before publicly informing market participants."	We consider the use of the verb "should" as a more proper one for a document that contains principles that supervised entities have to comply with. This would clarify the meaning and make the wording more robust.		Other	Get Involved	,	Don't publish
5	9	3	1.2.1. Early communication	Amendment	We request a modification of wording as follows: "During the early communication phase, involved parties should present the key characteristics of the proposed business combination to ECB Banking Supervision. They should 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."	We consider the use of the verb "should" as a more firm one for a document that contains principles that supervised entities have to comply with. This would clarify the meaning and make the wording more robust.		Other	Get Involved	,	Don't publish
6	12	4	1.2.3. Implementation phase	Amendment	We request a modification of wording as follows: "During the implementation phase, the consolidation should 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."	This would clarify the meaning and make the wording more robust.		Other	Get Involved	,	Don't publish

7	13	4	1.2.3. Implementation phase	Amendment	We request a modification of this paragraph as "Implementation is subject to close supervision. Enhanced monitoring and supervisory response can be expected in case of materialisation of execution risks, such as delays or shortcomings in the business combination. Should any delay or incapacity to fulfill an initial commitment regarding the integration occurs, ECB must be informed as soon as possible in order to provide new feedback."	This would better clarify and enhance the importance of monitoring during the implementation phase.		Other	Get Involved	,	Don't publish
8	15	5	2.1. Sustainability of the business model	Clarification	We believe that the ECB must specify and define "conservative".	This would increase understanding.		Other	Get Involved	,	Don't publish
9	16	5	2.1. Sustainability of the business model	Amendment	We request a modification of the second and fourth bullet points as follows: "the valuation of assets (and liabilities), which should remain prudent and consistent with the performance of past transactions carried out by the involved parties (for example, sales of non-performing loans, recoveries, Level 3 assets), adjusted by an appropriate margin of conservatism;"; "the composition of the main profitability drivers, which should 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;"	We consider the use of the verb "should" as a more proper one for a document that contains principles that supervised entities have to comply with. This would clarify the meaning and make the wording more robust.		Other	Get Involved	,	Don't publish
10	16	5	2.1. Sustainability of the business model	Clarification	We believe that the ECB must specify and define "conservatism".	This would increase understanding.		Other	Get Involved	,	Don't publish
11	17	6	2.2. Governance and risk management framework	Amendment	We request a modification of wording as follows: "The governance and organisational structure of the business combination should follow the principles set out in the European Banking Authority (EBA) Guidelines on internal governance under Directive 2013/36/EU 19 and to be adapted in order to manage possible integration challenges in a clear way."	We consider the use of the verb "should" as a more firm one for a document that contains principles that supervised entities have to comply with. This would clarify the meaning and make the wording more robust.		Other	Get Involved	,	Don't publish
12	18	6	2.2. Governance and risk management framework	Addition	We request the modification of the third bullet point as follows: "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, countering the financing of terrorism risk, and climate risk and which pays due attention to the integration of different risk cultures.". We suggest that climate risk could be added to this paragraph as a non-financial risk that the leadership team should have a proven track record and strong awareness of. A climate risk management strategy with a climate risk governance framework is imperative for banks to respond to the new sustainability challenges. In particular, we believe that banks must reflect climate considerations within their risk framework by building stress testing and scenario analysis capabilities to be able to respond to the new sustainability initiatives, such as the Task Force on climate-related Financial Disclosures. Thus, adequate knowledge around those issues must be required.	This would enhance completeness of this section.		Other	Get Involved	,	Don't publish

13	18	6	2.2. Governance and risk management framework	Amendment	We request the modification of the last sentence of the last bullet point as follows: "Given the operational importance of IT integration, it should clearly articulate the governance of the integration process and should be overseen by management body members with adequate expertise (for example, fintech banks should consider appointing a Chief Information Technology Officer as a member of the executive board)."	As the ECB has pointed out in the past, banks in which the delivering of banking products and services are based on technology-enabled innovation should consider appointing a Chief Information Technology Officer as a member of the executive board. This would enhance completeness of this section.		Other	Get Involved	,	Don't publish
14	20	7	2.2. Governance and risk management framework	Amendment	We request a modification of wording as follows: "Finally, the execution of the business combination should be governed by adequate remuneration schemes in order to set the right incentives and ensure prudent behaviour."	We consider the use of the verb "should" as a more proper one for a document that contains principles that supervised entities have to comply with. This would clarify the meaning and make the wording more robust.		Other	Get Involved	,	Don't publish
15	20	7	2.2. Governance and risk management framework	Addition	The practices adopted by the new entity for adjusting variable remuneration schemes should be demonstrated in full detail.	This would enhance completeness of this section.		Other	Get Involved	,	Don't publish
16	27	8	3.2. Pillar 2 capital requirements and Pillar 2 guidance	Clarification	Under which conditions adjusting downwards the starting point of P2R and P2G levels can be considered prudent? This needs to be clarified.	We question whether there should be a provision for adjusting downwards the starting point for determining the P2R and P2G levels of the combined entity since lower levels of P2R may increase risks for European banks which will need extra capital support after the pandemic. In case lower levels of P2R and P2G envisage without adequate justifications this could cause moral hazard speculation.		Other	Get Involved	,	Don't publish
17	32	9	3.3. Badwill	Amendment	We request a modification of the paragraph as follows: "In principle, ECB Banking Supervision recognises duly verified accounting badwill from a prudential perspective, for it to be used to increase the sustainability of the business model of the combined entity, for example by increasing the provisioning for non-performing loans, to cover transaction or integration costs, or other investments. The potential profits from badwill should not be distributed to the shareholders of the combined entity until the sustainability of the business model is firmly established."	This would clarify the meaning and make the wording more robust.		Other	Get Involved	,	Don't publish
18	36	10	3.4. Internal models	Clarification	We believe that "a limited period of time" is too vague. A clarification must be provided because this period might be crucial for the sustainability of the new entity.	This would increase understanding.		Other	Get Involved	,	Don't publish
19	43	11	4.2. Foster the swift convergence of the newly combined entity with standard supervisory activities	Clarification	"A specific approach" is too vague. Some ratios and indexes should be, at least, highlighted as more important than the others. It must be specified.	This would increase understanding.		Other	Get Involved	,	Don't publish
20	44	12	4.2. Foster the swift convergence of the newly combined entity with standard supervisory activities	Amendment	We request a modification of this paragraph as follows: "The supervisory decision imposing own funds requirements with the new risk-weighted capital requirements should 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 stay stable provided that additional risks are adequately covered. The initial capital requirements should remain stable in the next SREP, provided there are no new substantial developments during the implementation phase."	We consider the use of the verb "should" as a more proper one for a document that contains principles that supervised entities have to comply with. This would clarify the meaning and make the wording more robust.		Other	Get Involved	,	Don't publish