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

Banking association

Institution/company

Austrian Federal Economic Chamber, Division Bank and Insurance

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

Referring to § 1 of the Guide we have some concerns that the consolidation will help to preserve - or even encourage - diversity. It is more .likely to have the opposite effect here

Regarding P2R and P2G after consolidation (§ 27) ist is not sufficiently clear how the weighted average will be calculated. We believe that .the appropriate reference would be the RWAs

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	8	3	1.2.1. Early communication	Clarification	It is understood that ECB is keen to be involved in a banking consolidation transaction asap and before the public information of market participants occurs. In that respect we like to mention that parties of a consolidation transaction will have to be compliant with all obligations related Confidentiality Agreements which might limit the freedom to disclose even the sheer existence of the specific consolidation opportunity (however, this can be addressed in the NDA/CA).	It reflects the pratical implementation of such projects.		Banking association	Austrian Federal Economic Chamber, Division Bank and Insurance	,	Don't publish
2	9	3	1.2.1. Early communication	Clarification	It should be taken into account that in an early stage of the process and with respect to the mostly tight time schedules, business plans and integration plans are usually drawn up based on a set of assumptions with significant degree of uncertainty which during due diligence can be narrowed down but not eliminated. Therefore the earlier the ECB is involved the less detailed and reliable the provided information might be. Even at signing of a transaction document such business and integration plans may still be to certain extent abstract and high level and mainly reflecting the one-sided management view of purchasing party. These plans will however be refined further in a later stage in parallel to the regulatory application procedure and finalized once the interaction and information flow between the two entities is not restricted anymore. Especially the IT-integration requires interaction between both sides and with external providers regarding the planning of necessary changes and developments to close identified gaps in order to establish realistic time plans and milestones.	It reflects the pratical implementation of such projects.		Banking association	Austrian Federal Economic Chamber, Division Bank and Insurance	,	Don't publish

3	1	1	Introduction	Clarification	We would like to stress that in a microeconomic dimension all these activities pertain to the core functions of the banks´ corporate bodies and are to be fulfilled in addition to the business-as-usual activities and other business initiatives and projects. A timely execution - including the time period between signing and closing – is a key success factor for a transaction and it reduces operational risk. Execution risks are inherent to integration projects and in case they materialize, the steering and the management of such risks and of the related mitigation measures is a key task of the project management and the Corporate bodies of the bank(s). We expect that “close supervision by ECB in the implementation phase” does not result in unreasonably excessive, additional work-load and/or unplanned regulatory reviews, which could endanger successful and in-time implementation.	It reflects the pratical implementation of such projects.		Banking association	Austrian Federal Economic Chamber, Division Bank and Insurance	,	Don't publish
4	13	4	1.2.3. Implementation phase	Clarification	We would like to stress that in a microeconomic dimension all these activities pertain to the core functions of the banks´ corporate bodies and are to be fulfilled in addition to the business-as-usual activities and other business initiatives and projects. A timely execution - including the time period between signing and closing – is a key success factor for a transaction and it reduces operational risk. Execution risks are inherent to integration projects and in case they materialize, the steering and the management of such risks and of the related mitigation measures is a key task of the project management and the Corporate bodies of the bank(s). We expect that “close supervision by ECB in the implementation phase” does not result in unreasonably excessive, additional work-load and/or unplanned regulatory reviews, which could endanger successful and in-time implementation.	It reflects the pratical implementation of such projects.		Banking association	Austrian Federal Economic Chamber, Division Bank and Insurance	,	Don't publish
5	30	9	3.3. Badwill	Clarification	We appreciate that ECB encourages banks to benefit from the generation of badwill in the framework of consolidation transactions while we do not expect the implementation of any additional regulatory requirements or limitations beyond the requirement of appropriate accounting treatment of badwill according to the applicable accounting principles. It might be a rather questionable method to increase provisions without material indication and for the sole purpose of reducing potential profits from badwill. Should the accounting treatment of risk provisions and charges for integration costs really be different from a so called “goodwill-generating” or “at book value” transaction?	It refers to the accounting standards and reflects the practical implementation.		Banking association	Austrian Federal Economic Chamber, Division Bank and Insurance	,	Don't publish

6	31	9	3.3. Badwill	Clarification	We appreciate that ECB encourages banks to benefit from the generation of badwill in the framework of consolidation transactions while we do not expect the implementation of any additional regulatory requirements or limitations beyond the requirement of appropriate accounting treatment of badwill according to the applicable accounting principles. It might be a rather questionable method to increase provisions without material indication and for the sole purpose of reducing potential profits from badwill. Should the accounting treatment of risk provisions and charges for integration costs really be different from a so called “goodwill-generating” or “at book value” transaction?	It refers to the accounting standards and reflects the practical implementation.		Banking association	Austrian Federal Economic Chamber, Division Bank and Insurance	,	Don't publish
7	32	9	3.3. Badwill	Clarification	We appreciate that ECB encourages banks to benefit from the generation of badwill in the framework of consolidation transactions while we do not expect the implementation of any additional regulatory requirements or limitations beyond the requirement of appropriate accounting treatment of badwill according to the applicable accounting principles. It might be a rather questionable method to increase provisions without material indication and for the sole purpose of reducing potential profits from badwill. Should the accounting treatment of risk provisions and charges for integration costs really be different from a so called “goodwill-generating” or “at book value” transaction?	It refers to the accounting standards and reflects the practical implementation.		Banking association	Austrian Federal Economic Chamber, Division Bank and Insurance	,	Don't publish
8	32	9	3.3. Badwill	Clarification	The decision to distribute dividends is usually the result of available resources (profit, capital), the management´s mid-term capital plan taking into account the expectations of the owners and rather not related to the question regarding a specific origin of the profit. Furthermore, there should not be any further restrictions for the payments of dividends besides the alredy excisting (legal) regulations.	It refers to the existing (legal) regulations with respect to the distribution of dividends and reflects the pratical implementation.		Banking association	Austrian Federal Economic Chamber, Division Bank and Insurance	,	Don't publish
9	33	9	3.3. Badwill	Clarification	We appreciate that ECB encourages banks to benefit from the generation of badwill in the framework of consolidation transactions while we do not expect the implementation of any additional regulatory requirements or limitations beyond the requirement of appropriate accounting treatment of badwill according to the applicable accounting principles. It might be a rather questionable method to increase provisions without material indication and for the sole purpose of reducing potential profits from badwill. Should the accounting treatment of risk provisions and charges for integration costs really be different from a so called “goodwill-generating” or “at book value” transaction?	It refers to the accounting standards and reflects the practical implementation.		Banking association	Austrian Federal Economic Chamber, Division Bank and Insurance	,	Don't publish
10	34	10	3.4. Internal models	Clarification	It would be helpful to have guidance on the expected approach in case the approved IRB models of the acquiring entity could be used for exposures with similar characteristics of the acquired entity. In addition, it is unclear what are the expectations in case the acquired entity employs models for exposures classes that are new to the acquiring entity. Are applications for the new models expected to be filed by the acquiring entity? What shall be the treatment of those exposures until the approval?	More guidance for the approach of consolidating existing internal models is needed.		Banking association	Austrian Federal Economic Chamber, Division Bank and Insurance	,	Don't publish

11	35	10	3.4. Internal models	Clarification	Shall we understand that for newly authorised legal entities, in case of a business combination, the expectation is that a completely new IRB implementation plan is needed, requiring new applications for the internal models for credit risk? This would take many years and be unnecessarily burdensome when both entities have prior IRB experience (i.e approved IRB models). In case of existing legal entities it is mentioned that they "may not have the approval to use their internal models for newly acquired exposures." Paragraph 34 mentions that "approvals are not transferable to another legal entity". The two paragraphs seem to be at odds.	It is important to have more clarity on the expectations for the approach of consolidating the internal models in order to avoid full-fledged roll-out plans that make take years to implement for entities that may already have years of model use experience. The aim shall be, especially when the acquirer has experience with model use, to minimize the need for new applications for approval of the models at the time or for a period after the business combination.		Banking association	Austrian Federal Economic Chamber, Division Bank and Insurance	,	Don't publish
12	36	10	3.4. Internal models	Clarification	The maximum period mentioned in paragraph 35 when banks resulting from the business combination might continue to use the internal models that were in place before the merger shall be specified. Please see the proposal in column H.	It is important to have more clarity on the expectations for the approach of consolidating the internal models in order to avoid full-fledged roll-out plans that make take years to implement for entities that may already have years of model use experience. The aim shall be, especially when the acquirer has experience with model use, to minimize the need for new applications for approval of the models at the time or for a period after the business combination.	A suggested approach, albeit not in this exact wording. The acquiring entity shall present at the application phase, as part of the integration plan, the register of rating systems of the combined entity, together with the supporting analyses that prove the possibility of continued use of the already approved models in the combined entity, as the case may be. The rating systems that may need new approvals/material model changes shall be identified and a rollout plan for their implementation shall also be presented at the application phase. The aim is to ensure continuation of the use of internal models as much as possible, without reverting to STD approaches when not necessary. The maximum period mentioned in paragraph 35 when banks resulting from the business combination might continue to use the internal models that were in place before the merger shall be specified.	Banking association	Austrian Federal Economic Chamber, Division Bank and Insurance	,	Don't publish
13	1	1	Introduction	Clarification	Referring to § 1 of the Guide we have some concerns that the consolidation will help to preserve - or even encourage - diversity. It is more likely to have the opposite effect here.			Banking association	Austrian Federal Economic Chamber, Division Bank and Insurance	,	Don't publish
14	27	8	3.2. Pillar 2 capital requirements and Pillar 2 guidance	Clarification	Regarding P2R and P2G after consolidation (§ 27) ist is not sufficiently clear how the weighted average will be calculated. We believe that the appropriate reference would be the RWAs.			Banking association	Austrian Federal Economic Chamber, Division Bank and Insurance	,	Don't publish