Supervisory approach to consolidation

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Online debate – watch the video here

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The ECB acts, within the existing legal framework, as supervisor by ensuring that new entities resulting from business combinations:

- have sustainable business models
- comply with prudential requirements
- set up sound governance and risk management arrangements

We do not change the legal provisions
Objectives of the draft Guide

• Clarify the SSM approach to consolidation
  • Clear and predictable principles governing the overall process for assessing and monitoring consolidations
  • A flexible and proportionate framework setting out supervisory expectations in areas such as business models, capital, governance, internal models and IT systems
  • A description of how the supervisory framework will be used to assess, address and follow up on consolidation projects
• Increase transparency and predictability
• Collect feedback from market participants and other interested parties during public consultation
Key principles

1. Early communication
   - Parties intending to carry out a consolidation are encouraged to liaise with ECB Banking Supervision at an early stage, before publicly informing market participants

2. Supervisory approach based on sustainability of projects
   - Consolidation projects are assessed based on key supervisory expectations regarding the sustainability of the business model; governance and risk management framework; and integration plan
   - Sustainable projects that provoke no substantial concerns (i.e. no substantial negative effects on resolvability and financial stability) will be subject to a dedicated supervisory approach
   - Projects that provoke substantial concerns will be assessed on a case-by-case basis

3. Close ad hoc monitoring
   - Close monitoring of the implementation of the integration plan
   - Objective of fostering the rapid convergence of the newly created entity with standard supervisory activities
   - Swift supervisory action in the event of deviation from the plan
Supervisory approach for sustainable projects

1. **Pillar 2 requirements and Pillar 2 guidance**
   - Determined in parallel to the authorisation (if an authorisation is required)
   - Weighted averages of P2R and P2G of involved entities used as starting point; upward or downward adjustments made on a case-by-case basis to reflect consolidation risks or benefits
   - Expected to remain stable for a year, unless there is a deviation from the plan

2. **Badwill**
   - Duly verified accounting badwill recognised in principle
   - Expected to be used to reinforce the sustainability of the combined entity (e.g. for integration costs and NPL provisioning)
   - CET1 buffers that are boosted through badwill are expected not to be distributed until the sustainability of the combined entity has been firmly established

3. **Internal models**
   - Banks involved in the consolidation may continue to use their internal models, also for new legal entities, until completion of a roll-out plan agreed with the ECB
Timeline

• **1 July** – publication of the draft Guide

• **1 October** – end of public consultation

Visit the ECB’s [banking supervision website](https://www.bankingsupervision.europa.eu) for more information, including a template for submitting comments.

**We look forward to receiving your feedback!**

• **Fourth quarter of 2020** – reflection on the comments received and publication of the final Guide