

Press release

12 January 2021

ECB finalises guide on supervisory approach to consolidation

- Final guide clarifies use of supervisory tools to facilitate sustainable consolidation projects
- Credible integration plans will not be penalised with higher capital requirements
- ECB expects profits from goodwill to be used as capital of new bank

The European Central Bank (ECB) today published the [final guide](#) outlining its supervisory approach to consolidation in the banking sector, following a [public consultation](#) which ended on 1 October 2020.

The ECB will make use of its supervisory tools to facilitate sustainable consolidation projects. Such projects must be based on a credible business and integration plan, improve the sustainability of the business model, and respect high standards of governance and risk management.

The guide clarifies the following key aspects:

- The ECB will not penalise credible integration plans by setting higher Pillar 2 capital requirements. Furthermore, during the application process it will already communicate to the banks an indication of the capital levels the combined bank will need to maintain;
- Supervisors expect the profits stemming from goodwill (the difference between the re-evaluated book value of a bank and the price the acquirer pays) to play their role as capital of the combined bank. This means that banks are expected not to pay out in dividends profits stemming from goodwill until the sustainability of the business model has been firmly established. The ECB expects the acquirer to take advantage of a relatively low acquisition price to increase sustainability;
- The ECB will accept the temporary use of existing internal models, subject to a strong roll-out plan.

“The amount and quality of feedback we received from various stakeholders during this public consultation confirms once again the benefits of committing to greater transparency. This guide on

European Central Bank

Directorate General Communications, Global Media Relations Division
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany

Tel.: +49 69 1344 7455, email: media@ecb.europa.eu, website: www.bankingsupervision.europa.eu

consolidation helps the ECB make itself understood, renders supervisory actions more predictable and avoids misperceptions of supervisory expectations, to the benefit of all,” said Andrea Enria, Chair of the ECB’s Supervisory Board.

The ECB encourages parties considering consolidation to engage with supervisors early on. This will allow the ECB to give preliminary feedback on such projects.

The ECB has given due consideration to all comments received during the consultation and has published a [feedback statement](#) on its banking supervision website.

For media queries, please contact [François Peyratout](#), tel.: +49 172 8632 119.