

Press release

1 July 2020

ECB launches public consultation on its supervisory approach to consolidation

- ECB to clarify use of supervisory tools to facilitate sustainable consolidation projects
- Capital requirements will not hinder sustainable integration plans
- Badwill generally recognised and used preferably to increase resilience
- Consolidation can help banks achieve economies of scale and address new challenges
- ECB invites comments by 1 October 2020

The European Central Bank (ECB) today published a [guide for consultation](#) that aims to clarify its supervisory approach to consolidation projects involving euro area banks.

The ECB will make use of its supervisory tools in order 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 ECB will:

- not penalise credible integration plans with higher capital requirements. The starting point for capital will be the weighted average of the two banks' Pillar 2 capital requirements and Pillar 2 guidance prior to consolidation;
- look to the use of badwill by banks for risk reduction and value-added investments;
- accept the temporary use of existing internal models, subject to a strong roll-out plan.

The ECB encourages parties envisaging consolidation to engage with it early on in the process. This will allow the ECB to give preliminary feedback on such projects.

With the publication of this guide, the ECB aims to clarify how supervisors use their powers with respect to consolidation projects – as announced by Andrea Enria during his January 2020 press conference – and invites comments from interested parties. Greater transparency is intended to make supervisory actions more predictable and avoid misperceptions of supervisory expectations.

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Consolidation may help euro area banks achieve economies of scale, become more efficient and improve their capacity to face new challenges such as digitalisation. The profitability and sustainability of banks' business models are among the supervisory priorities for 2020, and are important for increasing the resilience of banks and their capacity to service the economy, including in the context of the coronavirus (COVID-19) pandemic.

The consultation on the guide starts today and ends at midnight CET on 1 October 2020. The guide is available on the [ECB's Banking Supervision website](#). Following the end of the public consultation, the ECB will publish the comments received together with a feedback statement.

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Note

- In this press release, the term “consolidation” refers to all types of business combinations of prior independent business units (such as mergers and acquisitions, mergers between equals, etc.).