



**EUROPEAN CENTRAL BANK**

EUROSYSTEM

**ECB-PUBLIC**

**Mario DRAGHI**

President

Mr Enrique Calvet Chambon  
Member of the European Parliament  
European Parliament  
60, rue Wiertz  
B-1047 Brussels

Frankfurt am Main, 8 February 2018

L/MD/18/51

**Re: Your letter (QZ-108)**

Honourable Member of the European Parliament, dear Mr Chambon,

Thank you for your letter, which was passed on to me by Mr Roberto Gualtieri, Chairman of the Committee on Economic and Monetary Affairs, accompanied by a cover letter dated 4 December 2017.

Merger and acquisition activity in the euro area banking sector has been subdued in recent years. This may be partly due to economic fundamentals. In addition, consolidation may also be affected by differences in a number of areas, including, but not limited to, tax codes and legal systems (e.g. with regard to insolvency law).

Nonetheless, markets need appropriate framework conditions to function properly. To this end, further steps can be taken to remove unnecessary barriers to mergers. First, in order to make mergers more attractive, banks would need to reduce uncertainty surrounding the quality of their legacy assets. Indeed, a significant link between deteriorating asset quality and the retrenchment in cross-border banking has been observed. Second, banks also need regulatory certainty going forward. Here, a consistent implementation of the new Basel III regulatory reforms is needed. Third, the regulatory treatment of domestic and cross-border banking groups needs to be aligned further, particularly as differences in such treatment no longer have a prudential justification, given the progress towards a complete banking union.

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More generally, in order to ensure the safety and soundness of the European banking system, including pan-European banks, the ECB needs the right set of supervisory powers.<sup>1</sup> For example, the supervision of large and complex investment firms should be brought into line with that of credit institutions, including direct supervision by the ECB of those classified as significant institutions in line with international best practice. The proposals on intermediate parent undertakings (IPUs) should, as a general rule, consolidate the EU activities of third-country groups under one entity and ensure that supervision and resolution are each carried out consistently by a single authority. More generally, under relevant Union law, the ECB does not have the necessary powers in a number of areas (e.g. supervisory permissions for acquisitions in third countries, mergers, asset transfers and other strategic decisions).

Further banking sector consolidation could be a way to help reap economies of scale and allow banks to become more efficient. The Single Supervisory Mechanism, the Single Resolution Mechanism and the post-crisis regulatory framework are designed, inter alia, to address financial stability concerns related to large cross-border institutions. While good progress has been made to date, further regulatory harmonisation is needed to avoid unnecessary fragmentation. This includes removing unwarranted options and national discretions (Member State discretions on large exposures, for example), introducing the possibility of cross-border capital waivers for subsidiaries in the euro area, and limiting the number of standards that are in directive form (such as fit and proper rules) to avoid differences in implementation across Member States.

That said, let me stress that in this context, the role of a supervisor is quite limited, as consolidation should be left to market forces. Indeed, properly functioning markets should automatically find the right level of consolidation. Looking ahead, we are confident that the banking union should set the scene for more financial integration via cross-border banking. Moreover, the ECB believes that a fully-fledged European deposit insurance scheme is an indispensable element of a complete banking union.<sup>2</sup>

Yours sincerely,

[signed]

Mario Draghi

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<sup>1</sup> See the ECB Opinion on amendments to the Union framework for capital requirements of credit institutions and investment firms ([CON/2017/46](#)).

<sup>2</sup> See the ECB Opinion on a proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 806/2014 in order to establish a European Deposit Insurance Scheme ([CON/2016/26](#)).

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