Andrea ENRIA
Chair of the Supervisory Board

COURTESY TRANSLATION

Mr Miguel Viegas
Member of the European Parliament
European Parliament
60, rue Wiertz
B-1047 Brussels

Frankfurt am Main, 19 March 2019

Re: Your letter (QZ013)

Honourable Member of the European Parliament, dear Mr Viegas,

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 18 February 2019.

Your question on a possible merger between Deutsche Bank and Commerzbank touches upon a range of issues, in particular the extent to which such a merger may magnify problems arising from the systemic risk of major financial institutions, possible implications with regards to the market power of major institutions, and whether the Single Supervisory Mechanism promotes banking concentration within the European Union.

While I cannot comment on individual credit institutions, I would like to highlight that a healthy banking system goes together with a well-functioning market for mergers and acquisitions (M&A) among banks. Bank mergers can play a role in helping to reduce the excess capacity we are observing in some Member States, and in making banks themselves more efficient. In particular, in response to your question on the ECB's position on banking concentration, I would stress that it is not the role of the supervisor to define the appropriate level of bank consolidation. Instead, ECB Banking Supervision's role is to monitor M&A activities to avoid negative externalities and make a thorough assessment of whether any proposed new entities meet the relevant regulatory and supervisory requirements; this includes assessing their financial soundness and the viability of their strategies and business models in the long term. It is therefore crucial that ECB Banking Supervision is equipped with the right set of tools to ensure effective supervision at all stages of the business cycle and is able to assess how new risks identified post-merger (e.g. execution risk) are addressed. In this context, I would like to draw your attention to a special feature in the ECB's Financial Integration Report, which comprehensively assesses cross-border M&A activity in the euro area and discusses the merits of further cross-border consolidation.[1]

[1] European Central Bank (ECB), "Financial Integration in Europe, Special Feature: cross-border consolidation in the euro area", May 2017, available at http://www.ecb.europa.eu/pub/pdf/other/ecb.financialintegrationineurope201705.en.pdf.

Regarding the systemic risk of major institutions, I would like to stress that substantial progress has been made in recent years to address systemic risks at the global and the European level. As the Financial Stability Board notes in its progress report on the implementation and effects of financial reforms[2], although the implementation of higher loss absorbency and more intensive supervision is most advanced for global systemically important banks, there is still work to be done. The banking sector as a whole is stronger today than it was before the crisis and the institutional framework has been considerably enhanced. In particular, the ongoing implementation of the TLAC (total loss-absorbing capacity) Term Sheet and the revision of the MREL (minimum requirement for own funds and eligible liabilities) framework in Europe will further heighten the ability of the authorities to address the "too big to fail" issue, as it will not only increase loss-absorbency and recapitalisation capacity in the event of a crisis, but will also improve the operationalisation of resolution in the European Union. However, while we are better prepared today, we cannot be complacent, as crisis situations can always be difficult to manage.

Regarding concentration and the market power of large institutions, I would like to point out that market concentration in the euro area as a whole has been decreasing in recent years.[3] At the same time we are also observing substantial heterogeneity across the euro area, where banking systems in many of the larger countries tend to be more fragmented and banking systems in smaller countries tend to be more concentrated. Generally speaking, the banking market in Germany is still a highly competitive market in many business categories.

Ultimately, market power needs to be assessed on a case-by-case basis, primarily by the competition authorities in charge of that assessment. In that regard, it is crucial to ensure that the banking landscape in the euro area is competitive and that consumers and businesses have a variety of options for banking services.

Yours sincerely,

[signed]

Andrea Enria

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[2] Financial Stability Board, "Implementation and effects of the G20 Financial Regulatory Reforms", August 2016, available at http://www.fsb.org/wp-content/uploads/Report-on-implementation-and-effects-of-reforms.pdf.

[3] ECB, "Report on financial structures", October 2018, available at https://www.ecb.europa.eu/pub/pdf/other/reportonfinancialstructures201710.en.pdf.