

Question ID	2020_5590
Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Other issues
Article	18
Paragraph	7
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	na
Date of submission	30/10/2020
Published as Final Q&A	17/12/2021
Disclose name of institution / entity	Yes
Name of institution / submitter	Austrian Financial Market Authority (FMA)
Country of incorporation / residence	Austria
Type of submitter	Competent authority
Subject matter	Definition of participation for the purposes of Article 18(7) CRR
Question	In the context of Article 18(7) CRR, where an institutions holds a participation in another undertaking that is not an institution, financial institution or ancillary services undertaking, shall the default treatment for this participation be the equity method or shall the valuation be affected in accordance with the applicable accounting framework (Article 24(1) CRR), if that would result in a different measurement base?
Background on the question	Article 18(7) CRR requires an institution to apply the equity method where the institution (i) has a subsidiary which is an undertaking other than an institution, a financial institution or an ancillary services undertaking or (ii) holds a participation in such an undertaking. (emphasis added) Article 4(1)(35) provides the following definition for a participation: 'participation' means participation within the meaning of the first sentence of Article 17 of Fourth Council Directive 78/660/EEC of 25 July 1978 on the annual accounts

	<p>of certain types of companies (1), or the ownership, direct or indirect, of 20 % or more of the voting rights or capital of an undertaking; Based on that definition, the scope of Article 18(7) CRR would cover not only subsidiaries, but also any other type of participation held in undertakings others than institutions, financial institutions or ancillary services undertakings. This broad scope could potentially conflict with Article 24(1) CRR. According to Article 24(1) CRR, participations, like any other asset, shall be measured in accordance with the applicable accounting framework. The measurement base according to the accounting framework might be different from the equity method (i.e. fair value or amortised cost).</p>
Final answer	<p>As clarified in Q&A 5578, Article 18(7) is only applicable at the consolidated level. Therefore, at the consolidated level, institutions should apply the equity method as a default treatment to the participations held in undertakings other than institutions, financial institutions or an ancillary services undertakings. This is without prejudice to the provisions of the second subparagraph of Article 18(7) CRR, according to which competent authorities may allow or require institutions to apply a different method, including the method required by the relevant accounting framework, provided that:</p> <ul style="list-style-type: none"> (a) the institution does not already apply the equity method on 28 December 2020; (b) it would be unduly burdensome to apply the equity method or the equity method does not adequately reflect the risks that the undertaking referred to in the first subparagraph poses to the institution; and (c) the method applied does not result in full or proportional consolidation of that undertaking. <p>Nevertheless, in any other case, Article 24(1) CRR applies and the valuation of any participation held in the aforementioned undertakings should be effected in accordance with the applicable accounting framework.</p>
Link	<p>https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2020_5590</p>