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Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Own funds
Article	81, 84
Paragraph	-
Subparagraph	-
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	N/A
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Disclose name of institution / entity	No
Type of submitter	Credit institution
Subject matter	CET 1 Minority Interest Calculation and Forex conversion of non-EU subsidiary's financial statements
Question	<p>Regarding minority interests calculations:</p> <p>1) Should the Common Equity Tier I items of the subsidiary referred to in Article 81(1) and 84(1)(a) CRR be calculated according to the local accounting framework or according to the consolidated applicable accounting framework, when the two frameworks differ?</p> <p>2) Should the Other Comprehensive Income that arises from the currency conversion of the local financial statements to the Group's reference currency be considered in the minority interest computation?</p>
Background on the question	<p>Consider a subsidiary that is located in a jurisdiction whose local currency is different from the Group presentation currency (euro) and whose local accounting framework is different from the accounting framework that is applicable at consolidated level (EU-IFRS). Some adjustments shall be performed for consolidating the financial statements of the subsidiary in order to homogenize local financial statements to EU-IFRS and to convert the local currency into euro. Clarifications are requested about these specific scenarios: 1) Negative Adjustments (Need for additional EU-IFRS9 Provisions) A European institution has a subsidiary in a third country that</p>

according to its local GAAP does not account for EU-IFRS9 provisions. When for consolidation purposes EU-IFRS9 is applied to the local subsidiary, the need for additional provisions is identified. Therefore, at a consolidated level, accounting adjustments are recorded in order to translate local financial statements to EU-IFRS. In this regard, the local P/L and Reserves are restated taking into account the impact associated with the EU-IFRS additional provisions that have not been registered at local level. As a consequence, the consolidated financial statements include these adjustments, being the financial statements audited at consolidated level and reported to the competent authority (FINREP). In this regard it's relevant to note that for own funds calculation at group level, the part attributable to the parent company (majority stake) does include these adjustments (less CET1 at consolidated level due to increased provisions). It is unclear if these adjustments should form part of the Common Equity Tier I Items of the subsidiary that are required under Articles 81(1) and 84(1)(a) CRR for the minority interests calculation.

2) Positive Adjustments (Less required EU-IFRS9 Provisions) A European institution has a subsidiary in a third country that according to its local GAAP accounts for general provisions (allowances that could be freely used and are not accounted for specific financial assets). Those accounting provisions are not allowed under EU-IFRS 9, EU-IFRS being the applicable accounting framework at consolidated level. Therefore, at a consolidated level, accounting adjustments are recorded in order to translate local financial statements to EU-IFRS. In this regard, the local P/L and Reserves are restated eliminating the impact associated with the additional provisions that have been registered at local level that are not allowed to be computed according to EU-IFRS accounting. As a consequence, the consolidated financial statements include these adjustments, these being the financial statements audited at consolidated level and reported to the competent authority (FINREP). In this regard it's relevant to note that for own funds calculation at group level, the part attributable to the parent company (majority stake) does include these adjustments (these adjustments form part of the CET1 at consolidated level). It is unclear if these adjustments should form part of the Common Equity Tier I Items of the subsidiary that are required under Articles 81(1) and 84(1)(a) CRR for the minority interests calculation.

3) OCI arising for Foreign Exchange conversion A European institution has a subsidiary in a third country the financial statements of which are expressed at local level in a foreign currency different from the Euro. For the purposes of the calculations considered under Articles 81 and 84 CRR, in the application of IAS21 some specific questions arise. According to IAS21, when the functional currency of the subsidiary is not the currency of a hyperinflationary economy: -Assets and liabilities shall be translated at the closing rate at the date of the statement of financial position; -Income and expenses and other comprehensive income shall be translated at exchange rates at the dates of the transactions. -The components of Equity shall be translated at historical exchange rate. -All resulting exchange differences

	<p>shall be recognized in Other Comprehensive Income (IAS 21.39 c). It is unclear if the Other Comprehensive Income that does not exist at local level but is a consequence of the application of IAS21, should be included in the Common Equity Tier I component for minority interests calculation. In this regard it's relevant to note that for own funds calculation at group level, the part attributable to the parent company (majority stake) does include the Other comprehensive income that arises from the application of IAS21.</p>
Final answer	<p>The first part of the question is already clarified in Q&A 3111. That Q&A remains valid. Therefore, the Common Equity Tier 1 items of a subsidiary referred to in Articles 81(1) and 84(1)(a) of Regulation (EU) No 575/2013 (CRR) shall refer to the amount before consolidation.</p> <p>In a similar vein, regarding the second question, Article 81 CRR refers to the figures at subsidiary level. Therefore, if OCI components arise only at consolidated level and do not exist at subsidiary level, they shall be disregarded for the calculation of the amount of minority interests of a subsidiary that is included in consolidated Common Equity Tier 1 capital.</p>
Link	<p>https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2021_5795</p>

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