Single Rulebook Q&A

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Article/Paragraph	n.a.
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Name of institution / submitter	Norddeutsche Landesbank (NordLB)
Country of incorporation / residence	Germany
Type of submitter	Credit institution
Subject matter	Own funds instruments in template M 06.00
Question	Please clarify how Own Funds shall be reported in template M 06.00.
Background on the question	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 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 An 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 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.
Final answer	The aim of the template M 06.00 (Creditor ranking) of Annex I to Regulation (EU) 2021/763 (ITS on disclosures and reporting of MREL and TLAC, ITS) is to provide an estimate/approximation of the loss absorption capacity should the bail-in or write-down or conversion of capital (WDCC) be applied. As detailed in Articles 48 and 60 of Directive 2014/59/EU (BRRD), the application of bail-in or WDCC is done with respect to CET1 items, AT1 instruments and T2 instruments. The bail-in and WDCC are applied with regard to the instrument itself. Consequently, any regulatory adjustments (as captured in COREP) should be disregarded, since they cannot be mapped to the insolvency hierarchy. This approach would imply reporting figures in template M 06.00 in accordance with the following guidelines: <u>CET1 capital</u> The entity should report the CET1 items listed in Article 26(1) of Regulation (EU) No 575/2013 (CRR), without adjustments (such as the prudential filters) or deductions, i.e. a sum of the values reported in rows 0040, 0060, 0130, 0180, 0200, 0210 of template C 01.00 (CA1) of Regulation (EU) 2021/451 (ITS on Supervisory Reporting). In the context of the breakdown by residual maturity in columns 0070 to 0110 of M 06.00, all these CET1 items shall be allocated to column 0110 ('of which: perpetual securities'). <u>AT1 capital</u> AT1 capital instruments, as reported in row 0551 of C 01.00, and the associated share premium, as reported in row 0571 of C 01.00, shall be reported in M 06.00. <u>T2 capital</u> T2 instruments, as reported in row 0771 of C 01.00, and the associated share premium, as reported in row 0791 of C 01.00, shall be reported in M 06.00. <u>All types of own funds</u> Grandfathered instruments (including any amount that is progressively being excluded from own funds) and the amortised part of Tier 2 capital not recognized as own funds should be reported as well in M 06.00, according to their ranking in insolvency, since they will be captured within the WDCC/bail-in waterfall. This is in line with the provisions of

	EBA/GL/2017/02. When reporting the information in M 06.00, an entity should also take into account, with regard to the residual maturity, the fact that the residual maturity should be an effective one (i.e., the earliest possible date of the repayment of the instrument), as provided in the provisions governing the instrument.
Link	https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2021_5833

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