

# Single Rulebook Q&A

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<b>Status</b>	Final Q&A
<b>Legal act</b>	Regulation (EU) No 2019/2033 (IFR)
<b>Topic</b>	Capital requirements
<b>Article</b>	10
<b>Paragraph</b>	1
<b>Subparagraph</b>	-
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	Not applicable
<b>Article/Paragraph</b>	-
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<b>Disclose name of institution / entity</b>	No
<b>Type of submitter</b>	Competent authority
<b>Subject matter</b>	Qualifying holdings outside the financial sector
<b>Question</b>	How should the deduction amount of qualifying holdings outside the financial sector, referred to in Article 10(1) IFR, be understood?
<b>Background on the question</b>	<p>For the purposes of this Part, investment firms shall deduct amounts in excess of the limits specified in points (a) and (b) from the determination of Common Equity Tier 1 items referred to in Article 26 of Regulation (EU) No 575/2013: (a) a qualifying holding, the amount of which exceeds 15 % of the own funds of the investment firm calculated in accordance with Article 9 of this Regulation but without applying the deduction referred to in point (k)(i) of Article 36(1) of Regulation (EU) No 575/2013, in an undertaking which is not a financial sector entity; (b) the total amount of the qualifying holdings of an investment firm in undertakings other than financial sector entities that exceeds 60 % of its own funds calculated in accordance with Article 9 of this Regulation but without applying the deduction referred to in point (k)(i) of Article 36(1) of Regulation (EU) No 575/2013. From the wording of the article it seems that the total deduction equals the sum of: • the amount in excess of the 15% limit, • the amount in excess of the 60% limit. This however seems to have no rationale since it would mean that in some instances, the total deduction could be greater than the total investment</p>

made. For example: Own Funds without the deduction referred to in article 36(1)(k)(i) of the CRR = 100 Qualifying holding outside the financial sector = 100 a) Limit 15% = 15 Excess of 15% limit = 100 - 15 = 85 b) Limit 60% = 60 Excess of 60% limit = 100 - 60 = 40 According to article 10(1) of the IFR investment firms shall deduct amounts in excess of the limits specified in points (a) and (b), so in the example above this would mean: 85 + 40 = 125, which is higher than the qualifying holding (100). The above wording is also not in line with the current approach taken by the CRR. According to article 89(3)(a) of the CRR: for the purpose of calculating the capital requirement in accordance with Part Three, institutions shall apply a risk weight of 1250 % to the greater of the following: (i) the amount of qualifying holdings referred to in paragraph 1 in excess of 15 % of eligible capital; (ii) the total amount of qualifying holdings referred to in paragraph 2 that exceed 60 % of the eligible capital of the institution; According to article 90 of the CRR as an alternative to applying a 1250% weight, institutions may deduct the relevant amount of qualifying holdings from Common Equity Tier 1 items in accordance with point (k) of article 36(1). Article 36(1)(k)(i) of the CRR refers to the deduction of the exposure amount of the qualifying holdings outside the financial sector which qualify for the 1250% risk weight. Therefore the deduction under article 36(1)(k)(i) of the CRR is not the sum of, but the greater of: • the amount of qualifying holdings in excess of 15 % of eligible capital; • the total amount of qualifying holdings that exceed 60 % of the eligible capital of the institution. Since the CRR does not change with regard to the abovementioned provisions, the different approach taken by the IFR would mean unequal treatment of the qualifying holdings outside the financial sector for different categories of investment firms and has no economic rationale.

**Final answer**

In accordance with Article 10(1) of the Regulation (EU) 2019/2033 (IFR), amounts of qualifying holdings outside the financial sector that exceed certain limits - set as percentages of an investment firm's own funds - must be deducted from their CET1 capital.

Two limits have been set under Article 10(1), points (a) and (b), IFR: the first one restricts the individual amount of a qualifying holding to a maximum of 15% of the own funds of an investment firm, while the second one restricts the aggregated amount of qualifying holdings to a maximum of 60% of the own funds of an investment firm.

Both limits should be complied with at the same time. Therefore, in case both limits are exceeded, the amount to be deducted will be the greater of the two amounts determined in accordance with Article 10(1), points (a) and (b), IFR.

*The answers clarify provisions already contained in the applicable legislation. They do not extend in any way the rights and obligations deriving*

	<p><i>from such legislation nor do they introduce any additional requirements for the concerned operators and competent authorities. The answers are merely intended to assist natural or legal persons, including competent authorities and Union institutions and bodies in clarifying the application or implementation of the relevant legal provisions. Only the Court of Justice of the European Union is competent to authoritatively interpret Union law. The views expressed in the internal Commission Decision cannot prejudge the position that the European Commission might take before the Union and national courts.</i></p>
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