

<b>Question ID</b>	2021_6189
<b>Status</b>	Final Q&A
<b>Legal act</b>	Regulation (EU) No 575/2013 (CRR)
<b>Topic</b>	Other issues
<b>Article</b>	18
<b>Paragraph</b>	7
<b>Subparagraph</b>	-
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	Not applicable
<b>Article/Paragraph</b>	n.a.
<b>Date of submission</b>	07/09/2021
<b>Published as Final Q&amp;A</b>	15/07/2022
<b>Disclose name of institution / entity</b>	No
<b>Type of submitter</b>	Credit institution
<b>Subject matter</b>	Inclusion of undertakings other than institutions, financial institutions or ancillary undertakings in prudential consolidation
<b>Question</b>	Are undertakings other than institutions, financial institutions or ancillary services undertakings unconditionally included in prudential consolidation by effect of Article 18(7) of Regulation (EU) No 575/2013 (CRR) and its requirement to apply the equity method, without being subject to conditions as is the case for full or proportional consolidation according to Article 18(8), or to the thresholds laid down in Article 19(1)?
<b>Background on the question</b>	Article 18(1) requires institutions, financial holding companies and mixed financial holding companies to carry out full consolidation of all their subsidiaries which are institutions or financial institutions. Furthermore, ancillary services shall according to Art. 18(2) be included in consolidation in accordance with the methods laid down in Article 18. Competent authorities may also, in accordance with Art. 18 (4), require proportional consolidation of participations in institutions and financial institutions. Consolidation of other participations or capital ties, and the methods to be used, particularly the equity method, is, according to Art. 18 (5), subject to the discretion of the competent authority. However, Articles 18(1)-(6) make no mention of

undertakings other than institutions, financial institutions or ancillary services undertakings, and holdings of participation in such undertakings. There is currently no common European consensus on the treatment of such undertakings or holdings of participation. Article 18 (7) requires institutions to apply the equity method to subsidiaries which are undertakings other than institutions, financial institutions or ancillary services undertakings, and to holdings of participation in such undertakings. According to the second subparagraph, competent authorities may, however, allow or require institutions to apply different methods to such subsidiaries or participations, subject to certain conditions laid down in the same paragraph. The background behind adding this paragraph was to clarify the consolidation methods used for insurance subsidiaries or participations. Furthermore, EBA draft RTS (2021/04) on page 5 states that: “b) Paragraph 7 of Article 18 has been amended in order to regulate the treatment of subsidiaries and participations in undertakings, which are excluded from the scope of prudential consolidation since they are different from institutions, financial institutions and ancillary services undertakings”. This suggests that by default other subsidiaries and participations than institutions, financial institutions and ancillary services undertakings should not be consolidated. According to Article 18 (8), competent authorities may, subject to certain conditions (where there is a substantial risk of step-in and provided that the undertakings are not insurance undertakings.) laid down in the same paragraph, require full or proportional consolidation of a subsidiary or an undertaking in which an institution holds a participation where that subsidiary or undertaking is not an institution, financial institution or ancillary services undertaking. Inclusion of such subsidiaries or holdings of participation in full or proportional consolidation is thus conditional. Article 19 (1) states that an institution, a financial institution or an ancillary services undertaking which is a subsidiary or an undertaking in which a participation is held, need not to be included in the consolidation where the total amount of assets and off-balance sheet items of the undertaking concerned is less than the smaller of the two amounts laid down in the same paragraph. Undertakings other than institutions, financial institutions or ancillary services undertakings, and holdings of participation in such undertakings are not mentioned. Based on Article 19 (1), subsidiaries which are institutions, financial institutions and ancillary services undertakings, and participations held in them, could be excluded from consolidation where the thresholds are not exceeded. Undertakings other than institutions, financial institutions or ancillary services undertakings, and holdings of participation in such undertakings, however, would, if their inclusion in consolidation is otherwise unconditional by effect of Article 18 (7), be included in consolidation regardless of whether the thresholds laid down in Article 19 (1) are exceeded.

**Final answer**

The entities to be included in the scope of prudential consolidation pursuant to Article 18 of Regulation (EU) No 575/2013 (CRR) are institutions, financial

	<p>institutions, and ancillary services undertakings.</p> <p>Moreover, Article 18(7) CRR clarifies that where an institution has a subsidiary which is an undertaking other than an institution, a financial institution or an ancillary service undertaking or holds a participation in such an undertaking, it shall apply to that subsidiary or participation the equity method, as a default prudential treatment. This, unless the competent authority has allowed or required the application of a different method (including the method required by the relevant accounting framework), in accordance to the provisions of the second subparagraph of Article 18(7) CRR. and provided that the conditions established in this subparagraph are met.</p> <p>Therefore, as a general treatment, undertakings other than institutions, financial institutions or an ancillary services undertakings are not fully or proportionally consolidated for prudential purposes. This without prejudice to those cases, where the provisions of Article 18(8) CRR apply and the competent authority requires the application of full or proportional prudential consolidation since there is a substantial risk that the institution decides to provide financial support to an undertaking in stressed conditions, in the absence of, or in excess of any contractual obligations to provide such support.</p> <p>Finally, the provisions of Article 19(1) CRR are not relevant in the case into question, since, according to the CRR, their application is limited to institutions, financial institutions or ancillary services undertakings, which are subsidiaries or undertakings in which a participation is held.</p>
<b>Link</b>	<a href="https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2021_6189">https://www.eba.europa.eu/single-rule-book-qa/qna/view/publicId/2021_6189</a>

European Banking Authority, 08/12/2022  
[www.eba.europa.eu](http://www.eba.europa.eu)