

<b>Question ID</b>	2022_6374
<b>Status</b>	Final Q&A
<b>Legal act</b>	Regulation (EU) No 575/2013 (CRR)
<b>Topic</b>	Own funds
<b>Article</b>	37
<b>Paragraph</b>	b
<b>Subparagraph</b>	-
<b>COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations</b>	Not applicable
<b>Article/Paragraph</b>	NA
<b>Date of submission</b>	15/02/2022
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<b>Disclose name of institution / entity</b>	No
<b>Type of submitter</b>	Competent authority
<b>Subject matter</b>	Goodwill included in the valuation of significant investments
<b>Question</b>	<p>1. For the purposes of Article 37(b) CRR, are the significant investments of the institution limited to the significant investments in financial sector entities (FSE) or should they include all significant investments (i.e. also significant investments in entities that are not financial sector entities)?</p> <p>2. Should Article 37(b) CRR be applied only when the significant investments outside the prudential perimeter are valued for prudential purposes using the equity method or should it be applied also when the significant investments are valued for prudential purposes at historical cost?</p>
<b>Background on the question</b>	Resubmission (amended) of QA 2018_3929 1. Article 37(b) CRR does not specify whether significant investments should be limited to the significant investments in financial sector entities (FSE) or should they include all significant investments. 2. Some institutions argue that when a significant investment outside the prudential perimeter of consolidation is valued for prudential purposes at historical cost, it is not possible to determine the amount of goodwill included in the valuation of the significant investment.
<b>Final answer</b>	According to Article 37(b) of Regulation (EU) No 575/2013 (CRR) institutions

	<p>shall deduct the amount of goodwill included in the valuation of significant investments.</p> <p>Article 37(b) CRR does not make any distinction between significant investments in Financial Sector Entities (FSEs) and those in other entities and from a prudential perspective there is no difference between goodwill related to both kind of entities. Therefore, institutions shall deduct goodwill regardless of whether it is included in the valuation of a significant investment and regardless of whether it relates to a FSEs or a-not. Moreover, the assessment of whether an investment is considered a significant investment for prudential purposes, should be based on the same conditions established in Article 43 CRR for FSEs.</p> <p>With regard to the second question, it is important to note that Article 37(b) CRR does not contain any reference - as a prerequisite to apply the provision - to any valuation method used by the institution for accounting and prudential purposes. Therefore, the reference in the article to the “valuation” of the significant investment should be read in a broad sense, meaning that Article 37(b) CRR shall be applied regardless of the valuation method used to account the significant investment.</p> <p>Considering that, according to Article 4 (1) (113) CRR, “goodwill” has the same meaning as under the applicable accounting framework, where the undertaking into question is not consolidated for prudential purposes, the amount of goodwill included in the valuation of the significant investment shall correspond to the difference between (i) the cost of the investment and (ii) the entity’s share of the net fair value of the investee’s identifiable assets and liabilities. This means that institutions will have to evaluate the presence of goodwill related to any significant investment incurred at the time of its acquisition for prudential purposes.</p> <p>When the undertaking is consolidated for prudential purposes the amount of goodwill to be deducted shall correspond to the amount reported at prudential consolidation level. This applies also to those significant investments in undertakings other than FSEs that are consolidated for prudential purposes pursuant to Article 18(8) CRR.</p>
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