Single Rulebook Q&A

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Status	Final Q&A
Legal act	Regulation (EU) No 575/2013 (CRR)
Topic	Own funds
Article	471
Paragraph	1
Subparagraph	(d)
COM Delegated or Implementing Acts/RTS/ITS/GLs/Recommendations	Not applicable
Article/Paragraph	Not applicable
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Disclose name of institution / entity	No
Type of submitter	Law firm
Subject matter	Exemption from deduction of Equity Holdings in an insurance company from CET1
Question	Pursuant to Article 471(1)(d) of Regulation (EU) No 575/2013 (CRR), in order not to deduct the equity investment in an insurance company, should “the amount of the equity holding which is “not deducted” not exceed (i) the “amount of shares” (13% share of the insurance company’s capital) or (ii) the “book value” (EUR 2 billion), held in the Common Equity Tier 1 instruments in the Insurance company as of December 31, 2012?
Background on the question	An institution holds an equity investment in an insurance company. Under Article 471 (1), the institution decides to exercise the exemption of equity holdings in insurance companies from CET1 by the end of 2014, according to relevant decisions of the competent authorities. As of December 31, 2012, the percentage of the equity investment in the insurance company is 13% and the book value, calculated using the equity method, is €2bn. As of December 31, 2014, the percentage of the equity investment in the insurance company remains at 13% and the new book value increases to €2.3bn only because of the application of the equity method (without any further investment). In any case, the exercise of the exemption meets all the conditions set out in Article 471, points (a), (b) and (c).

Final answer	For the purpose of Article 471(1)(c) of Regulation (EU) No. 575/2013 (CRR), the equity holdings of the institution in the insurance company shall not exceed 15% of the CET1 instruments issued by that insurance company as at 31 December 2012 and during the period from 1 January 2013 and 31 December ~~2022~~ 2024. If this condition is not met then the equity holding of the institution in the insurance company shall be deducted. For the purpose of Article 471(1)(d) of the CRR, the amount of the equity holdings not deducted shall not exceed the amount held in CET1 instruments in the insurance company as at 31 December 2012. These two conditions apply together and shall be met in order for equity holdings not to be deducted. In the case submitted, as of 31 December 2014, the equity holding of the institution in the insurance company (13%) remains below the threshold of 15%. The condition of Article 471(1)(c) of the CRR is thus met. However, the amount of the equity holding in the insurance company at that date (EUR ~~ac~~ 2.3bn) is above the cap of EUR~~ac~~2bn, which results from the application of Article 471(1)(d). Therefore, in the situation described, the amount of the equity holding that could be risk-weighted would be EUR 2bn. EUR 0.3bn would have to be deducted from own funds.
Link	https://www.eba.europa.eu/single-rule-book-qa/-/qna/view/publicId/2013_502