

Question on Minority Interests

1. Question

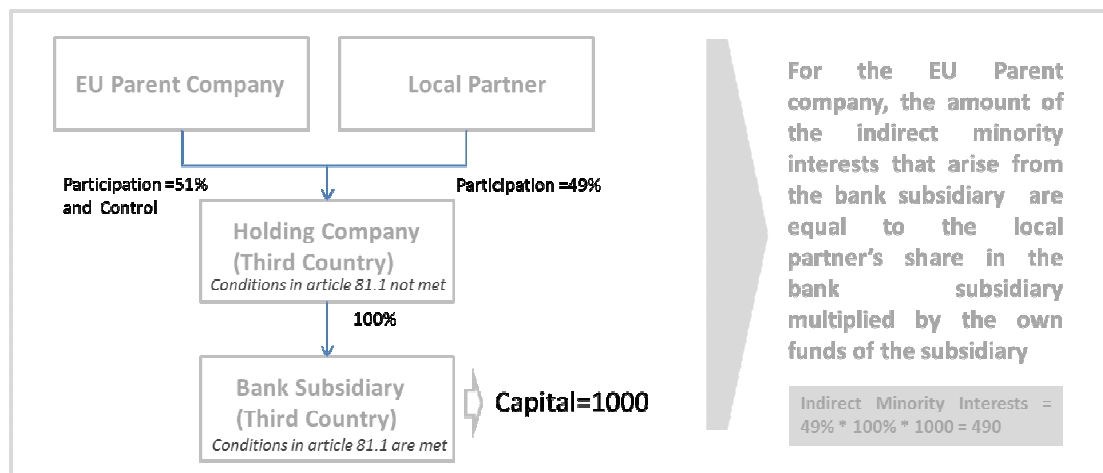
An EU parent company has a stake of 51% in a holding company in a third country, which is not referred to in Article 81(1) of the Regulation. A local partner owns the remaining stake (49%) in the holding company, but control is exercised by the EU parent company.

The holding company has in turn a 100% stake in a bank subsidiary in the same third country. This subsidiary is referred to in Article 81(1) of the Regulation. In addition, both the bank subsidiary and the holding company are fully included in the prudential consolidation of the EU parent company.

The own funds of the bank subsidiary, which amounts to 1000, are mainly compounded by capital and accumulated reserves and account for local capital requirements. The holding company balance sheet is composed of the participation in the bank subsidiary and some liquidity.

For the EU Parent company, the amount of the indirect minority interests that arise from the bank subsidiary are equal to the local partner's share in the bank subsidiary, multiplied by the own funds of the subsidiary. (Indirect minority interest = $49\% * 100\% * 1000 = 490$)

Taking all of this into account, the question is: will the minority interests that arise from that bank subsidiary, which are indirectly attributable to third parties, be eligible at the EU parent consolidated level?



2. Background on the Question

Minority interests are defined in article 4 (120) of the CRR as the amount of Common capital tier 1 capital of a subsidiary of an institution that is attributable to natural or legal persons other than those included in the prudential scope of consolidation of the institution.

According to Article 81 the minority interest, as previously defined, arising from the participation in bank subsidiaries in third countries, which are fully included in the consolidation, and owned by third parties should be included in the consolidated own funds.

From those articles, it is clear that:

- Those minority interests arise from that bank subsidiary.
- The CRR in art 4 (120) when defining the term “minority interest” does consider the amount of the instruments “attributable” to third parties, and in this sense, both direct and indirect minority interests are considered within the definition of the term minority interest.
- The “attributable amount” comprises capital and reserves (CET₁ capital) that have been accumulated in the bank subsidiary and that belong to third parties beyond the scope of the consolidation.
- The CET₁ capital is allocated at the bank subsidiary. This CET₁ capital is funding the bank subsidiary’s RWA, and accounts for local solvency requirements that are under the supervision of the bank subsidiary supervisor. In addition to this, the bank subsidiary’s RWA are considered in the group’s consolidated accounts.

3. Proposed Answer

Capital and accumulated reserves that arise from the banking subsidiary, which are indirectly attributable to third parties (in the example 490), should be considered eligible in the CET₁ at the consolidated level.

The reason is that these minority interests are included within the scope of the definition of minority interests, and arise from a subsidiary referred to in article 81 (1) of the Regulation.