

# CRD IV scope of consolidation

## I. CRD IV and CRR scope of consolidation

## II. Key factors in consolidation

### Highlights of CRD IV + CRR prudential consolidation

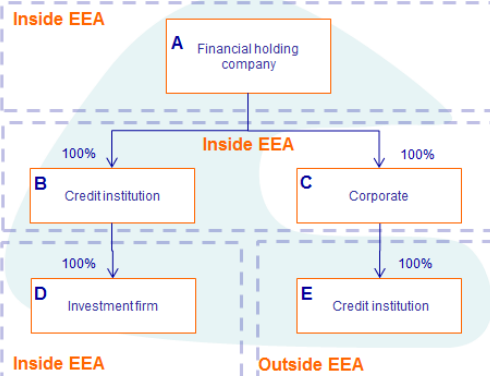
- CRD IV + CRR are applied on solo ("individual") and several consolidated bases.
- The solo (individual) application is based on the unconsolidated accounts of the legal entity which is licensed as an institution.
- Consolidated application starts by consolidating several relevant legal entities within a financial group into a single (hypothetical) consolidated entity, on which the CRD IV + CRR are applied.
- On one financial group several levels of consolidation may be applicable.
- The levels of consolidation are applied for a number of prudential topics (parts) of CRD IV + CRR framework.
- The application of consolidated supervision and the determination of the consolidated situation are dependent on a number of characteristics of the financial group such as: legal relation between the entities, activities/licenses and location of the entity.
- Prudential consolidation differs from accounting consolidation on several accounts.

### Examples of consolidation scopes

The following figures are examples of applicable scopes of consolidation given characteristics of a banking group.

### Example of subsidiaries in the scope of consolidation

This example below shows several entities included (B,D,E) in the scope of consolidation (blue area) of a relevant parent entity (A). Corporate subsidiaries (C) are not included. The CRD IV + CRR applies on this consolidated entity (A) as well as solo on those institutions (B,D) which are located in any Member State of the European Economic Area (EEA).



### Consolidation levels in the CRD IV + CRR framework

The application of CRD IV requirements on consolidation levels is additional to the application of CRD IV to the unconsolidated legal entity ("solo" = "individual"). However on the solo level, depending on the situation, waivers (CRR.7+8) may be granted. Within a complex banking group each of these levels may be applicable, however for less complex groups, some levels may not be applicable / coincide with other levels.

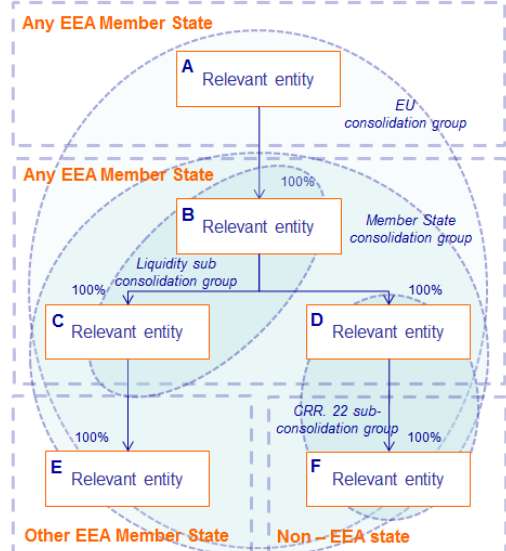
- EU consolidation level
- Member State consolidation level
- CRR.22 sub-consolidation level
- Specific liquidity sub-consolidation level

### Inclusion of an entity in the scope of consolidation

An entity which is a subsidiary of a consolidating parent entity has to be included in the scope of consolidation, depending on a number of factors (non-exhaustive list):

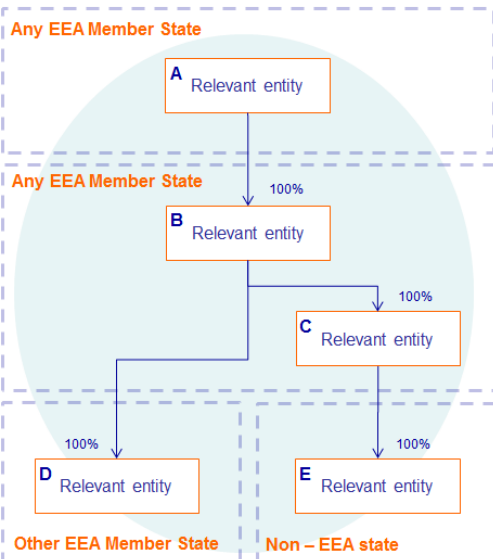
- Type (activities and licenses) of the parent undertaking
- Location of the subsidiary
- Type (activities and licenses) of the subsidiary
- Size and risk of the subsidiary
- Relation between the parent and the subsidiary

It should be noted that the parent undertaking is not necessarily the consolidating entity or itself subject to consolidated supervision.



## III. EU consolidation level

## IV. Member State consolidation level



### EU consolidation CRR.11.3 + CRD.111

#### Trigger of consolidation

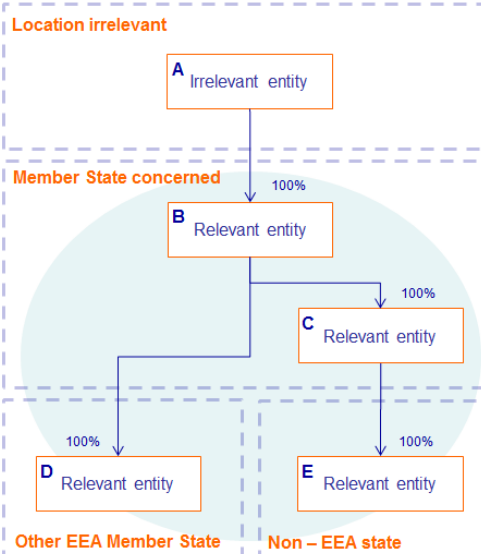
- EU consolidation is triggered by the presence of at least one institution within the EEA.

#### Level of consolidation

- EU level consolidation is applicable on the highest level of a group within the EEA (ultimate parent):
  - Special case if institutions are located in several MS controlled by a single non-EEA entity (CRD.111).
- The highest level of a banking group at the EU consolidation level, could be a:
  - (Mixed) financial holding company
  - Institution.

#### Scope of consolidation

- Within the scope of consolidation are all relevant entities, which are a subsidiary of the ultimate parent.
- The location of those subsidiaries is irrelevant.
- Relevant entities for EU consolidation are:
  - Financial institutions (including holding companies)
  - Institutions
  - Ancillary service undertakings
- Consolidation of a subsidiary is evaluated from the perspective of the ultimate parent.



### Member State consolidation CRR.11.1 + CRR.1.2

#### Trigger of consolidation

- MS consolidation is triggered by the presence of at least one institution in the Member State concerned.

#### Level of consolidation

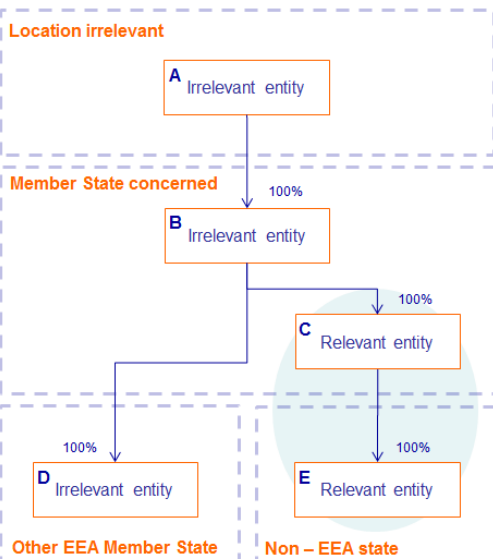
- MS level consolidation is applicable on the highest level of a group within the Member State (MS parent):
  - Note: if MS level is identical to EU level, both apply
  - Note: MS level also triggers if there are no subs..
- The highest level of a banking group at the MS consolidation level, could be a:
  - (Mixed) financial holding company
  - Institution.

#### Scope of consolidation

- Within the scope of consolidation are all relevant entities, which are a subsidiary of the MS parent.
- The location of those subsidiaries is irrelevant.
- Relevant entities for MS consolidation are:
  - Financial institutions (including holding companies)
  - Institutions
  - Ancillary service undertakings.
- Consolidation of a subsidiary is evaluated from the perspective of the MS parent.

## V. CRR.22 sub-consolidation level

## VI. Liquidity specific sub-consolidation



### CRR.22 sub-consolidation CRR.22

#### Trigger of consolidation

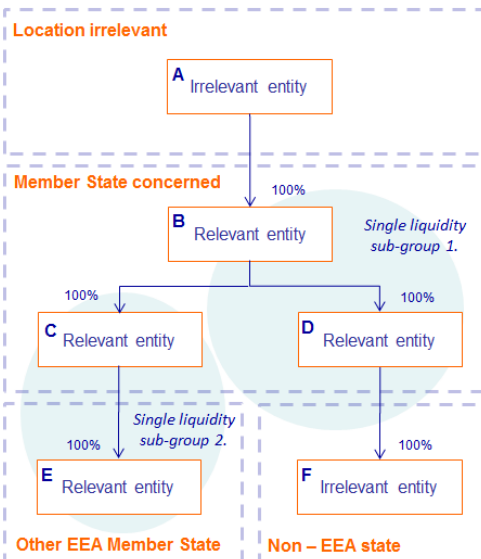
- CRR.22 sub-consolidation is triggered by the presence of an institution in the MS concerned and if there are any relevant non-EEA subsidiaries of any entity in the concerned MS.

#### Level of consolidation

- CRR.22 sub level consolidation is applicable on the direct parent level of a sub-group (local parent).
  - Note: if CRR.22 is identical to MS level, both apply
  - Note: there are other separate cases of sub-consolidated supervision, not discussed here.
- The highest level could be a:
  - (Mixed) financial holding company
  - Institution.

#### Scope of consolidation

- Within the scope of consolidation are all relevant entities, which are a subsidiary of the local parent.
- The location of those subsidiaries is irrelevant.
- Relevant entities for CRR.22 sub-consolidation are:
  - Financial institutions (including holding companies)
  - Institutions
  - Ancillary service undertakings.



### Liquidity specific sub-consolidation CRR.8

#### Trigger of consolidation

- Liquidity specific sub-consolidation is triggered by a granted waiver under CRR.8.2 or CRR.8.3, and waives the solo liquidity application on those entities.
- Upon granting the waiver, several institutions within the EEA (CRR.8.3 = sub-group 2) or within the same MS (CRR.8.2 = sub-group 1) form a single liquidity sub-group for the purpose of meeting CRR liquidity requirements:
  - Note a sub-group including subsidiaries in another MS may apply for a waiver as of 2015 (CRR.8.3).

#### Level of consolidation

- Liquidity specific sub-consolidation is applicable on the direct parent level of the single liquidity sub-group:
  - Note: several liquidity groups could be formed.
- The highest level of a banking group at the liquidity specific sub-consolidation level, could only be an:
  - Institution (CRR definition).

#### Scope of consolidation

- Only those institutions which are in scope of the single liquidity sub-group are consolidated for this purpose.