



EUROPEAN CENTRAL BANK
BANKING SUPERVISION

ECB Guide on options and discretions available in Union law

Consolidated version

Note: this document is now outdated. Please refer to the updated ECB Guide on options and discretions available in Union law (March 2022)

BANKENTOEZICHT

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Section I

Overview of the Guide on options and discretions

1 Purpose

1. This Guide sets out the ECB's approach concerning the exercise of options and discretions (ODs) provided for in the EU legislative framework (Regulation (EU) 575/2013 of the European Parliament and of the Council¹ (CRR) and Directive 2013/36/EU of the European Parliament and of the Council² (CRD IV)) and which concern the prudential supervision of credit institutions. It aims to provide coherence, effectiveness and transparency regarding the supervisory policies that will be applied in supervisory processes within the Single Supervisory Mechanism (SSM) as far as the significant credit institutions are concerned. In particular, it aims to assist the Joint Supervisory Teams (JSTs) in the performance of their tasks with regard to the principles the ECB intends to follow in supervising significant credit institutions.

2 Scope, content and effect

2. This Guide is relevant for credit institutions that have been designated as significant credit institutions by the ECB.
3. The Guide sets out the general aspects which will be taken into account by the ECB in determining the prudential requirements for significant credit institutions. The policies set out in this Guide will be used as guidance by the JSTs when assessing individual requests and/or decisions that would involve the exercise of an option or discretion.
4. The structure of the Guide mirrors the structure of the relevant legislative acts (e.g. CRR/CRD IV). The Guide should be read in conjunction with the relevant legal texts.

¹ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1). Some ODs are also included in Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions.

² Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (OJ L 176, 27.6.2013, p. 338).

5. The terms used in the Guide have the same meaning as defined in the CRR/CRD IV and Council Regulation (EU) No 1024/2013 (SSM Regulation)³, with the exception of cases where a term is specifically defined in this Guide for the purposes of this Guide only.
6. The references to CRD IV and the CRR should be considered as including any regulatory or implementing technical standards provided for in those acts which have already been adopted, or as soon as they are adopted by the European Commission and published in the Official Journal of the European Union. In accordance with CRD IV, national implementing law must also be taken into account (see also paragraph 11 below).
7. The policies in this Guide take into account the results of an impact assessment exercise, as well as the outcome of the public consultation carried out between 11 November and 16 December 2015. The ECB carefully examined the comments received during the consultation process and provided its own assessment in a Feedback Statement, which was published on 24 March 2016. A second consultation on the approach for the recognition of institutional protection schemes for prudential purposes was carried out between 19 February and 15 April 2016. Finally, an addendum to the ECB Guide was consulted between 18 May and 21 June. The feedback statements, in which the ECB provides its own assessment of the comments received during those subsequent consultation processes, were published on 12 July and 10 August 2016 respectively. In addition, the ECB's assessment took into account the state of implementation of ODs across SSM jurisdictions and considered the treatment of the ODs by the Basel Committee on Banking Supervision, as well as the regulatory approach recommended by the European Banking Authority (EBA).⁴
8. The final policy choices reflected in this Guide aim to achieve the objectives of the SSM, as specified in Recital 12 of the SSM Regulation, i.e. to *"ensure that the Union's policy relating to the prudential supervision of credit institutions is implemented in a coherent and effective manner, that the single rulebook for financial services is applied in the same manner to credit institutions in all Member States concerned, and that those credit institutions are subject to the supervision of the highest quality"*. In this context, the policy choices take into account not only the specific features of individual credit institutions, but also of their business models, as well as indicators related to territories of the participating Member States. Furthermore, the assessment that the ECB will carry out in individual cases will respect the specifics and particular features of significant credit institutions and different markets.

³ Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

⁴ The consolidated version of the Guide was published on 3 November 2016. It was updated on 23 November 2016 to reflect editorial changes.

9. This Guide does not establish new regulatory requirements and the specifications and principles included herein should not be construed as being legally binding rules.
10. The guidance included in each policy choice sets out the approach to be followed by the ECB in carrying out its supervisory tasks. If, however, in specific cases, there are factors that justify departing from this guidance, the ECB is empowered to take a decision that departs from the general policy established in this Guide, provided that clear and sufficient reasons are supplied for the decision. The rationale of this divergent policy choice must also be compatible with the general principles of EU law, in particular equal treatment, proportionality and the legitimate expectations of supervised entities. This is consistent with established case-law of the Court of Justice of the EU where internal guidance, such as this Guide, is defined as rules of practice from which EU institutions may depart in justified cases⁵.
11. The ECB reserves the right to review the policy guidance set out in this document to take account of changes in legislative provisions or specific circumstances, as well as the adoption of specific delegated acts that may regulate a specific policy issue in a different way. Any changes will be made public and take due account of the principles of legitimate expectations, proportionality and equal treatment referred to above.
12. When setting out its policy stance as provided for in this Guide, the ECB acts within the limits of applicable EU law. In particular, as regards cases where this Guide refers to ODs in CRD IV, the ECB sets out its policy stance without prejudice to the application of national legislation transposing directives, in particular CRD IV, where a relevant policy choice is already adopted in such national legislation. The ECB will also abide by the applicable EBA Guidelines, within a “comply or explain” framework pursuant to Article 16 of Regulation (EU) No 1093/2010⁶.
13. Finally, the policies defined in this Guide are without prejudice and are not applicable to the ODs available in EU law and already exercised by the European Central Bank under Regulation (EU) 2016/445⁷.

⁵ See, indicatively, paragraph 209 of the judgement of the Court of Justice of the EU of 28 June 2005 in Joined Cases C-189/02, C-202/02, C-205/02 to C-208/02 and C-213/02: “The Court has already held, in a judgment concerning internal measures adopted by the administration, that although those measures may not be regarded as rules of law which the administration is always bound to observe, they nevertheless form rules of practice from which the administration may not depart in an individual case without giving reasons that are compatible with the principle of equal treatment. Such measures therefore constitute a general act and the officials and other staff concerned may invoke their illegality in support of an action against the individual measures taken on the basis of the measures.”

⁶ Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

⁷ Regulation (EU) 2016/445 of the European Central Bank of 14 March 2016 on the exercise of options and discretions available in Union law (ECB/2016/4) (OJ L 78, 24.3.2016, p. 60).

Section II

The ECB's policy for the exercise of options and discretions in the CRR and CRD IV

This Section sets out the specific policy guidance that the ECB intends to follow when assessing individual applications by supervised credit institutions which would involve the exercise of the options and discretions included herein. The purpose of this Section is to assist the Joint Supervisory Teams in their supervisory tasks, as well as to inform the credit institutions and the general public about the ECB's policy in this area in the interests of openness and transparency.

Chapter 1

Consolidated supervision and waivers of prudential requirements

1. This Chapter sets out the preferred policy choice of the ECB on the general principles of consolidated supervision, as well as on waivers from certain prudential requirements.
2. Articles 6 to 24 of Part One of the CRR, as well as Commission Delegated Regulation (EU) 2015/61⁸, set out the relevant legislative and regulatory framework.
3. CAPITAL WAIVERS (Article 7 of the CRR)

The ECB is of the view that the application of prudential requirements may be waived for subsidiaries of credit institutions, as well as parent credit institutions, where both the subsidiary and the parent credit institution are authorised and supervised in the same Member State, following a case-by-case assessment and provided that the conditions set out in Article 7(1), (2) and (3) of the CRR are satisfied.

For the purposes of this assessment, the ECB will consider the following factors.

⁸ Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions (OJ L 11, 17.1.2015, p. 1).

- **Article 7(1) of the CRR, on the waiver of requirements for subsidiary institutions**

- (1) To assess whether the condition laid down in Article 7(1)(a) that there is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities by the subsidiary's parent undertaking has been met, the ECB plans to verify that:
 - (i) the shareholding and legal structure of the group does not hamper the transferability of own funds or repayment of liabilities;
 - (ii) the formal decision-making process regarding the transfer of own funds between the parent undertaking and subsidiary ensures prompt transfers;
 - (iii) the by-laws of the parent and of the subsidiaries, any shareholder's agreement, or any other known agreements do not contain any provisions that may obstruct the transfer of own funds or repayment of liabilities by the parent undertaking;
 - (iv) there have been no previous serious management difficulties or corporate governance issues which might have a negative impact on the prompt transfer of own funds or the repayment of liabilities;
 - (v) no third parties⁹ are able to exercise control over or prevent the prompt transfer of own funds or repayment of liabilities;
 - (vi) the grant of a waiver has duly been taken into account in the recovery plan and, if any, the group financial support agreement;
 - (vii) the waiver has no disproportionate negative effects on the resolution plan;
 - (viii) the COREP "Group Solvency" template (Annex I to Commission Implementing Regulation (EU) No 680/2014¹⁰), which aims to provide a global view of how risks and own funds are distributed within the group, shows no discrepancy in this regard.
- (2) In assessing compliance with the requirement laid down in Article 7(1)(b) of the CRR that either the parent undertaking satisfies the competent authority regarding the prudent management of the subsidiary and has declared, with the permission of the competent authority, that it guarantees the commitments entered into by the subsidiary, or the risks in the subsidiary are of negligible interest, the ECB will take into account whether:

⁹ Third parties are any party that is not the parent, a subsidiary, a member of their decision-making bodies or shareholder.

¹⁰ Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ L 191, 28.6.2014, p. 1).

- (i) the institutions comply with the national legislation implementing Chapter 2 of Title VII of CRD IV;
 - (ii) the supervisory review and evaluation process (SREP) for the parent institution/undertaking shows that the arrangements, strategies, processes and mechanisms it has implemented ensure the sound management of its subsidiaries;
 - (iii) the waiver has no disproportionate negative effects on the resolution plan;
 - (iv) (with regard to risks being of negligible interest) the subsidiary's contribution to the total risk exposure amount does not exceed 1% of the total exposure amount of the group or its contribution to total own funds does not exceed 1% of the total own funds of the group¹¹. Nonetheless, in exceptional cases the ECB may apply a higher threshold if duly justified. In any case, the sum of the contributions of the subsidiaries considered negligible in terms of the total risk exposure amount must not exceed 5% of the total exposure amount of the group and their contributions to total own funds must not exceed 5% of the total own funds of the group.
- (3) In assessing compliance with the requirement laid down in Article 7(1)(c) that the risk evaluation, measurement and control procedures of the parent undertaking cover the subsidiary, the ECB intends to take into account whether:
- (i) senior management of the parent undertaking is sufficiently involved in strategic decisions, setting the risk appetite and the risk management of the subsidiary;
 - (ii) the risk management and compliance functions of the subsidiary and parent undertaking fully cooperate (e.g. the control functions of the parent have easy access to all the necessary information of the subsidiary);
 - (iii) the information systems of the subsidiary and parent undertaking are integrated or, at least, fully aligned;
 - (iv) the subsidiary to be waived complies with the group risk management policy and the risk appetite framework (the limit system in particular);
 - (v) the SREP for the parent institution does not show deficiencies in the area of internal governance and risk management.
- (4) In assessing compliance with the requirement laid down in Article 7(1)(d) that the parent undertaking holds more than 50% of the voting rights attached to shares in the capital of the subsidiary or has the right to appoint or remove a majority of the members of the management body of the subsidiary, the ECB plans to verify that:

¹¹ Commission Implementing Regulation (EU) No 680/2014, Annex II, Part ii, paragraph 37.

- (i) there are no side agreements that impede the parent undertaking from imposing any measures necessary to steer the group towards compliance with prudential requirements.
- (5) In assessing an application for a capital waiver the ECB will also take into account considerations related to the leverage ratio, given that pursuant to Article 6(5) of the CRR granting such a waiver will also automatically waive the leverage requirement at the same level of the group structure. The ECB will take this into account when assessing applications for waivers under Article 7 of the CRR, once a minimum level for the leverage ratio has been introduced in Union law as a Pillar 1 requirement. However, the ECB will immediately take into account leverage-related considerations with regard to reporting and disclosure requirements, given that these requirements are already in force, pursuant to the applicable legislation.¹²

- **Article 7(3) of the CRR, on the waiver of requirements for parent institutions**

For the purposes of assessing, under Article 7(3), whether a waiver should be granted to a parent institution in a Member State, the ECB intends to take into account, *mutatis mutandis*, the relevant¹³ specifications mentioned above in relation to Article 7(1) of the CRR.

In addition to these specifications, in assessing the condition referred to in Article 7(3)(a) that there is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities to the parent institution in a Member State, the ECB will take into account whether:

- (i) the own funds held by subsidiaries located in the EEA are sufficient to grant the waiver to the parent institution (i.e. the granting of the waiver should not be justified on the basis of resources coming from third countries, unless official EU recognition of the equivalence of the third country is available and there are no other impediments);
- (ii) the minority shareholders of the consolidating subsidiary do not together hold voting rights that would allow them to block an agreement, decision or act of the general meeting under the applicable national company law; and
- (iii) foreign exchange restrictions, if any, do not prevent the prompt transfer of own funds or repayment of liabilities.

- **Documentation related to Article 7(1) and (3) CRR waivers**

¹² It should be noted that, even where an Article 7 CRR waiver that also encompasses the leverage requirements has been granted, credit institutions are still required to have in place policies and processes for the identification, management and monitoring of the risk of excessive leverage within the framework set out by the competent authority pursuant to Article 87 of CRD IV and national implementing legislative provisions.

¹³ For example, the criterion regarding “negligible interest” is excluded.

- **Documentation related to Article 7(1) waivers**

For the purpose of the assessment(s) under Article 7(1) of the CRR, the credit institution is expected to submit the following documents, which the ECB will consider to be evidence that the conditions set out in the legislation have been satisfied:

- (i) a letter signed by the parent undertaking's CEO, with approval from the management body, stating that the significant supervised group complies with all the conditions for granting the waiver(s) laid down in Article 7 of the CRR;
- (ii) a legal opinion, issued either by an external independent third party or by an internal legal department, approved by the management body of the parent undertaking, demonstrating that there are no obstacles to the transfer of funds or repayment of liabilities by the parent undertaking resulting from either applicable legislative or regulatory acts (including fiscal legislation) or legally binding agreements;
- (iii) an internal assessment which confirms that the grant of a waiver has duly been taken into account in the recovery plan and the group financial support agreement, if available, drawn up by the institution in accordance with Directive 2014/59/EU of the European Parliament and of the Council¹⁴ (BRRD);
- (iv) evidence that the parent undertaking has guaranteed all the obligations of the subsidiary, by means, for example, of a copy of a signed guarantee or an extract from a public register certifying the existence of such guarantee or a declaration to such effect, which is reflected in the parent undertaking's articles of association or has been approved by the general meeting and reported in the annex to its consolidated financial statements. As an alternative to a guarantee, credit institutions can provide evidence that the risks in the subsidiary are negligible;
- (v) the list of the entities for which the waiver is requested;
- (vi) a description of the functioning of the financing arrangements to be used in case an institution faces financial difficulties, including information about how those arrangements ensure funds that are (a) available at will and (b) freely transferrable;
- (vii) a statement signed by the CEOs and approved by the management bodies of the parent undertaking and the other institution(s) seeking the

¹⁴ Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council (OJ L 173, 12.6.2014, p. 190).

waiver, certifying that there are no practical impediments to the transfer of funds or the repayment of liabilities by the parent undertaking;

- (viii) documentation approved by the management bodies of the parent undertaking and the other institution(s) seeking the waiver attesting that the risk evaluation, measurement and control procedures of the parent undertaking cover all the institutions included in the application;
- (ix) a brief overview of the risk evaluation, measurement and control procedures of the parent institution, or, in the case of a horizontal group of institutions, of the consolidating institution, as well as information about the contractual basis, if any, upon which the risk management for the group as a whole can be controlled by the relevant steering entity;
- (x) the structure of the voting rights attached to shares in the capital of the subsidiary;
- (xi) any agreement that grants the parent undertaking the right to appoint or remove a majority of the members of the management body of the subsidiary.

- **Documentation related to Article 7(3) waivers**

Institutions applying for a waiver under Article 7(3) of the CRR must submit to the ECB (*mutatis mutandis*) the documents listed under points (i), (ii), (iv), (vi), (vii) and (viii) above. In the case of subsidiaries established in non-EEA countries, institutions must submit, in addition to those documents, written confirmation by the third country competent authority for the prudential supervision of such subsidiaries that there are no practical impediments to the transfer of own funds or repayment of liabilities from the relevant subsidiary to the parent institution seeking the waiver.

4. LIQUIDITY WAIVERS (Article 8 of the CRR)

A similar approach is planned with regard to waivers of the liquidity requirements of a credit institution and all or some of its subsidiaries, both at the national as well as at the cross-border level, provided that the conditions specified in Article 8 of the CRR and Article 2(2) of Commission Delegated Regulation (EU) 2015/61 are met. However, the ECB plans to exclude reporting requirements from such waivers (i.e. the reporting requirements will remain in place), with the possible exception of credit institutions which are in the same Member State as the parent company.

- **Waivers at the national level**

More specifically, in the event of an application for a waiver at the national level, the credit institution must fulfil the conditions set out in Article 8(1) and (2) of the CRR. To this end, the credit institution is expected to provide the following.

- (1) With respect to the requirement laid down in Article 8(1)(a) that the parent institution on a consolidated basis or a subsidiary institution on a sub-

consolidated basis complies with the obligations laid down in Part Six of the CRR, the institution should provide:

- (i) a calculation of the Liquidity Coverage Ratio (LCR) at the sub-group level, which demonstrates that the sub-group meets the LCR requirements applicable in the jurisdiction where the sub-group is established;
 - (ii) a phase-in convergence plan towards a 100% LCR requirement in 2018;
 - (iii) a liquidity position (last three reports) under the existing relevant national liquidity provisions, where applicable. Alternatively, if no quantitative requirements are in place, internal monitoring reports on the institution's liquidity position could be provided. A liquidity position would be considered to be sound if the consolidating institution has an adequate level of liquidity management and control (over the past two years). The credit institution would be expected to flag any obstacles to the free transfer of funds that may arise, either in normal or stressed market conditions, from national liquidity provisions;
 - (iv) the LCR of each entity of the sub-group, pursuant to Commission Delegated Regulation (EU) 2015/61, and the existing plans to meet the legal requirements should the waivers not be granted.
- (2) With respect to the condition set out in Article 8(1)(b) that the parent institution on a consolidated basis or the subsidiary institution on a sub-consolidated basis monitors and has oversight at all times over the liquidity positions of all institutions within the group or sub-group that are subject to the waiver and ensures a sufficient level of liquidity for all of these institutions, the institution should provide:
- (i) the organisational chart of the liquidity management function within the sub-group showing the level of centralisation at the sub-group level;
 - (ii) a description of the processes, procedures and tools used for the internal monitoring of the entities' liquidity positions at all times and the extent to which they are designed at the sub-group level;
 - (iii) a description of the liquidity contingency plan for the liquidity sub-group.
- (3) With respect to the condition laid down in Article 8(1)(c) that the institutions have entered into contracts that, to the satisfaction of the competent authorities, provide for the free movement of funds between them to enable them to meet their individual and joint obligations as they come due, the institution should provide:
- (i) the contracts concluded between entities which are part of the liquidity sub-group, which do not provide for any amount or any time-limit or which provide for a time-limit that exceeds the validity of the waiver decision by at least six months;

- (ii) evidence that the free movement of funds and the ability to meet individual and joint obligations as they come due are not subject to any conditions that may prevent or limit their exercise, confirmed by a legal opinion to that effect either issued by an external independent third party or by an internal legal department, provided and approved by the management body;
 - (iii) evidence that, unless the waiver is revoked by the competent authority¹⁵, the legal contracts cannot be called off or cancelled unilaterally by either party, or that the legal contracts are subject to a six-month notice period, with prior mandatory notice to the ECB.
- (4) With regard to the condition laid down in Article 8(1)(d) of the CRR that there is no current or foreseen material practical or legal impediment to the fulfilment of the contracts referred to in Article 8(c), the institution should provide:
- (i) a legal opinion, either issued by an external independent third party or by an internal legal department, provided and approved by the management body, that supports the absence of legal impediments, e.g. with regard to national insolvency laws;
 - (ii) an internal assessment which concludes that there are no current or foreseen material practical or legal impediments to the fulfilment of the contract referred to above and which confirms that the grant of a waiver has duly been taken into account in the recovery plan and the group financial support agreement, if available, drawn up by the institution in accordance with Directive 2014/59/EU of the European Parliament and of the Council (BRRD);
 - (iii) a confirmation from the relevant NCA that the national liquidity provisions, where applicable, do not contain material practical or legal impediments to the fulfilment of the contract.

- **Waivers at the cross-border level**

In the case of an application for a waiver under Article 8 with regard to institutions which are established in several Member States, the ECB will, in addition to the specifications mentioned above for granting a waiver at the national level, assess whether the following specifications have been met.

- (1) To assess, in accordance with Article 8(3)(a), the compliance of the organisation and of the treatment of liquidity risk with the conditions set out in Article 86 of CRD IV across the single liquidity sub-group, the ECB will verify that:
 - (i) the liquidity SREP does not reveal breaches at the time of application and over the previous three months and the liquidity management of the institution as evaluated in the SREP is deemed to be of a high quality.

¹⁵ The contract should include a clause providing that if the competent authority revokes the waiver the contract may be cancelled unilaterally with immediate effect.

(2) With respect to Article 8(3)(b) and the distribution of amounts, and the location and ownership of the required liquid assets to be held within the single liquidity sub-group, account will be taken of whether:

(i) significant sub-entities¹⁶ or significant groups of sub-entities in one Member State maintain in that Member State an amount of high quality liquid assets (HQLA) which is at least equal to the lower of¹⁷ (a) and (b):

(a) the percentage of HQLA required at the ultimate parent company level;

(b) 75% of the level of HQLA that would be required in order to comply with the fully phased-in LCR requirements at the solo or sub-consolidated level, in accordance with Commission Delegated Regulation (EU) 2015/61.

The computation of the percentage under points (a) and (b) above should not take into account any preferential treatment, in particular that available under Article 425(4) and (5) of the CRR and Article 34(1), (2) and (3) of Commission Delegated Regulation (EU) 2015/61.

The ECB intends to reassess the specifications under (b) above at the latest in 2018, in particular in order to set the lower bound at 50%, in light of supervisory experience and the development of the institutional mechanisms in place within the banking union to ensure the safety and freedom of cross-border intragroup liquidity flows.

(3) With respect to the assessment, under Article 8(3)(d) of the CRR, of the need for stricter parameters than those set out in Part Six of the CRR:

In the case of a waiver for an institution located in a participating Member State and a non-participating Member State, and in the absence of national provisions which set stricter parameters, the LCR requirement is the highest applicable level among the countries where the subsidiaries and the top consolidating entity are located, if allowed by national law.

(4) To assess whether there is a full understanding of the implications of such a waiver under Article 8(3)(f), the ECB will take into account:

¹⁶ This requirement applies to subsidiaries that meet at least one of the numerical thresholds specified in Articles 50, 56, 61 or 65 of the SSM Framework Regulation on a solo basis. If more than one subsidiary is established in a Member State but none of them meet these numerical thresholds at solo level, this condition should also apply if all entities established in that Member State, on the basis of either the consolidated position of the parent company in that Member State or the aggregated position of all subsidiaries that are subsidiaries of the same EU parent company and are established in said Member State, meet at least one of the numerical thresholds specified in Articles 50, 56, and 61 of the SSM Framework Regulation.

¹⁷ A higher lower bound can exceptionally be set by the ECB based on the specific risk features of the sub-entities in the subgroup and the group as a whole.

- (i) the existing back-up plans to meet legal requirements should the waivers not be granted/cease to be granted;
- (ii) a full assessment of the implications by the management body, and by the competent authorities as required, to be performed and submitted to the ECB.

- **Documentation for Article 8 of the CRR**

For the purpose of the assessment under Article 8 of the CRR, the credit institution is expected to submit the following documents, which the ECB considers to be evidence that the criteria set out in the legislation have been met:

- (i) a cover letter signed by the bank's Chief Executive Officer (CEO), with approval from the management body stating that the bank complies with all the waiver criteria as set out in Article 8 of the CRR;
- (ii) a description of the extent of the liquidity sub-group(s) to be constituted together with a list of all the entities that would be covered by the waiver;
- (iii) a precise description of the requirements in respect of which the institution is asking for a waiver.

5. **INDIVIDUAL CONSOLIDATION METHOD (Article 9 of the CRR)**

The ECB intends to use the individual consolidation method provided for in Article 9(1) of the CRR for subsidiaries of credit institutions in the same Member State whose material exposures, or material liabilities, are to the same parent institution. The ECB will conduct the relevant assessment on a case-by-case basis, based, among other aspects, on whether the sub-consolidated own funds are sufficient to ensure compliance by the institution on the basis of its stand-alone individual situation. For the purposes of this assessment, the criteria for granting the waiver set out in Article 7 of the CRR, as seen above, will also be taken into account, as appropriate and as provided for in Article 9(1) of the CRR.

6. **WAIVERS FOR CREDIT INSTITUTIONS PERMANENTLY AFFILIATED TO A CENTRAL BODY (Article 10 of the CRR)**

The ECB will grant a waiver both to institutions affiliated to a central body and to the central body itself, provided that the conditions of Article 10 of the CRR are fulfilled.

For the purpose of assessing whether to grant a waiver to the affiliates in accordance with Article 10(1) of the CRR, the ECB will take into account whether the following criteria, specifying the conditions of the legislative framework, have been met.

- (1) To assess compliance with the requirement laid down in Article 10(1)(a) that the commitments of the central body and affiliated institutions are joint and several

liabilities or the commitments of its affiliated institutions are entirely guaranteed by the central body, account will be taken of whether:

- (i) funds can be transferred or liabilities can be repaid from one network member to another swiftly and the method for the transfer or repayment is sufficiently simple;
 - (ii) there are indications from the past regarding the flow of funds between network members which demonstrate an ability to make prompt transfers of funds or repayments of liabilities;
 - (iii) the by-laws of the network members or any shareholders' agreements, or any other known agreements, do not contain any provisions that may obstruct the transfer of own funds or repayment of liabilities;
 - (iv) the joint risk-absorbing capacity of the central body and affiliated institutions is sufficient to cover expected and unexpected losses of the members.
- (2) To assess compliance with the requirement laid down in Article 10(1)(b) that the solvency and the liquidity of the central body and of all the affiliated institutions are monitored as a whole on the basis of their consolidated accounts, the ECB will verify that:
- (i) the COREP "Group Solvency" template, which aims to provide a global view on how the risks and the own funds are distributed within the group, shows no discrepancy in this regard;
 - (ii) the central body and the affiliated institutions are compliant with the requirements set out in the CRR, including reporting, on a consolidated basis.
- (3) To assess compliance with the requirement laid down in Article 10(1)(c) that the management of the central body is empowered to issue instructions to the management of the affiliated institutions, the ECB will take into account whether:
- (i) these instructions ensure that the affiliated institutions comply with the requirements of the legislation and of the by-laws with a view to safeguarding the soundness of the group;
 - (ii) the instructions that the central body can issue cover at least the objectives listed in the CEBS Guidelines issued on 18 November 2010.

For the purpose of the ECB's assessment with regard to granting a waiver to the central body in accordance with Article 10(2) of the CRR, the credit institution is expected to submit the documents mentioned above to demonstrate that the conditions of Article 10(1) of the CRR have been met.

In addition to these, and for the purpose of assessing the second condition referred to in Article 10(2), the institution is expected to submit evidence that the liabilities or

commitments of the central body are entirely guaranteed by the affiliated institutions. A copy of a signed guarantee or reference to a public register certifying such a guarantee or a declaration to that effect, which is reflected in the affiliated institution's by-laws or approved by the general meeting and mentioned in the annex to the financial statements, are examples of such evidence.

7. EXCLUSION OF CONSOLIDATION (Article 19(2) of the CRR)

Finally, the ECB is of the view that exclusion of undertakings from consolidation, within the context of Article 19(2) of the CRR, should only be allowed in cases permitted both by the CRR and consistently with the Basel Committee standards, i.e.:

- (i) as regards majority-owned or majority-controlled entities, only for entities that are subject to the CRR, or to comparable robust prudential requirements, and only in cases compatible with both Article 19(2) of the CRR and paragraph 26 of Basel II¹⁸;
- (ii) as regards minority investments, for all cases listed in Article 19(2)(a) to (c) of the CRR.

8. VALUATION OF ASSETS AND OFF-BALANCE-SHEET ITEMS – USE OF IFRS FOR PRUDENTIAL PURPOSES (Article 24(2) of the CRR)

The ECB has determined not to exercise in a general manner the option set out in Article 24(2) of the CRR, which allows competent authorities to require credit institutions to effect, for prudential purposes, the valuation of assets and off-balance-sheet items and the determination of own funds in accordance with the International Accounting Standards, also in cases where the national applicable accounting framework requires the use of n-GAAP (see also Article 24(1) of the CRR). Banks can therefore continue reporting to the supervisor according to their national accounting standards.

However, the ECB will assess applications to use International Accounting Standards for prudential reporting (also in cases of applicability of n-GAAP under the national accounting framework) pursuant to Article 24(2) of the CRR.

To that end, the ECB would expect that:

- (1) the application should be submitted by the legal representatives of all the legal entities within any banking group that will actually apply the International

¹⁸ Paragraph 26 of International Convergence of Capital Measurement and Capital Standards by the Basel Committee on Banking Supervision ("Basel II") states that: "There may be instances where it is not feasible or desirable to consolidate certain securities or other regulated financial entities. This would be only in cases where such holdings are acquired through debt previously contracted and held on a temporary basis, are subject to different regulation, or where non-consolidation for regulatory capital purposes is otherwise required by law. In such cases, it is imperative for the bank supervisor to obtain sufficient information from supervisors responsible for such entities."

Accounting Standards for prudential reporting as a consequence of the request being granted;

- (2) for prudential purposes the same accounting framework will apply to all reporting entities within a banking group, in order to ensure consistency between subsidiaries established in the same Member State or also in different Member States. For the purposes of this exercise, a banking group is a group composed of all the significant supervised entities included in the group defined in the significance decision applicable to the requesting entities;
- (3) a statement should be submitted by the external auditor, certifying that the International Financial Reporting Standards (IFRS) data reported by the institution as a consequence of the application being granted are in line with the applicable IFRS endorsed by the European Commission. This statement must be submitted to the ECB along with the reporting data which the auditor certifies at least once a year.

The use of IFRS for prudential reporting requirements will apply permanently to all relevant prudential reporting requirements after the credit institution has been notified of the ECB decision granting the application.

The ECB may consider the application of a transitional period, as appropriate and on a case-by-case basis, for the full implementation of the above-mentioned conditions.

Chapter 2

Own funds

1. This Chapter sets out the ECB's policy regarding the definition and calculation of own funds.
2. Part Two of the CRR, as well as Commission Delegated Regulation (EU) No 241/2014¹⁹, set out the relevant legislative and regulatory framework.
3. DEFINITION OF MUTUALS (Article 27(1)(a) of the CRR)

The ECB considers that an institution qualifies as a mutual within the meaning of Article 27(1)(a)(i) of the CRR provided that it is defined as such under national law and according to the specific criteria of Commission Delegated Regulation (EU) No 241/2014.

¹⁹ Commission Delegated Regulation (EU) No 241/2014 of 7 January 2014 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for Own Funds requirements for institutions (OJ L 74, 14.3.2014, p. 8).

4. DEDUCTION OF INSURANCE HOLDINGS (Article 49(1) of the CRR)

With regard to the non-deduction of holdings within the context of Article 49(1) of the CRR, significant credit institutions can expect the following treatment:

- (i) in cases where permission for non-deduction has already been granted by the national competent authority prior to 4 November 2014, the credit institutions may continue to not deduct the relevant holdings on the basis of that permission provided that appropriate disclosure requirements are met;
- (ii) in cases where the credit institution plans to submit a request to the ECB for such permission, the ECB will grant permission provided that the CRR criteria and appropriate disclosure requirements are met.

5. DEDUCTION OF HOLDINGS OF FINANCIAL SECTOR ENTITIES (Article 49(2) of the CRR)

The ECB considers the deduction of holdings of own-funds instruments issued by financial sector entities included in the scope of consolidated supervision in accordance with Article 49(2) of the CRR to be necessary in specific cases and, in particular, in cases of structural separation and resolution planning.

6. REDUCTION OF OWN FUNDS: EXCESS CAPITAL MARGIN REQUIREMENT (Article 78(1)(b) of the CRR)

The ECB intends to determine the excess margin required in Article 78(1)(b) of the CRR for the purpose of reduction of own funds, provided that the conditions of Article 78(1) are met and after assessing both of the following factors:

- (i) whether the institution continues to meet the capital requirements set out in the applicable SREP decision after the reduction of own funds;
- (ii) the impact of the planned reduction on the relevant tier of own funds.

7. REDUCTION OF OWN FUNDS: MUTUALS, SAVINGS, COOPERATIVES (Article 78(3) of the CRR)

With regard to instruments issued by mutuals, savings, cooperatives and similar institutions under Article 27 and 29 of the CRR, the ECB intends to grant the waiver provided for in Article 78(3) of the CRR on a case-by-case basis and provided that the conditions set out in Articles 10 and 11 of Commission Delegated Regulation (EU) No 241/2014 are met. In particular, it will take into account the following aspects:

- (i) whether the institution has both the right to defer the redemption and to limit the amount to be redeemed;

- (ii) whether the institution has these rights for an unlimited period of time;
- (iii) whether the institution determines the extent of the limitations on the basis of its prudential situation at any time having regard to (a) its overall financial, liquidity and solvency situation and (b) the amount of Common Equity Tier 1 capital, Tier 1 capital and total capital compared to the total risk exposure amount, the specific own-funds requirements and the combined buffer requirements, as applicable to the institution.

The ECB may further limit the redemption beyond the legislative or contractual limitations.

8. TEMPORARY WAIVER OF THE DEDUCTION OF CAPITAL INSTRUMENTS FROM OWN FUNDS IN A FINANCIAL ASSISTANCE OPERATION (Article 79(1) of the CRR)

The ECB considers that the deduction of capital instruments provided for in Article 79(1) of the CRR for the purpose of facilitating a financial assistance operation can be temporarily waived, in accordance with the conditions specified in Article 79(1) of the CRR, as well as the conditions specified in Article 33 of Commission Delegated Regulation (EU) No 241/2014.

9. WAIVER FOR ADDITIONAL TIER 1 AND TIER 2 INSTRUMENTS ISSUED BY A SPECIAL PURPOSE ENTITY (Article 83(1) of the CRR)

The ECB intends to grant the waiver provided for in Article 83(1) of the CRR for the purpose of including Additional Tier 1 and Tier 2 instruments issued by a special purpose entity (SPE) in the qualifying Additional Tier 1 or Tier 2 capital of a credit institution in accordance with the conditions specified therein, as well as the conditions specified in Article 34 of Commission Delegated Regulation (EU) No 241/2014. The ECB will grant this waiver when the other assets owned by the SPE are minimal and insignificant.

10. MINORITY INTERESTS INCLUDED IN CONSOLIDATED COMMON EQUITY TIER 1 CAPITAL (Article 84 of the CRR)

The ECB would consider it appropriate to apply Article 84(1) of the CRR to a parent financial holding company of a credit institution, in order to ensure that only that part of the consolidated own funds that is promptly available to cover losses at the parent level is included in the regulatory capital.

Chapter 3

Capital requirements

1. This chapter sets out the ECB's policy on capital requirements.

2. Part Three of the CRR, as well as the relevant EBA Guidelines, set out the relevant legislative and regulatory framework.
3. CALCULATION OF RISK-WEIGHTED EXPOSURE AMOUNTS – INTRAGROUP EXPOSURES (Article 113(6) of the CRR)

The ECB is of the view that a request not to apply the requirements of Article 113(1) of the CRR may be approved, following a case-by-case assessment, for credit institutions that submit a specific application. As clearly established in Article 113(6)(a), the counterparty of the credit institution must be another credit institution or an investment firm, a financial institution or an ancillary services undertaking subject to appropriate prudential requirements. Moreover, the counterparty must be established in the same Member State as the credit institution (Article 113(6)(d)).

For the purposes of this assessment, the ECB will consider the following factors.

- (1) To assess compliance with the requirement, as laid down in Article 113(6)(b) of the CRR, that the counterparty is included in the same consolidation as the institution on a full basis, the ECB will take into account whether the group entities under assessment are included within the same consolidation on a full basis in a participating Member State, using the methods for prudential consolidation set out in Article 18 of the CRR.
- (2) In order to assess compliance with the requirement laid down in Article 113(6)(c) of the CRR that the counterparty is subject to the same risk evaluation, measurement and control procedures as the institution, the ECB will take into account whether:
 - (i) the senior management of the entities in the scope of application of Article 113(6) of the CRR is responsible for risk management and risk measurement is regularly reviewed;
 - (ii) regular and transparent communication mechanisms are established within the organisation, so that the management body, senior management, business lines, the risk management function and other control functions can all share information about risk measurement, analysis and monitoring;
 - (iii) internal procedures and information systems are consistent and reliable throughout the consolidated group so that all sources of relevant risks can be identified, measured and monitored on a consolidated basis and also, to the extent necessary, separately by entity, business line, and portfolio;
 - (iv) key risk information is regularly reported to the central risk management function of the parent undertaking to enable appropriate centralised evaluation, measurement and control of risk across the relevant group entities.
- (3) To assess compliance with the requirement laid down in Article 113(6)(e) of the CRR that there is no current or foreseen material, practical or legal impediment

to the prompt transfer of own funds or repayment of liabilities from the counterparty to the institution²⁰, the ECB will take into account whether:

- (i) the shareholding and legal structure of the group does not hamper the transferability of own funds or repayment of liabilities;
- (ii) the formal decision-making process regarding the transfer of own funds between the institution and its counterparty ensures prompt transfers;
- (iii) the by-laws of the institution and of the counterparty, any shareholders' agreement, or any other known agreements do not contain any provisions that may obstruct the transfer of own funds or repayment of liabilities by the counterparty to the institution;
- (iv) there have been no previous serious management difficulties or corporate governance issues that might have a negative impact on the prompt transfer of own funds or the repayment of liabilities;
- (v) no third parties²¹ are able to exercise control over or prevent the prompt transfer of own funds or repayment of liabilities;
- (vi) the COREP "Group Solvency" template (Annex I to Commission Implementing Regulation (EU) No 680/2014, which aims to provide a global view of how risks and own funds are distributed within the group, shows no discrepancy in this regard.

- **Documentation related to approval decisions under Article 113(6)**

For the purpose of the assessment(s) under Article 113(6) of the CRR, the credit institution presenting the application is expected to submit the following documents, unless they have already been provided to the ECB pursuant to other regulations, decisions or requirements:

- (i) an up-to-date organisation chart of the entities of the consolidated group included within the scope of consolidation on a full basis in the same Member State, the prudential qualification of the individual entities (credit institution, investment firm, financial institution, ancillary services undertaking) and the identification of the entities that intend to apply Article 113(6) of the CRR;
- (ii) a description of the risk management policies and controls and how they are centrally defined and applied;
- (iii) the contractual basis – if any – for the group-wide risk management framework together with additional documentation such as the group

²⁰ Beyond the limitations stemming from national company laws.

²¹ A third party is any party that is not the parent, the subsidiaries, the members of their decision-making bodies or their shareholders.

company risk policies in the areas of credit risk, market risk, liquidity risk and operational risk;

- (iv) a description of the possibilities for the parent institution/undertaking to enforce group-wide risk management;
- (v) a description of the mechanism that ensures a prompt transfer of own funds and the repayment of liabilities in the event of financial distress by one of the group entities;
- (vi) a cover letter signed by the legal representative of the parent undertaking pursuant to applicable law, with approval from the management body, stating that the significant supervised credit institution complies with all conditions as set out in Article 113(6) of the CRR at the group level;
- (vii) a legal opinion, issued by an external independent third party or by an internal legal department and approved by the management body of the parent undertaking, demonstrating that beyond the limitations set out in company law there are no obstacles to fund transfer or repayment of liabilities resulting from either applicable legislative or regulatory acts (including fiscal legislation) or legally binding agreements;
- (viii) a statement signed by the legal representatives and approved by the management bodies of the parent undertaking and of the group entities that intend to apply Article 113(6) of the CRR declaring that there are no practical impediments to fund transfer or repayment of liabilities.

4. EXPOSURES IN THE FORM OF COVERED BONDS (Article 129 of the CRR)

For the purposes of Article 129(1)(c) of the CRR, the ECB intends to allow covered bond collateral in the form of exposures to banks to account for up to 10% of the nominal value of quality step 2 exposures, instead of quality step 1 exposures, provided that in the specific case the condition specified in the third sub-paragraph of Article 129(1) is met.

5. MATURITY OF EXPOSURES (Article 162 of the CRR)

Where institutions have not received permission to use their own loss given default (LGD) and conversion factors for exposures to corporates, institutions or central governments and central banks, the ECB considers that it is appropriate to require the use of the maturity value (M) as defined in the first sub-paragraph of Article 162(1) of the CRR, and not to allow the use of the maturity set out in Article 162(2).

6. COLLECTION OF DATA (Article 179 of the CRR)

For the purposes of the last sentence of the second sub-paragraph of Article 179(1) of the CRR, the ECB intends to allow credit institutions some flexibility in the application of the required standards for data collected prior to 1 January 2007,

provided that institutions have made the appropriate adjustments to achieve broad equivalence with the definition of default laid down in Article 178 of the CRR or with the definition of loss laid down in Article 5(2) of the CRR.

7. OWN ESTIMATE OF VOLATILITY ADJUSTMENTS (Article 225(2)(e) of the CRR)

For the purposes of Article 225(2)(e) of the CRR, the ECB is of the view that it is only appropriate to maintain the requirements set in order for the credit institution to use a shorter observation period for the purpose of the calculation of volatility adjustments in cases where such requirements are in place under national law before the final publication of this Guide.

8. SIGNIFICANT RISK TRANSFER (Articles 243(2) and 244(2) of the CRR)

The ECB may consider it necessary to depart from the general assumption that significant credit risk is transferred in the two cases defined in Articles 243(2) and 244(2) of the CRR, on traditional and synthetic securitisation respectively, on a case-by-case basis and following the EBA Guidelines on significant risk transfer, issued on 7 July 2014.

9. IMPLEMENTATION OF THE INTERNAL MODEL METHOD (Article 283(3) of the CRR)

The ECB intends to permit institutions to implement for a limited period the Internal Model Method (IMM), pursuant to Article 283(3) of the CRR, sequentially across different transaction types following a case-by-case assessment.

For the purpose of this assessment, the ECB plans to take into account whether:

- (i) the initial coverage at the time of approval comprises “plain vanilla” interest rate and FX derivatives and covers 50% of both the risk-weighted assets (RWA) (as calculated with exposures based on the chosen non-IMM method in accordance with Article 271(1) of the CRR) and the number of trades (i.e. legal transactions, no single legs);
- (ii) a coverage of more than 65% in terms of RWA (based on either IMM or non-IMM methods, depending on the trade) and more than 70% in terms of the number of trades (legal transactions, no single legs) relative to total counterparty credit risk (CCR) is achieved within three years;
- (iii) if a larger than 35% (RWA) or 30% (number of trades) portion remains outside the IMM after the three-year period, the credit institution would be expected to prove that either the remaining transaction types cannot be modelled owing to missing calibration data, or that the standardised approach (STA) exposures used are sufficiently conservative.

10. CALCULATION OF THE EXPOSURE VALUE FOR COUNTERPARTY CREDIT RISK (Article 284(4) and (9) of the CRR)

The ECB intends to assess the necessity of requiring a higher α factor than 1.4 for the purpose of calculating the exposure value pursuant to Article 284(4) of the CRR, on a case-by-case basis depending on model deficits or model risk. Moreover, it considers that, for prudential purposes, α should in principle be the value stipulated in the said paragraph.

11. TREATMENT OF EXPOSURES TO CENTRAL COUNTERPARTIES (Article 310 and Article 311(3) of the CRR)

The ECB intends to permit credit institutions to apply the treatment set out in Article 310 of the CRR to their trade exposures and default fund contributions to a central counterparty (CCP), in the event that the conditions provided for in Article 311(2) of the CRR are met. The ECB may review this policy after the final standards of the Basel Committee take effect on 1 January 2017.

Moreover, the ECB considers it appropriate that the period given to institutions to change the treatment of exposures to a CCP pursuant to Article 311(3) of the CRR, when it becomes known that such CCP will no longer comply with the conditions for authorisation and recognition, should not exceed three months.

12. CALCULATION OF THE VALUE-AT-RISK NUMBER (Article 366(4) of the CRR)

The ECB is of the view that the calculation of the addend for the purpose of calculating the capital requirement referred to in Articles 364 and 365 of the CRR should be based on hypothetical and actual changes in the portfolio value, in accordance with the specifications set out in Article 366(3).

Chapter 4

Institutional protection schemes

1. This chapter sets out the ECB's policy on options and discretions that are relevant for credit institutions that have entered into an institutional protection scheme (IPS).
2. Parts One, Two and Three of the CRR, as well as Commission Delegated Regulation (EU) 2015/61, set out the relevant legislative and regulatory framework.
3. LIQUIDITY WAIVERS (Article 8(4) of the CRR)

The ECB intends to grant waivers under Article 8(4) of the CRR to institutions which are members of the same IPS provided that all the conditions laid down in Article 113(7) of the CRR are fulfilled. Reporting requirements at individual sub-entity level are to be maintained.

For the purposes of this assessment, the relevant specifications and/or documents mentioned above under points 1-4 relating to liquidity waivers at national level in accordance with Article 8(1) and (2) of the CRR (see Chapter 1) will be applied.

As for the documents required, the credit institution must submit in addition:

- (i) proof that a valid power of attorney has been granted and a copy of the signature of the attorney appointed;
- (ii) a legal contract that stipulates that the sub-consolidated entity has irrevocable control rights over the waived entities within the liquidity risk framework.

4. DEDUCTION OF HOLDINGS IN THE PRESENCE OF INSTITUTIONAL PROTECTION SCHEMES (Article 49(3) of the CRR)

The ECB intends to permit institutions, on a case-by-case basis, to not deduct holdings of own funds instruments in other institutions falling within the same IPS for the purposes of calculating own funds on an individual or sub-consolidated basis, provided that the conditions set out in Article 49(3) of the CRR are fulfilled. For the purpose of this assessment the ECB will take into account whether the following criteria, specifying the conditions of the legal framework, have been met:

- (1) Article 49(3)(a)(iv) of the CRR requires the equivalence of the extended aggregated calculation of an IPS with the provisions of Directive 86/635/EEC governing the consolidated accounts of groups of credit institutions to be shown. The calculation must be verified by an external auditor and the multiple use of elements eligible for the calculation of own funds as well as any inappropriate creation of own funds between the members of the IPS must be eliminated from the calculation.
 - (i) The external auditor who is responsible for the audit of the extended aggregated calculation must confirm annually that:
 - (a) the aggregation method ensures that all intragroup exposures are eliminated;
 - (b) the multiple use of elements eligible for the calculation of own funds as well as any inappropriate creation of own funds between the members of the IPS has been eliminated;
 - (c) no other transactions by the members of the IPS have led to an inappropriate creation of own funds at the consolidated level.
- (2) Under Article 49(3)(a)(iv), last sentence, of the CRR it is required that the consolidated balance sheet or the extended aggregated calculation of the IPS must be reported to the competent authorities no less frequently than the frequency laid down in Article 99 of the CRR. The following reporting standards must be adhered to.

- (i) Information on the consolidated balance sheet or the extended aggregated calculation must be reported at least on a semi-annual basis.
 - (ii) The information on the consolidated balance sheet or the extended aggregated calculation must comply with Regulation (EU) 2015/534 (ECB/2015/13) as follows:
 - (a) IPSs that draw up a consolidated balance sheet applying IFRS must report full FINREP.
 - (b) All other IPSs must provide supervisory financial reporting data points (Annex IV to Regulation (EU) 2015/534 (ECB/2015/13)). The IPS must only report financial reporting data points that have to be reported by all IPS member institutions on an individual basis.
 - (iii) For IPSs whose members were granted the permission under Article 49(3) of the CRR before the finalisation of this Guide, the first reference date for reporting in accordance with the reporting requirements defined in this paragraph shall be 30 June 2017. Until then the IPS should continue to report financial data according to the current reporting requirements defined by the competent authorities.
- (3) Article 49(3)(a)(v) of the CRR requires that the institutions included in an IPS meet together on a consolidated or extended aggregated basis the own funds requirements laid down in Article 92 of the CRR and carry out reporting of compliance with those requirements in accordance with Article 99 of the CRR. The ECB will consider the following factors in assessing compliance with this criterion:
- (i) all intragroup exposures and participations between IPS members must be eliminated within the consolidation/aggregation;
 - (ii) the data provided by the IPS member institutions must be based on the same accounting standards, or an adequate transformation calculation must be conducted;
 - (iii) the entity responsible for the preparation of the consolidated reports on own funds must perform adequate quality assurance on the data provided by the IPS member institutions and review at regular intervals its own IT systems that are used to prepare the consolidated reporting;
 - (iv) the minimum frequency of the reporting must be on a quarterly basis;
 - (v) the reporting must use the COREP templates set out in Annex I of Commission Implementing Regulation (EU) No 680/2014. The reporting on own funds and own funds requirements on an extended aggregated basis must be based on the individual reports on own funds and own funds requirements of the IPS member institutions.
 - (vi) For IPSs whose members were granted the permission under Article 49(3) of the CRR before the finalisation of this Guide and that have not yet been

required to provide COREP templates with the envisaged frequency, the first reference date for reporting in accordance with the reporting requirements defined in this paragraph shall be 30 June 2017.

- (4) In determining for the purposes of Article 49(3)(a)(v), second sentence, of the CRR whether within an IPS the deduction of the interest owned by cooperative members or legal entities which are not members of the IPS is required, the ECB will not require such deduction provided that the multiple use of elements eligible for the calculation of own funds as well as any inappropriate creation of own funds between the members of the IPS and the minority shareholder, when it is an institution, is eliminated. The ECB will take into account:
- (i) the extent to which minority interests that are held by institutions which are not members of the IPS are included within the calculation of own funds at the consolidated/aggregated level;
 - (ii) whether the minority interests are implicitly included in the total own funds of the institutions that own the minority interests;
 - (iii) whether the IPS applies Articles 84, 85 and 86 of the CRR when calculating the own funds on a consolidated/extended aggregated basis regarding the minority interests that are held by institutions which are not IPS members.

5. RECOGNITION OF INSTITUTIONAL PROTECTION SCHEMES FOR PRUDENTIAL PURPOSES (Article 113(7) of the CRR)

This paragraph sets out the specific criteria the ECB will follow when assessing individual applications for the prudential permission referred to in Article 113(7) of the CRR by supervised credit institutions that are members of an IPS.

The ECB will grant permission to institutions, on a case-by-case basis, not to apply the requirements of Article 113(1) of the CRR to exposures to counterparties with which the institution has entered into an IPS and to assign a 0% risk weight to those exposures, provided that the conditions set out in Article 113(7) of the CRR are fulfilled.

Before carrying out a detailed supervisory assessment on the basis of paragraphs (a) to (i) of Article 113(7) of the CRR, the ECB will first assess whether the IPS can provide sufficient support in the event that a member institution faces severe financial constraints regarding both liquidity and/or solvency. Article 113(7) of the CRR does not determine a specific point in time where support to ensure liquidity and solvency must be provided in order to avoid insolvency. By making proactive and timely interventions the IPS should ensure that its member institutions abide by the regulatory own funds and liquidity requirements. If such preventive measures are not sufficient, the IPS needs to decide on material or financial support. Intervention by the IPS is deemed to be triggered, at the latest, where there is no reasonable prospect that any alternative measures, including the recovery measures provided for in the recovery plan, would prevent the failure of that institution. As part of its

contractual or statutory arrangements, the IPS should have in place a broad range of measures, processes and mechanisms which make up the framework under which it operates. This framework should comprise a suite of available actions ranging from less intrusive measures, such as closer monitoring of the member institutions on the basis of relevant indicators and additional reporting requirements, to more substantial measures that are proportionate to the riskiness of the beneficiary IPS member institution and the severity of its financial constraints, including direct capital and liquidity support.

For the purposes of assessing whether to grant this permission, the ECB will consider the following factors.

- (1) In accordance with Article 113(7)(a) taken in conjunction with Article 113(6)(a) and (d) of the CRR, the ECB will verify whether:
 - (i) the counterparty is an institution, financial institution or ancillary services undertaking subject to appropriate prudential requirements;
 - (ii) the IPS members requesting the permission are established in the same Member State.
- (2) For the purposes of assessing compliance with the condition laid down in Article 113(7)(a) taken in conjunction with Article 113(6)(e) of the CRR, namely that there is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities from the counterparty to the institution:
 - (i) the shareholding and legal structure of the IPS members does not hamper the transferability of own funds or repayment of liabilities;
 - (ii) the formal decision-making process regarding the transfer of own funds between IPS members ensures prompt transfers;
 - (iii) the by-laws of the IPS members, any shareholders' agreements, or any other known agreements do not contain any provisions that may obstruct the transfer of own funds or repayment of liabilities by the counterparty;
 - (iv) there have been no previous serious management difficulties or corporate governance issues related to the IPS members that might have a negative impact on the prompt transfer of own funds or the repayment of liabilities;
 - (v) no third parties²² are able to exercise control over or prevent the prompt transfer of own funds or repayment of liabilities;

²² Third parties are any party that is not the parent, a subsidiary, a member of the decision-making bodies or a shareholder of an IPS member institution.

- (vi) any indications from the past regarding flows of funds between IPS members which demonstrate the ability to promptly transfer funds or repay liabilities will be taken into account;
 - (vii) the crisis management intermediation role and responsibility of the IPS to provide funds to support troubled members is considered key.
- (3) When assessing compliance with the condition laid down in Article 113(7)(b) of the CRR, namely that arrangements are in place which ensure that the IPS is able to grant the support it has committed to provide from funds readily available to it, the ECB will verify whether:
- (i) the IPS arrangements include a broad range of measures, processes and mechanisms which make up the framework under which the IPS operates. This framework should comprise a series of possible actions, ranging from less intrusive measures to more substantial measures that are proportionate to the riskiness of the beneficiary IPS member institution and the severity of its financial constraints, including direct capital and liquidity support. The IPS support may be conditional – for example upon the implementation of certain recovery and restructuring measures by the respective institution;
 - (ii) the governance structure of the IPS and the process for making decisions on support measures allow support to be provided in a timely manner;
 - (iii) a clear commitment exists on the part of the IPS to provide support when – despite previous monitoring of risks and early intervention measures – an IPS member is or is likely to become insolvent or illiquid. In addition, the IPS should ensure that its member institutions abide by the regulatory own funds and liquidity requirements;
 - (iv) the IPS conducts stress tests at regular intervals to quantify potential capital and liquidity support measures;
 - (v) the risk-absorbing capacity of the IPS (consisting of paid-up funds, potential ex-post contributions and comparable commitments) is sufficient to cover potential support measures taken in respect of its members;
 - (vi) an ex-ante fund has been created to ensure that the IPS has funds for support measures readily available, and
 - (a) contributions to the ex-ante fund follow a clearly defined framework;
 - (b) the funds are invested only in liquid and secure assets that may be liquidated at any time and whose value does not depend on the solvency and liquidity position of the members of the IPS and their subsidiaries;
 - (c) for the determination of the minimum target amount of the ex-ante fund the IPS stress test results are considered;

- (d) an adequate floor/minimum amount for the ex-ante fund is determined to ensure the prompt availability of the funds.

IPs may be recognised as Deposit Guarantee Schemes pursuant to the DGS Directive²³ and may be allowed under the conditions set out in the respective national laws to use the available financial means for alternative measures in order to prevent the failure of a credit institution. In this case the ECB will consider the available financial means when assessing the availability of funds to grant support, taking into account the different purposes of an IPS (which aims to protect its members) and a deposit guarantee scheme (whose key task is to protect depositors against the consequences of the insolvency of a credit institution).

- (4) Article 113(7)(c) of the CRR provides that the IPS must have at its disposal suitable and uniformly stipulated systems for the monitoring and classification of risk, which give a complete overview of the risk situation of all the individual members and of the IPS as a whole, with corresponding possibilities to intervene; and that those systems must suitably monitor defaulted exposures in accordance with Article 178(1) of the CRR. In assessing compliance with this condition, the ECB will consider whether:
 - (i) the member institutions of the IPS are obliged to provide the main body responsible for the management of the IPS with up-to-date data on their risk situation at regular intervals, including information on their own funds and own funds requirements;
 - (ii) the corresponding appropriate data flows and IT systems are in place;
 - (iii) the main body responsible for the management of the IPS defines uniformly stipulated standards and methodologies for the risk management framework to be applied by the IPS members;
 - (iv) for the purposes of the monitoring and classification of risk by the IPS there is a common definition of risks, the same risk categories are monitored for all institutions, and the same confidence level and time horizon is used for the quantification of risks;
 - (v) the IPS systems for the monitoring and classification of risks classify the IPS members according to their risk situation, i.e. the IPS should define different categories to which to assign its members in order to allow early intervention;
 - (vi) the IPS has the possibility to influence the risk situation of the IPS member institutions by issuing instructions, recommendations, etc. to them, for

²³ Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (OJ L 173, 12.06.2014, p. 149-178).

example to restrict certain activities or to require a reduction of certain risks.

- (5) When assessing compliance with the condition laid down in Article 113(7)(d) of the CRR, namely that the IPS conduct its own risk review which is communicated to the individual members, the ECB will consider whether:
 - (i) the IPS assesses at regular intervals the risks and vulnerabilities of the sector to which its member institutions belong;
 - (ii) the results of the risk reviews as performed by the main body responsible for the management of the IPS are summarised in a report or other document and are distributed to the relevant decision-making bodies of the IPS and/or the members of the IPS shortly after they have been finalised;
 - (iii) individual members are informed of their risk classification by the IPS as required by Article 113(7)(c).
- (6) Article 113(7)(e) of the CRR provides that the IPS must draw up and publish on an annual basis a consolidated report comprising the balance sheet, the profit and loss account, the situation report and the risk report, concerning the IPS as a whole, or a report comprising the aggregated balance sheet, the aggregated profit and loss account, the situation report and the risk report, concerning the IPS as a whole. When assessing compliance with this condition, the ECB will verify whether:
 - (i) the consolidated or aggregated report is audited by an independent external auditor on the basis of the relevant accounting framework or, if applicable, the aggregation method;
 - (ii) the external auditor is required to provide an audit opinion;
 - (iii) all members of the IPS, the subsidiaries of all IPS members, any intermediary structures such as holding companies and the special entity steering the IPS itself (if it is a legal entity) are included in the scope of consolidation/aggregation;
 - (iv) in cases where the IPS draws up a report comprising an aggregated balance sheet and an aggregated profit and loss account, the aggregation method can ensure that all intragroup exposures are eliminated.
- (7) In accordance with Article 113(7)(f) of the CRR, the ECB will verify whether:
 - (i) the contract or legal text of the statutory arrangements includes a provision under which members of the IPS are obliged to give advance notice of at least 24 months if they wish to end the IPS.
- (8) Article 113(7)(g) of the CRR provides that the multiple use of elements eligible for the calculation of own funds (hereinafter referred to as “multiple gearing”) as well as any inappropriate creation of own funds between the members of the

IPS must be eliminated. For the purposes of assessing compliance with this requirement, the ECB will verify whether:

- (i) the external auditor who is responsible for the audit of the consolidated or aggregated financial report can confirm that multiple gearing, as well as any inappropriate creation of own funds between the members of the IPS, has been eliminated;
 - (ii) any transactions by the members of the IPS have led to the inappropriate creation of own funds at the individual level, sub-consolidated level or consolidated level.
- (9) The ECB's assessment of compliance with the condition laid down in Article 113(7)(h) of the CRR, namely, that the IPS must be based on a broad membership of credit institutions of a predominantly homogeneous business profile, will be based on the following:
- (i) the IPS should have sufficient members (among the institutions that are potentially eligible for membership) to cover any support measures it may have to implement;
 - (ii) criteria to be considered within the assessment of the business profile are: business model, business strategy, size, customers, regional focus, products, funding structure, material risk categories, sales cooperation and service agreements with other IPS members, etc.;
 - (iii) the different business profiles of the IPS member institutions should allow the monitoring and classification of their risk situations using the uniformly stipulated systems that the IPS has in place (Article 113(7)(c) of the CRR);
 - (iv) IPS sectors are often based on collaboration, meaning that central institutions and other specialised institutions in the network offer products and services to other IPS members. When assessing the homogeneity of business profiles the ECB will consider the extent to which the business activities of the IPS members are related to the IPS network (products and services provided to local banks, services to shared customers, capital market activities etc.).

6. OTHER EXEMPTIONS AND RELEVANT PROVISIONS FOR CREDIT INSTITUTIONS THAT HAVE ENTERED INTO AN INSTITUTIONAL PROTECTION SCHEME

As a direct consequence of permission being granted under Article 113(7) of the CRR, institutions may permanently use the "standardised approach" for those exposures in accordance with Article 150(1)(f) of the CRR. In addition, the exposures in question are exempt from the application of Article 395(1) of the CRR on large exposure limits.

Furthermore, the application of Article 113(7) of the CRR is one of the pre-conditions for granting additional permissions to IPS members, namely: (i) the application of

lower outflow and higher inflow percentages for LCR calculation (Articles 422(8) and 425(4) of the CRR taken in conjunction with Articles 29 and 34 of Commission Delegated Regulation (EU) 2015/61, and (ii) exemption from the cap on inflows under Article 33(2)(b) of Commission Delegated Regulation (EU) 2015/61. The policy the ECB will apply for these options and discretions is laid down in Chapter 6 of this Guide.

Chapter 5

Large exposures

1. This chapter sets out the ECB's policy on the treatment of large exposures.
2. Part Four of the CRR sets out the relevant legislative framework.
3. COMPLIANCE WITH THE LARGE EXPOSURES REQUIREMENTS (Articles 395 and 396 of the CRR)

Where, in exceptional cases, the exposures of credit institutions exceed the limit set in Article 395(1) of the CRR, the ECB intends to allow a limited period of time in which to comply with the limit, pursuant to Article 396(1).

For the purpose of this assessment, the ECB would more specifically examine whether immediate rectification is viable or not. In the event that such rectification is not viable, the ECB would consider it appropriate to set a time limit by which a rapid rectification would be required. In addition, the credit institution would be expected to show that the breach of the limit did not result from the usual policy of entering into ordinary credit risk exposures. However, even in these exceptional cases referred to in Article 396(1), the ECB does not consider it appropriate to allow the exposure to exceed 100% of the eligible capital of the credit institution.

Chapter 6

Liquidity

1. This chapter sets out the ECB's policy on compliance with liquidity requirements and liquidity reporting requirements.
2. The legislative framework for liquidity requirements and reporting requirements is set out in Part Six of the CRR and Commission Delegated Regulation (EU) 2015/61, which provides for the liquidity coverage ratio (LCR) applicable in the EU, as well as specifying the conditions for establishing a liquidity buffer and calculating liquidity outflows and inflows. This Regulation became applicable on 1 October 2015.

3. COMPLIANCE WITH LIQUIDITY REQUIREMENTS (Article 414 of the CRR)

The ECB intends to authorise, on a case-by-case basis, lower reporting frequencies (than daily) and longer reporting delays (than by the end of each business day) where an institution does not meet, or expects not to meet, the general obligation set out in Article 413(1) of the CRR in times of stress, under the conditions stipulated in Article 414 of the CRR, with regard to the stable funding requirements. However the ECB does not intend to authorise lower reporting frequencies (than daily) and longer reporting delays (than by the end of each business day) where a credit institution does not meet, or expects not to meet, the liquidity coverage requirement set out in Article 412(1) of the CRR or in the LCR Regulation).

The ECB observes that, in general, credit institutions are expected to comply with the reporting requirements for the LCR and the stable funding requirements at all times. In addition to these requirements, the ECB would consider imposing additional reporting requirements on significant credit institutions pursuant to Article 16(2)(j) of the SSM Regulation in the event of a liquidity crisis.

4. CURRENCY MISMATCHES (Article 8(6) of Commission Delegated Regulation (EU) 2015/61)

The ECB may impose a limit on net liquidity outflows addressing currency mismatches in accordance with Article 8(6) of Commission Delegated Regulation (EU) 2015/61. For the assessment in such a case, the ECB will take into account whether at least one of the following factors is met:

- (i) the credit institution has reported positions in a significant currency (as defined in Article 415(2)(a) of the CRR) which is not freely convertible and/or for which restrictions on the free movement of capital apply, and for which the institution is not allowed to perfectly hedge its foreign exchange risk;
- (ii) the credit institution reports the liquidity outflows denominated in significant currencies as defined in Article 415(2)(a) of the CRR.

5. DIVERSIFICATION OF HOLDINGS OF LIQUID ASSETS (Article 8(1) of Commission Delegated Regulation (EU) 2015/61)

The ECB intends to impose restrictions or requirements on credit institutions for the purpose of diversifying their holdings of liquid assets, as specified in Article 8(1) of Commission Delegated Regulation (EU) 2015/61, on a case-by-case basis. Within this context, the ECB will assess, in each individual case, the concentration thresholds by asset class and will, in particular, focus on covered bonds, if on aggregate they represent more than 60% of the total amount of liquid assets net of applicable haircuts.

For institutions where covered bonds represent on aggregate more than 60% of the total amount of liquid assets net of applicable haircuts, a diversification requirement

should be duly considered in the SREP, and possibly implemented via a SREP decision, to be revised annually.

6. MANAGEMENT OF LIQUID ASSETS (Article 8(3) of Commission Delegated Regulation (EU) 2015/61)

In accordance with Article 8(3)(c) of Commission Delegated Regulation (EU) 2015/61, the ECB intends to permit credit institutions to combine the approaches provided for in Article 8(3)(a) and (b) of that Regulation, on a consolidated basis or at the level of the liquidity sub-group, where a liquidity waiver has been granted at the individual level in accordance with Article 8 of the CRR. Institutions can also be allowed to combine both approaches at individual level, provided that they can explain why the combined approach is needed.

7. HAIRCUTS ON EXTREMELY HIGH QUALITY COVERED BONDS (Article 10(2) of Commission Delegated Regulation (EU) 2015/61)

Taking into account the existing empirical data, the ECB does not intend to impose haircuts exceeding 7% on covered bonds of extremely high quality referred to in Article 10(1)(f) of Commission Delegated Regulation (EU) 2015/61.

8. MULTIPLIER FOR RETAIL DEPOSITS COVERED BY A DEPOSIT GUARANTEE SCHEME (Article 24(6) of Commission Delegated Regulation (EU) 2015/61)

The ECB intends to authorise a credit institution to multiply by 3% the amount of deposits covered by a deposit guarantee scheme in a third country at the consolidated level, pursuant to Article 24(6) of Commission Delegated Regulation (EU) 2015/61, provided that the credit institution can show that:

- (i) the deposit guarantee scheme in the third country is equivalent to the schemes listed in Article 24(1) of Commission Delegated Regulation (EU) 2015/61 and meets the conditions listed in Article 24(4) a) to c) of Commission Delegated Regulation (EU) 2015/61 or those defined in paragraph 78 of the Basel Committee standard on the Liquidity Coverage Ratio and liquidity risk monitoring tools (January 2013)²⁴.

²⁴ <http://www.bis.org/publ/bcbs238.htm>

Paragraph 78 of the standard reads: “Jurisdictions may choose to apply a run-off rate of 3% to stable deposits in their jurisdiction, if they meet the above stable deposit criteria and the following additional criteria for deposit insurance schemes:

- the insurance scheme is based on a system of prefunding via the periodic collection of levies on banks with insured deposits;
- the scheme has adequate means of ensuring ready access to additional funding in the event of a large call on its reserves, e.g. an explicit and legally binding guarantee from the government, or a standing authority to borrow from the government; and
- access to insured deposits is available to depositors in a short period of time once the deposit insurance scheme is triggered.

9. HIGHER OUTFLOW RATES (Article 25(3) of Commission Delegated Regulation (EU) 2015/61)

The ECB intends to impose supervisory outflow rates pursuant to Article 25(3) of Commission Delegated Regulation (EU) 2015/61, especially in cases where:

- (i) empirical evidence shows that the actual outflow rate observed for certain retail deposits is higher than those set out in that Regulation for riskier retail deposits;
- (ii) certain institutions develop aggressive marketing policies that present a risk for their liquidity position, as well as a systemic risk, in particular to the extent that they can trigger a change in market practices regarding riskier forms of deposits.

10. OUTFLOWS WITH INTERDEPENDENT INFLOWS (Article 26 of Commission Delegated Regulation (EU) 2015/61)

The ECB intends to allow institutions with interdependent inflows to calculate the corresponding outflows net of the interdependent inflows pursuant to Article 26 of Commission Delegated Regulation (EU) 2015/61 and provided that the following criteria, which specify the conditions of the legislative framework, are met:

- (i) interdependent inflows and outflows should not be subject to a judgement or discretionary decision of the reporting credit institution;
- (ii) the interdependent inflow should not be captured otherwise in the LCR of the institution, in order to avoid double-counting;
- (iii) evidence of this legal, regulatory or contractual commitment should be provided by the institution;
- (iv) when Article 26(c)(i) applies, interdependent inflows and outflows may arise during the same day, but due consideration should be given to delays in payment systems that could prevent the condition in Article 26 (c)(i) from being met;
- (v) when Article 26(c)(ii) applies, the State guarantee, as well as the timing of the inflows, is clearly defined in the applicable legal, regulatory or contractual framework. Existing payment practices are not considered to be sufficient to fulfil this condition. Due consideration should also be given to delays in payment systems regarding interdependent inflows and outflows pursuant to Article 26(c)(ii).

Jurisdictions applying the 3% run-off rate to stable deposits with deposit insurance arrangements that meet the above criteria should be able to provide evidence of run-off rates for stable deposits within the banking system below 3% during any periods of stress experienced that are consistent with the conditions within the LCR."

11. INTRAGROUP LIQUIDITY OUTFLOWS (Article 29 of Commission Delegated Regulation (EU) 2015/61)

The ECB considers that differentiated treatment, pursuant to Article 422 of the CRR and Article 29 of Commission Delegated Regulation (EU) 2015/61, can be applied to intragroup outflows of credit institutions, following a case-by-case assessment. More specifically, such treatment can be applied for outflows of credit and liquidity facilities only under Article 29 of Commission Delegated Regulation (EU) 2015/61, in cases where waivers of Article 8 or 10 of the CRR were not granted or were partially granted. This policy applies both for institutions established within the same Member State and for institutions established in different Member States.

For the purpose of the assessment pursuant to Article 422(8) of the CRR and Article 29(1) of Commission Delegated Regulation (EU) 2015/61 with regard to institutions established in the same Member State, the ECB will take into account whether the following criteria, which specify the conditions of the applicable legal framework, are met:

- (i) in order to assess whether there are reasons to expect a lower outflow over the next 30 days even under a combined idiosyncratic and market-wide stress scenario, the ECB expects to be shown that cancellation clauses for the contract include a notification period of at least six months;
- (ii) when a lower outflow rate applies to credit or liquidity facilities, in order to assess whether a corresponding symmetric or more conservative inflow is applied by the facility receiver, the ECB expects to be shown that the inflow that could potentially arise from the relevant facility is properly taken into account in the contingency funding plan of the facility-receiving institution;
- (iii) in the event of the application of Article 422(8) of the CRR, when a lower outflow rate applies to deposits, in order to assess whether a corresponding symmetric or more conservative inflow is applied by the depositor, the ECB expects to be shown that the corresponding deposits are not taken into account in the liquidity recovery plan of the liquidity-providing entity, for the purpose of applying Article 422 of the CRR.

For the purpose of this assessment pursuant to Article 422(9) of the CRR and Article 29(1) and (2) of Commission Delegated Regulation (EU) 2015/61 with regard to institutions established in different Member States, the ECB will take into account whether the following criteria, which specify the conditions of the legislative framework, are met.

- (i) In order to assess whether the liquidity-providing entity and liquidity-receiving entity have a low liquidity risk profile, the credit institutions are expected to demonstrate that they would meet their LCR. An institution benefiting from preferential treatment should provide an alternative compliance plan to demonstrate how it intends to meet its fully phased-in LCR in 2018, if the preferential treatment were not to be granted.

- (ii) For the same purpose, the credit institutions are expected to show that both the liquidity provider and the liquidity receiver exhibit a sound liquidity profile. More specifically:
 - (a) in cases where the LCR has been applicable under the legislation in place, the credit institutions are expected to demonstrate that they have been fulfilling their LCR on an individual and a consolidated basis, when applicable, for at least one year and that the credit institution benefiting from preferential treatment reflects the impact of the preferential treatment and of any exemption granted under Article 33 of Commission Delegated Regulation (EU) 2015/61 in its calculation of the LCR;
 - (b) alternatively, if the liquidity coverage requirement has not been in place for a full year and where national liquidity requirements are in place, the credit institutions are expected to demonstrate that they have been fulfilling their liquidity requirements on an individual and a consolidated basis, when applicable, for at least one year.

Alternatively, where past LCR reports are not available, or where no quantitative liquidity requirements are in place, a sound liquidity position would be considered to have been achieved, if the liquidity management of both institutions as evaluated in the SREP is deemed to be of high quality.

In all cases, data from the Short-Term Exercise could be used to complement the analysis.

- (iii) The ECB expects to be shown that any application for preferential treatment is supported by a reasoned and formalised decision of the management bodies of both the liquidity-providing entity and the liquidity-receiving entity, ensuring that they fully understand the implications of the preferential treatment in the event that it is granted and that cancellation clauses include a notification period of at least six months.
- (iv) In order to assess whether the liquidity risk profile of the liquidity receiver is adequately taken into account in the liquidity risk management of the liquidity provider, the ECB expects to be shown that the liquidity-providing entity monitors on a regular basis the liquidity position of the counterparty, including its daily liquidity position. This could be achieved, where appropriate, by granting access for the counterparty to regular monitoring systems, including daily monitoring systems, established by the liquidity-receiving entity and the liquidity-providing entity on a consolidated and individual basis.

Alternatively, the credit institutions are expected to demonstrate how the appropriate information on the liquidity positions of the entities involved is made available to the parties on a regular basis – for instance, by sharing daily liquidity monitoring reports.

12. ADDITIONAL COLLATERAL OUTFLOWS FROM DOWNGRADE TRIGGERS
(Article 30(2) of Commission Delegated Regulation (EU) 2015/61)

The ECB will assess the materiality of outflows notified by credit institutions with regard to additional outflows and collateral needs for all contracts under which the contractual conditions will lead to outflows within 30 calendar days of a downgrade in the credit institution's external credit assessment by 3 notches.

When credit institutions do not have an external credit assessment, it is expected that they will notify the impact on their outflows of a material deterioration of their credit quality corresponding to a 3-notch downgrade. The JST will assess how this impact is determined on a case-by-case basis, depending on the specificities of each contractual provision.

In general, and based on the information currently available from regulatory reporting to date, the ECB would be inclined to consider as material, among the amounts of outflows notified by credit institutions, those outflows which represent at least 1% of the gross outflows of a given institution (i.e. including those additional outflows triggered by the above-mentioned deterioration in credit quality).

Institutions are expected to notify these outflows directly via the regular reports submitted to the ECB in accordance with Article 415(1) of the CRR.

The ECB will reconsider the appropriateness of this threshold (1% of gross liquidity outflows) within one year of the final adoption of this Guide once an EU harmonised reporting framework in line with the Commission Delegated Regulation (EU) 2015/61) is enacted.

13. CAP ON INFLOWS (Article 33(2) of Commission Delegated Regulation
(EU) 2015/61)

The ECB is aware that under certain conditions the exercise of this specific option on liquidity requirements, when considered in combination with the option in Article 34 of Commission Delegated Regulation (EU) 2015/61 (see paragraph 15 of this Chapter), could, from the liquidity receiving entity's perspective, produce a comparable effect to an Article 8 CRR waiver (i.e. where, in the case that the above-mentioned options are combined, the liquidity buffer requirement for the exempted institution is reduced to zero, or close to zero), while the two exemptions are subject to different specifications.

Consequently, in exercising the combination of those options and granting the related waivers, the ECB will make sure that this does not create any inconsistencies or conflicts with the policy defined in paragraph 4 of Chapter 1 of this Guide for granting an Article 8 waiver concerning the same entities within the same perimeter.

Details on the combination of the Article 33(2) exemption and the Article 34 waiver and their interaction with a waiver under Article 8 of the CRR are provided below in the specifications for the assessment of the inflows under subparagraph (a).

In general, the ECB considers that the cap on inflows set out in Article 33(1) of Commission Delegated Regulation (EU) 2015/61 can be fully or partially waived following a specific assessment of the applications submitted by the supervised entities pursuant to Article 33(2) of the same Regulation. This assessment will be carried out according to the factors specified below for each type of exposure.

- **Assessment for granting the exemption from the cap on inflows under Article 33(2)(a) of Commission Delegated Regulation (EU) 2015/61 (intragroup inflows)**

Inflows where the provider is a parent or subsidiary of the credit institution or another subsidiary of the same parent or linked to the credit institution by a relationship within the meaning of Article 12(1) of Directive 83/349/EEC²⁵.

Parent institution should be understood as a parent undertaking, as defined in Article 4(1)(15) of the CRR, and subsidiary should be understood as defined in Article 4(1)(16) of the CRR.

Both entities should also belong to the same scope of consolidation as defined in Article 18(1) of the CRR, unless they have a relationship within the meaning of Article 12(1) of Directive 83/349/EEC.

As a general principle, the ECB does not intend to grant such exemption to institutions that are not affected by the 75% cap on inflows as mentioned in Article 33(1) of Commission Delegated Regulation (EU) 2015/61. The ECB intends to exempt only those institutions which currently have inflows exceeding 75% of their gross outflows, or which reasonably expect to have inflows exceeding 75% of their gross outflows in the foreseeable future, also taking into consideration the potential volatility of the LCR.

- (1) As already mentioned, the ECB will pay particular attention to cases where this option is exercised in combination with the option set out in Article 34 of Commission Delegated Regulation (EU) 2015/61, when a preferential treatment on intragroup credit and liquidity facilities has been granted.

Exercising these two options in combination could result in a null LCR for the liquidity-receiving entity. It could, therefore, under certain conditions, have an effect for the liquidity-receiving entity that is comparable to an Article 8 CRR waiver. In this regard, the ECB should ensure that granting applications for a combination of these two options or for the exemption under Article 33(2)(a) in isolation does not conflict with the approved policy for applications for a waiver, under Article 8 of the CRR, which would cover the same entities.

In cases where the conditions for an Article 8 waiver cannot be met for reasons that are not under the control of the institution or the group, or where the ECB is

²⁵ Seventh Council Directive 83/349/EEC of 13 June 1983 based on the Article 54(3)(g) of the Treaty on consolidated accounts (OJ L 193, 18.7.1983, p. 1).

not satisfied that an Article 8 waiver may actually be granted, the ECB will consider instead the possibility of granting a combination of the preferential treatment under Article 34 of Commission Delegated Regulation (EU) 2015/61 and the exemption from the cap on inflows pursuant to Article 33(2)(a) of Commission Delegated Regulation (EU) 2015/61.

As already stated, a combination of the options under Article 33(2)(a) and Article 34 of Commission Delegated Regulation (EU) 2015/61 can only be granted where it does not conflict with the approved policy to be applied to a waiver under Article 8 of the CRR concerning the same entities.

- (2) The ECB considers it appropriate, in cases where applications are submitted jointly pursuant to Articles 33(2)(a) and 34 of Commission Delegated Regulation (EU) 2015/61 for the same inflows, that the assessment regarding inflows from undrawn credit and liquidity facilities is carried out according to the specifications under Article 34 of Commission Delegated Regulation (EU) 2015/61, in order to ensure consistency.
- (3) Where the exemption under Article 33(2) of Commission Delegated Regulation (EU) 2015/61 is not requested in combination with a preferential treatment pursuant to Article 34 of the same Regulation (EU), the ECB will consider the potential impact of this exemption on the LCR of the institution and its liquidity buffer, and the type of intragroup inflows that would be exempted from the cap on inflows. In particular, the ECB recognises that, under certain conditions, granting this exemption in isolation could have a similar impact to a waiver granted in accordance with Article 8 of the CRR for the institution exempted from the cap on inflows.

The inflows in question should, therefore, meet minimum characteristics that would give sufficient comfort to the ECB that the applicant credit institution could rely on them for its liquidity needs in times of stress. To this end, the ECB considers that the inflows should present the following features:

- (i) there are no contractual clauses that require any specific conditions to be met for the inflow to become available;
- (ii) there are no provisions that would allow the intragroup counterparty providing the inflows to withdraw from its contractual obligations or impose additional conditions;
- (iii) the terms of the contractual agreement giving rise to the inflows cannot be changed substantially without the prior approval of the ECB. An extension or a renewal of contracts under the same provisions as previous contracts does not per se require prior approval. Nonetheless, extensions or renewals of contracts must be notified to the ECB;
- (iv) the inflows are subject to a symmetric or more conservative outflow rate when the intragroup counterparty calculates its own LCR. In particular, for intragroup deposits, if the deposit-receiving institution applies an inflow rate of 100%, the applicant entity should demonstrate that the intragroup

counterparty does not treat this deposit as operational (as defined in Article 27 of Commission Delegated Regulation (EU) 2015/61);

- (v) the applicant entity is able to demonstrate that the inflows are also properly captured in the contingency funding plan of the intragroup counterparty or, in the absence of such contingency funding plan, in the contingency funding plan for the applicant entity;
- (vi) the applicant institution should also provide an alternative compliance plan to demonstrate how it intends to meet its fully phased-in LCR in 2018 should the exemption not be granted;
- (vii) the applicant institution should be able to demonstrate that the intragroup counterparty has been fulfilling the LCR requirement for at least one year, alongside national liquidity requirements if applicable. Alternatively, where past LCR reports are not available or where no quantitative liquidity requirements are in place, a sound liquidity position could be considered to exist if the liquidity management of both institutions as evaluated in the SREP is deemed to be of high quality;
- (viii) the applicant institution should monitor the liquidity position of the intragroup counterparty on a regular basis and demonstrate that it also enables the intragroup counterparty to monitor its own liquidity position on a regular basis. Alternatively, the applicant institution is expected to demonstrate how it has access to the appropriate information on the liquidity positions of the intragroup counterparty – for instance, by sharing daily liquidity monitoring reports;
- (ix) the applicant institution should be able to factor in the impact of granting the exemption on its risk management systems with a view to complying with Article 86 of CRD IV and should also be able to monitor how a potential withdrawal of the exemption would impact its liquidity risk position and LCR.

- **Assessment for granting the exemption from the cap on inflows under Article 33(2)(b) of Commission Delegated Regulation (EU) 2015/61**

It must be borne in mind that for members of institutional protection schemes (IPSs) this exemption could, under certain circumstances, be functionally equivalent, for the depositing entity (depositor) member of the IPS, to the deposit being treated in accordance with Article 16(1)(a) of Commission Delegated Regulation (EU) 2015/61 as a Level 1 liquid asset. Even if the treatment under Article 16(1)(a) concerns the LCR numerator, allowing an exemption from the cap on inflows pursuant to Article 33(2)(b) for the deposit would, through the offsetting of outflows by inflows, decrease the denominator of the same ratio to a corresponding degree. This would ultimately produce an equivalent effect to the same deposit being recognised in full as high quality liquid assets and would increase the numerator.

As an example, an institution has a total amount of liquid assets (X), total outflows (Z) and total inflows (A) and a deposit placed with other intra-IPS counterparties (B) which is included in its total inflows (A).

In the base-case scenario (no exemption, Article 16 of Commission Delegated Regulation (EU) 2015/61 not applicable) the LCR of this institution could be expressed as:

$$LCR = X / (Z - \text{MIN}(A; 0.75Z))$$

Assuming an LCR of 100%, it could also be expressed as:

$$X = Z - \text{MIN}(A; 0.75Z)$$

In the second scenario, we assume that the intra-IPS deposit is included in the total liquid assets (as per Article 16(1)(a) of Commission Delegated Regulation (EU) 2015/61). The LCR could be expressed as:

$$LCR = (X + Y) / (Z - \text{MIN}(A - Y; 0.75Z))$$

Assuming an LCR of 100%, it could also be expressed as:

$$X + Y = Z - \text{MIN}(A - Y; 0.75Z)$$

In the third scenario, we assume that the intra-IPS deposit is exempted from the 75% cap on inflows (as per Article 33(2)(b) of Commission Delegated Regulation (EU) 2015/61). The LCR could be expressed as:

$$LCR = X / (Z - \text{MIN}(A - Y; 0.75Z) - Y)$$

Assuming an LCR of 100%, it could also be expressed as:

$$X = Z - \text{MIN}(A - Y; 0.75Z) - Y; \text{ or as:}$$

$$X + Y = Z - \text{MIN}(A - Y; 0.75Z), \text{ which is equivalent to the second scenario.}$$

Consequently, the ECB is of the opinion that the exemption from the cap on inflows should not be exercised for deposits from entities (members of IPSs) qualifying for the treatment set out in Article 113(7) of the CRR (see Chapter 4 of this Guide) that are fully eligible for the treatment pursuant to Article 16(1)(a) of Commission Delegated Regulation (EU) 2015/61.

This being the case, credit institutions are invited (encouraged) to directly apply the treatment set out in Article 16(1)(a) of Commission Delegated Regulation (EU) 2015/61 for the determination of the LCR.

Other deposits that do not qualify for the treatment under Article 16(1)(a) could benefit from the exemption only in the following cases.

- (1) Where, in accordance with national law or the legally binding provisions governing IPSs, the deposit-receiving entity is obliged to hold or invest the

deposits in Level 1 liquid assets as defined in letters (a) to (d) of Article 10(1) of Commission Delegated Regulation (EU) 2015/61.

or

(2) Where the following conditions are met:

- (i) there are no contractual clauses that require any specific conditions to be met for the inflow to become available;
- (ii) there are no provisions that would allow the intra-IPS counterparty to not fulfil its contractual obligations or to impose additional conditions on the withdrawal of the deposit;
- (iii) the terms of the contractual agreement governing the deposit cannot be changed substantially without the prior approval of the ECB;
- (iv) the inflows are subject to a symmetric or more conservative outflow rate when the intra-IPS counterparty calculates its own LCR. In particular, if the deposit-receiving institution applies an inflow rate of 100%, the applicant entity should demonstrate that the intra-IPS counterparty does not treat this deposit as operational (as defined in Article 27 of Commission Delegated Regulation (EU) 2015/61);
- (v) the inflows are also properly captured in the contingency funding plan of the intra-IPS counterparty;
- (vi) the applicant institution also provides an alternative compliance plan to demonstrate how it intends to meet its fully phased-in LCR in 2018, should the exemption not be granted;
- (vii) the applicant institution is able to demonstrate that the intra-IPS counterparty has been fulfilling the LCR requirement for at least one year, alongside national liquidity requirements if applicable. Alternatively, where past LCR reports are not available or where no quantitative liquidity requirements are in place, a sound liquidity position could be considered to exist if the liquidity management of both institutions as evaluated in the SREP is deemed to be of high quality;
- (viii) the IPS adequately monitors and reviews the liquidity risk and communicates the review to individual members in terms of its systems in accordance with Article 113(7)(c) and (d) of Regulation (EU) No 575/2013;
- (ix) the applicant institution is able to incorporate the impact of granting the exemption in its risk management systems and monitor how a potential withdrawal of the exemption would impact its liquidity risk position and its LCR.

Moreover, for the other category of deposits eligible for exemption from the cap, “groups of entities qualifying for the treatment set out in Article 113(6) of the CRR”, this legislative wording means that the conditions mentioned in Article 113(6) of the

CRR must have been met and the corresponding exemption from risk-weighted capital requirements for intragroup exposures must actually have been granted. Therefore, entities that have been excluded from the scope of prudential consolidation in accordance with Article 19 of the CRR should also be excluded from the application of the exemption on the cap on inflows, given that Article 113(6) of the CRR exemption cannot be granted. Consequently, the exemption from the cap on inflows under Article 33(2)(b) of Commission Delegated Regulation (EU) 2015/61 is not allowed either.

In this case, other intragroup deposits could benefit from the exemption only where, in accordance with national law or other legally binding provisions regulating groups of credit institutions, the deposit-receiving entity is obliged to hold or invest the deposits in Level 1 liquid assets as defined in letters (a) to (d) of Article 10(1) of Commission Delegated Regulation (EU) 2015/61.

- **Assessment for granting the exemption from the cap on inflows under Article 33(2)(c) of Commission Delegated Regulation (EU) 2015/61**

The ECB is of the opinion that inflows already benefiting from the preferential treatment mentioned in Article 26 of Commission Delegated Regulation (EU) 2015/61 should also be exempted from the cap referred to in Article 33(1) of Commission Delegated Regulation (EU) 2015/61.

In order to grant the exemption for the inflows referred to in the second subparagraph of Article 31(9) of Commission Delegated Regulation (EU) 2015/61, the ECB intends to assess such inflows against the definition of promotional loans in Article 31(9), and against the criteria of Article 26 of Commission Delegated Regulation (EU) 2015/61 and the specifications set out in paragraph 10 of this Chapter.

14. **SPECIALISED CREDIT INSTITUTIONS (Article 33(3)(4) and (5) of Commission Delegated Regulation (EU) 2015/61)**

The ECB considers it appropriate that specialised credit institutions should have differentiated treatment for the recognition of their inflows under the conditions specified in Article 33(3)(4) and (5) of Commission Delegated Regulation (EU) 2015/61.

More specifically:

- (i) credit institutions whose main activities are leasing and factoring can be fully exempted from the cap on inflows;
- (ii) credit institutions whose main activities are financing for the acquisition of motor vehicles and consumer credit as defined in Directive 2008/48/EC of

the European Parliament and of the Council²⁶ may apply a higher cap of 90% on inflows.

The ECB considers that only credit institutions with a business model that fully corresponds to one or several of the activities identified in Article 33(3) and (4) of Commission Delegated Regulation (EU) 2015/61 can expect preferential treatment.

For the purpose of this assessment, the ECB would also examine whether the business activities exhibit a low liquidity-risk profile, taking into account the following factors.

- (i) The timing of inflows should match the timing of outflows. More specifically, the ECB would examine whether the following apply.
 - (a) Inflows and outflows subject to the cap exemption or to a 90% cap are triggered by a single decision or set of decisions by a given number of counterparties and are not subject to a judgement or discretionary decision of the reporting credit institution.
 - (b) Inflows and outflows subject to the exemption are related to a legal, regulatory or contractual commitment. This commitment has to be evidenced by the applicant credit institution. In the event that the exempted inflow arises from a contractual commitment, the credit institution is expected to show that this commitment has a residual validity exceeding 30 days. Alternatively, when the business activity does not make it possible to show a relationship between inflows and outflows on a transaction-by-transaction basis, the applicant institutions should provide maturity ladders showing the respective timing of inflows and outflows over a period of 30 days for a total period covering at least one year.
- (ii) At the individual level, the credit institution is not significantly financed by retail deposits. More specifically, the ECB would examine whether deposits from retail depositors exceed 5% of its total liabilities, and whether at the individual level the ratio of the main activities of the institution exceeds 80% of the total balance sheet. In cases where at the individual level institutions have diversified business activities which include one or several of the activities identified in Article 33(3) or (4) of Commission Delegated Regulation (EU) 2015/61, only inflows corresponding to activities under Article 33(4) are considered to be subject to the 90% cap. Within this context, the ECB would also examine whether the institution's activities under Article 33(3) and (4), jointly examined, exceed 80% of the total balance sheet of the institution at the individual level. The institution is expected to demonstrate that it has an appropriate reporting system to precisely identify these inflows and outflows on a continuous basis.

²⁶ Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC (OJ L 133, 22.5.2008, p. 66).

- (iii) The derogations are disclosed in annual reports.

In addition, the ECB would examine whether, at the consolidated level, inflows exempt from the cap are higher than outflows arising from the same specialised lending institution and cannot cover any other types of outflows.

15. INTRAGROUP LIQUIDITY INFLOWS (Article 34 of Commission Delegated Regulation (EU) 2015/61)

The ECB would also allow for differentiated treatment with regard to inflows within a group, under the conditions set out in Article 425 of the CRR and Article 34 of Commission Delegated Regulation (EU) 2015/61, after a case-by-case assessment. This approach would be considered for inflows of credit and liquidity facilities, in cases where waivers of Article 8 or 10 of the CRR were not granted or were partially granted, with regard to the LCR. This policy applies both for institutions established within the same Member State and for institutions established in different Member States.

For the purpose of this assessment pursuant to Article 425(4) of the CRR and Article 34(1) of Commission Delegated Regulation (EU) 2015/61, with regard to institutions established in the same Member State, the ECB will take into account whether the following criteria, which specify the conditions of the legislative framework, are met.

- (i) In order to assess whether there are reasons to expect a higher inflow even under a combined idiosyncratic and market-wide stress scenario, the ECB expects to be shown that cancellation clauses include a notification period of at least six months and that the agreements and commitments do not contain any clause that would allow the liquidity provider to:
 - (a) require any conditions to be fulfilled before the liquidity is provided;
 - (b) withdraw from its obligations to fulfil these agreements and commitments;
 - (c) change substantially the terms of the agreements and commitments without prior approval from the competent authorities involved.
- (ii) In order to assess whether a corresponding symmetric or more conservative outflow is applied by the counterparty by way of derogation from Articles 422, 423 and 424 of the CRR, the ECB expects to be shown that the corresponding outflows from the credit or liquidity facility are taken into account in the liquidity recovery plan of the liquidity-providing entity.
- (iii) In order to assess whether the liquidity-providing entity exhibits a sound liquidity profile, the credit institution is expected to demonstrate that the following criteria are met.
 - (a) Where the LCR is already applicable under the existing legislation, that it has been fulfilling its LCR on an individual and a consolidated basis, when applicable, for at least one year. The liquidity-receiving

institution is expected to reflect the impact of the preferential treatment and of any exemption granted under Article 33 of Commission Delegated Regulation (EU) 2015/61 in its calculation of the LCR.

- (b) Where national liquidity requirements are in place, that it has been fulfilling its LCR on an individual and a consolidated basis, when applicable, for at least one year.

Alternatively, if past LCR reports are not available or no quantitative liquidity requirements are in place, a sound liquidity position should be considered to have been achieved if the liquidity management of the institution as evaluated in the SREP is deemed to be of high quality.

In all cases, data from the Short-Term Exercise could be used to complement the analysis.

For decisions concerning institutions established in different Member States, the ECB's assessment will be carried out pursuant to Article 425(5) of the CRR and Article 34(1)(2) and (3) of Commission Delegated Regulation (EU) 2015/61.

For the purpose of this assessment, the ECB will take into account whether the following criteria, which specify the conditions of the legislative framework, are met.

- (i) In order to assess whether there are reasons to expect a higher inflow even under a combined idiosyncratic and market-wide stress scenario, the ECB expects to be shown that cancellation clauses include a notification period of at least six months and that the agreements and commitments do not contain any clause that would allow the liquidity-providing entity to:
 - (a) require any conditions to be fulfilled before the liquidity is provided;
 - (b) withdraw from its obligations to fulfil these agreements and commitments;
 - (c) change substantially the terms of the agreements and commitments without prior approval from the competent authorities involved.
- (ii) In order to assess whether the liquidity-providing entity and liquidity-receiving entity present a low-risk liquidity profile, both institutions are expected to be able to demonstrate that they would meet their LCR. An institution benefiting from preferential treatment is expected to provide an alternative compliance plan to demonstrate how it intends to meet its fully phased-in LCR in 2018 if the preferential treatment were not to be granted. In addition, in order to assess whether the liquidity-providing entity and liquidity-receiving entity exhibit a sound liquidity profile, the credit institutions are expected to demonstrate the following:
 - (a) where the LCR is already applicable under the existing legislation, that they have been fulfilling their LCR on an individual and a consolidated basis, when applicable, for at least one year. The

liquidity-receiving institution is expected to reflect the impact of the preferential treatment and of any exemption granted under Article 33 of Commission Delegated Regulation (EU) 2015/61 in its calculation of the LCR;

- (b) where national liquidity requirements are in place, that they have been fulfilling their LCR on an individual and a consolidated basis, when applicable, for at least one year.

Alternatively, where past LCR reports are not available or where no quantitative liquidity requirements are in place, a sound liquidity position could be considered to have been achieved if the liquidity management of both institutions as evaluated in the SREP is deemed to be of high quality. In all cases, data from the Short-Term Exercise could be used to complement the analysis.

- (iii) In order to assess whether there are legally binding agreements and commitments between the group entities regarding the undrawn credit or liquidity line, the ECB expects to be shown that any application for preferential treatment is supported by a reasoned and formalised decision of the management body of both the liquidity-providing entity and the liquidity-receiving entity, ensuring that they fully understand the implications of the preferential treatment in the event that it is granted and that cancellation clauses include a notification period of at least six months.
- (iv) In order to assess whether the liquidity risk profile of the liquidity-receiving entity is taken into account adequately in the liquidity risk management of the liquidity-providing entity, the ECB expects to be shown that the liquidity-providing entity and the liquidity-receiving entity monitor on a regular basis the liquidity position of the counterparty, including its daily position. This could be achieved, where appropriate, via an access to monitoring systems, including daily monitoring systems, established by the liquidity-receiving entity and the liquidity-providing entity on an individual and a consolidated basis. Alternatively, the institutions are expected to demonstrate to the ECB how the appropriate information on the liquidity positions of the institutions involved is made available to the parties on a regular basis, for instance by sharing daily liquidity monitoring reports.

Chapter 7

Leverage

1. This chapter sets out the ECB's policy regarding leverage.
2. Part Seven of the CRR sets out the relevant legislative framework.

3. EXCLUSION OF INTRAGROUP EXPOSURES FROM THE CALCULATION OF THE LEVERAGE RATIO (Article 429(7) of the CRR as introduced by Commission Delegated Regulation (EU) 2015/62)

In the exercise of the discretion provided for in Article 429(7) of the CRR the ECB will assess applications from supervised entities taking into account the specific aspects highlighted below in order to ensure a prudent implementation of the relevant regulatory framework.

In particular, the assessment aims to ensure that the leverage ratio accurately measures leverage, controls the risk of excessive leverage and constitutes an adequate backstop to risk-weighted capital requirements (see Recitals 91 and 92 of the CRR as well as Article 4(1), subparagraphs (93) and (94), of the CRR, especially the definition of “risk of excessive leverage”), with due regard, however, to the smooth flow of capital and liquidity within the group at the domestic level. Moreover, where the exemption is granted, it is considered of fundamental importance that the “risk of excessive leverage”, as defined by the legislation, should not be concentrated within one subsidiary of the group under assessment.

To these ends, the ECB will verify at least the following factors.

- (1) The potential impact on the credit institution of a change in economic and market conditions, especially with regard to its funding position.

In particular, the assessment should corroborate that the institution would not be imminently exposed to adverse market developments (when they occur), including an adverse change in funding conditions. Market shocks should be of such significance as to lead the credit institution to discharge other balance sheet items on the asset side, because available funding is employed to maintain the financing of intragroup exposures. In contrast, where the assessment suggests that there are sufficient grounds to assume that such a possibility could materialise and the intragroup exposure may give rise to leverage risk as defined in Article 4(1)(94) of the CRR as it may induce “unintended corrective measures” or “distressed selling of assets”, the waiver will not be granted. In fact, under such circumstances the exclusion of the intragroup exposures from the leverage ratio would imply that leverage risk is no longer fully reflected in the ratio, thus impairing the identification of this risk as required under the processes referred to in Article 87 of CRD IV as well as the supervisory evaluation under Article 98(6) of CRD IV.

The analysis should be based on the assessment by the Joint Supervisory Team (JST) of the liquidity and funding risks of the credit institution in the context of the Supervisory Review and Evaluation Process (SREP).

For such factors to be considered not to be relevant in individual cases, this assessment should conclude that the liquidity and funding position of the credit institution is strong and resilient to adverse changes in economic and market conditions, thus implying that the entity will not have to engage in “unintended

corrective measures” or “distressed selling of assets” in order to preserve intragroup exposure(s).

- (2) The materiality of the intragroup exposures of the applying entity, in terms of overall balance sheet size, off-balance-sheet obligations and contingent obligations to pay or deliver or provide collateral.

The ECB intends to carry out a forward-looking assessment to ascertain that the exemption of intragroup exposures does not have the effect that “leverage”, as defined in Article 4(1)(93) of the CRR, would no longer be adequately measured by the leverage ratio. A forward-looking assessment implies that the ECB also examines whether there are reasons (e.g. business model analysis, sector concentration, etc.) to assume that the bank’s balance sheet will expand and/or intragroup exposures will increase in the future, even where they appear relatively small when the application is submitted.

- (3) The effect that the exclusion of the intragroup exposures would have on the leverage ratio’s function as an effective supplementary measure to risk-based capital requirements (backstop).

This assessment should also take into account that, if the conditions of Article 113(6) of the CRR are met and the waiver is granted (see above, Chapter 3, paragraph 3), the institution will not hold any capital against the risks associated with intragroup exposures under the risk-based capital requirements.

- (4) Whether the decision on the application concerning Article 429(7) of the CRR would have disproportionate negative effects on the recovery and resolution plan.

Once a minimum requirement for the leverage ratio has been introduced in Union law, the ECB will assess whether any adjustments to the current policy stance are required.

Chapter 8

Transitional provisions on capital requirements and reporting

1. This chapter sets out the ECB’s policy on the transitional provisions in the CRR.
2. The legislative provisions concerning the transitional arrangements for prudential requirements are set out in Part Ten of the CRR.
3. OWN FUNDS REQUIREMENTS FOR COVERED BONDS (Article 496(1) of the CRR)

The ECB intends to waive until 31 December 2017 the 10% limit for senior units issued by French Fonds Communs de Créances and equivalent securitisation entities, provided that both of the conditions set out in Article 496(1) are fulfilled.

4. BASEL 1 FLOORS (Article 500 of the CRR)

The ECB intends to allow credit institutions which meet the conditions of Article 500(3) of the CRR to replace the amount referred to in point (b) of Article 500(1) (Basel I floor) with the requirement specified in Article 500(2) (which is based on the standardised approaches in the CRR). In all other cases the ECB will assess Article 500(5) applications on a case-by-case basis by taking into account the requirements laid down in the CRR and ensuring a prudent implementation of the CRR framework.

Chapter 9

General requirements for access to the activity of credit institutions

1. WAIVER FOR CREDIT INSTITUTIONS PERMANENTLY AFFILIATED TO A CENTRAL BODY (Article 21(1) of CRD IV)
2. Credit institutions permanently affiliated to a central body, as described in Article 10 of the CRR, shall not be required to meet the authorisation requirements set out in national law implementing Articles 10 and 12 and Article 13(1) of CRD IV, provided that the ECB deems that the conditions set out in Article 10(1) of the CRR are fulfilled.

Chapter 10

Timeline for the assessment of proposed acquisitions of qualifying holdings

1. This chapter sets out the ECB's policy on the specific provisions of Article 22(4) and (7) of CRD IV regarding the assessment of qualifying holdings in credit institutions.
2. The ECB plans to keep a flexible stance, in case further information is required to complete the assessment within the context of Article 22 and extend, on a case-by-case basis, the suspension of the assessment period of a qualifying holding application from 20 working days up to 30 working days, under the conditions specified in Article 22(4) of CRD IV. If the criteria in Article 22(3) and (4) are met, the ECB considers that the suspension of the assessment period can always be extended up to 30 working days, provided that such extension is possible under the applicable national law and unless specific circumstances require otherwise.

As a general rule, a maximum period of three months should be sufficient to conclude the proposed acquisition, without excluding the possibility of an extension, in accordance with Article 22(7) of CRD IV. Potential extensions will be assessed on a case-by-case basis.

Chapter 11

Governance arrangements and prudential supervision

1. This chapter sets out the ECB's policy on specific provisions related to governance arrangements and the prudential supervision of credit institutions.
2. The relevant legislative and regulatory framework is set out in Title VII of CRD IV (and the national implementations of the provisions included in that Title) and the applicable EBA Guidelines.
3. COMBINING THE RISK COMMITTEE AND THE AUDIT COMMITTEE (Article 76(3) of CRD IV)

The ECB considers that all significant supervised groups should have a separate risk and audit committee at the level of the parent undertaking, or the highest level of consolidation within the participating Member States. At the subsidiary level, the ECB considers that a non-significant institution within the meaning of Article 76(3) of CRD IV can combine the risk committee with the audit committee. For this purpose, it should be noted that the designation of an institution as non-significant pursuant to Article 76(3) is different from the classification of a credit institution as a significant supervised entity under Article 6 of the SSM Regulation. The categorisation will be assessed by the ECB on a case-by-case basis.

For the purposes of this assessment and for the sole purpose of applying Article 76(3), a credit institution would be considered as significant by the ECB within the meaning of that Article if at least one of the following aspects is present:

- (i) the assets of the credit institution, calculated on either an individual or a consolidated basis, are equal to, or exceed, EUR 5 billion;
- (ii) the credit institution has been identified as an "other systemically important institution" (O-SII);
- (iii) the resolution authority has identified critical functions or critical shared services and it envisages the application of resolution tools to the credit institution, instead of orderly liquidation;
- (iv) the credit institution has issued transferable shares listed on a regulated market;

- (v) the internal organisation as well as the nature, scope and complexity of the activities of the credit institution would justify its classification as a significant institution within the meaning of Article 76(3).

4. COMBINING THE FUNCTIONS OF CHAIRMAN AND CEO (Article 88(1)(e) of CRD IV)

The ECB considers that there should be a clear separation of the executive and non-executive functions in credit institutions and that the separation of the functions of Chairman and CEO should be the rule. Sound principles of corporate governance require that both functions be exercised in line with their responsibilities and accountability requirements. The responsibilities and accountability requirements of the chairman of the management body in its supervisory function (Chair) and of the chief executive officer (CEO) diverge, reflecting the different purposes of each supervisory function and management function respectively.

Moreover, the Guidelines on Corporate Governance principles for banks of the Basel Committee on Banking Supervision²⁷ recommend that in order “to promote checks and balances, the chair of the board should be an independent or non-executive board member. In jurisdictions where the chair is permitted to assume executive duties, the bank should have measures in place to mitigate any adverse impact on the bank’s checks and balances, e.g. by designating a lead board member, a senior independent board member or a similar position and having a larger number of non-executives on the board.” (paragraph 62).

The authorisation to combine the two functions should, therefore, be granted only in exceptional cases and only where corrective measures are in place to ensure that the responsibilities and accountability obligations of both functions are not compromised by their being combined. The ECB intends to assess applications for the combination of the two functions in line with the above-mentioned Basel principles and the European Banking Authority’s Guidelines on Internal Governance²⁸, where it is recommended that in the case of combination of the two functions, “the institution should have measures in place to minimise the potential detriment on its checks and balances”.

More specifically, the ECB considers that such authorisation should be granted only for the period where the justifying circumstances continue to exist, as presented by the applying institution in accordance with Article 88(1)(e) of CRD IV. After a period of 6 months from the adoption of the ECB decision authorising the combination of the two functions, the credit institution should assess whether the justifying circumstances do in fact continue to exist and inform the ECB accordingly. The ECB can withdraw the authorisation, where it determines that the outcome of the

²⁷ BCBS Corporate Governance principles for banks (Guidelines), July 2015

²⁸ EBA Guidelines on Internal governance (GL 44), 27 September 2011

assessment regarding the continuing existence of the exceptional circumstances is not satisfactory.

In order to grant the authorisation, the ECB will assess the following factors:

- (1) the specific reasons why the situation is exceptional; in this regard, the ECB would not consider the fact that the combination is allowed under national law to be sufficient;
- (2) the impact on the checks and balances of the credit institution's framework of corporate governance and how such impact will be mitigated, taking into account:
 - (i) the scale, nature, complexity and variety of activities; the particularities of the governance framework with regard to applicable company law or specificities in the by-laws of the institution; and how these allow or prevent the separation of the management function from the supervisory function;
 - (ii) the existence and scale of cross-border activities;
 - (iii) the number, quality and nature of the shareholders: in general, a diversified shareholder base or the admission to listing on a regulated market may not support granting such authorisation, whereas the 100% control of the entity by a parent company which is fully compliant with the separation of functions between its chair and its CEO, and closely monitors its subsidiary, may support granting such authorisation.

It is clearly the responsibility of the credit institution to demonstrate to the ECB that it has put in place effective measures consistent with relevant national law in order to mitigate any adverse impacts on the checks and balances of the credit institution's corporate governance framework.

The ECB is currently cooperating with the NCAs within the relevant network in order to further specify the above-mentioned factors for the supervisory assessment of applications pursuant to national legislation transposing Article 88 of CRD IV.

5. ADDITIONAL NON-EXECUTIVE DIRECTORSHIP (Article 91(6) of CRD IV)

The ECB intends to authorise, on a case-by-case basis, members of the management body of a credit institution to hold one additional non-executive directorship, in accordance with Article 91(6) of CRD IV.

For the purpose of this assessment, the ECB would examine whether the following criteria, specifying the conditions of the legislative framework, are met:

- (i) whether the person holds a full-time occupation or an executive mandate;

- (ii) whether the person holds any additional responsibilities such as membership of committees (e.g. the person is Chair of the audit, risk, remuneration or nominations committee in a supervised entity);
- (iii) whether the company is regulated or listed, the nature of its business activities or cross-border business activities, internal group structures and whether or not there are synergies;
- (iv) whether the person already benefits from the privileged counting of directorships;
- (v) whether the mandate is temporary only, i.e. for less than the duration of one whole term;
- (vi) whether the person's experience of the management body or the company is such that he or she could carry out duties with greater familiarity and hence efficiency.

6. APPLICATION OF SUPERVISORY MEASURES TO INSTITUTIONS WITH SIMILAR RISK PROFILES (Article 103 of CRD IV)

The ECB is of the view that similar, or even identical, Pillar II measures may be applied to credit institutions with a similar risk profile, in accordance with Article 103(1) of CRD IV and Article 16(2) of the SSM Regulation, taking as a basis the results of the SREP assessment for these institutions.

7. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS FOR CREDIT INSTITUTIONS PERMANENTLY AFFILIATED TO A CENTRAL BODY (Article 108(1) of CRD IV)

The provision of Article 108(1) (2nd subparagraph) of CRD IV gives competent authorities the option to exempt credit institutions included in Article 10 of the CRR (affiliates and central body) from complying with the ICAAP requirements on a solo basis.

The ECB is inclined to grant such exemption in cases where a capital waiver pursuant to Article 10 of the CRR has already been granted for the credit institutions in question. For the specifications for granting a waiver pursuant to Article 10 of the CRR, please see Chapter 1.

8. SUPERVISION OF FINANCIAL HOLDING COMPANIES OR MIXED FINANCIAL HOLDING COMPANIES WITH PART OF THE GROUP IN NON-PARTICIPATING MEMBER STATES (Article 111(5) of CRD IV)

In cases where the parent undertaking is a financial holding company or a mixed financial holding company, the ECB would consider it appropriate to agree that another competent authority of a non-participating Member State be designated as the consolidating supervisor or, alternatively, that the ECB take over as consolidated

supervisor from another authority, as specified in Article 111(5) of CRD IV and on a case-by-case basis. In particular, this would be the case where only one, small institution is located in the same non-participating Member State in which the holding company has its head office, but a major part of the group including significant credit institutions is located in one or more of the participating Member States.

9. BILATERAL AGREEMENT ON THE SUPERVISION OF CREDIT INSTITUTIONS IN NON-PARTICIPATING MEMBER STATES

Moreover, in cases where the ECB is the competent authority that has authorised a parent undertaking which is a credit institution, it would, by bilateral agreement with the competent authority of the non-participating Member State, seek to assume responsibility for supervising the subsidiary credit institution authorised in that Member State through delegation of responsibilities from the competent authority of the subsidiary credit institution, in accordance with Article 115(2) of CRD IV.

10. COOPERATION OBLIGATIONS (Articles 117 and 118 of CRD IV)

Within the cooperation obligations of Articles 117 and 118 of CRD IV, the ECB is keen to be able to check information concerning entities in other Member States, as well as to participate in related checks, especially in cases where the national competent authority seeks to verify information, for example by means of an on-site inspection.

11. SUPERVISION OF MIXED FINANCIAL HOLDING COMPANIES (Article 120(1) and (2) of CRD IV)

With respect to the supervision of mixed financial holding companies, the ECB, as the consolidating supervisor, would consider it appropriate to exclude them from the application of CRD IV, under the condition that they are subject to equivalent supervision under the Financial Conglomerates Directive²⁹ (FICOD), particularly in terms of risk-based supervision. Conversely, the ECB would also consider it appropriate to include mixed financial holding companies in the application of those parts of CRD IV relating to the banking sector, provided that this is the most significant financial sector in which these companies operate. The choice between the two approaches will be decided after a case-by-case assessment, taking into account the related delegated acts.

12. ESTABLISHMENT OF FINANCIAL HOLDING COMPANIES OR MIXED FINANCIAL HOLDING COMPANIES (Article 127(3) of CRD IV)

²⁹ Directive 2011/89/EU of the European Parliament and of the Council of 16 November 2011 amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC as regards the supplementary supervision of financial entities in a financial conglomerate (OJ L 326, 8.12.2011, p. 113).

In addition, for the purpose of applying prudential requirements on a consolidated basis, the ECB may consider it necessary to require, on a case-by-case basis, the establishment of a financial holding company or mixed financial holding company in the participating Member State pursuant to the SSM Regulation, under the conditions specified in Article 127(3) of CRD IV and taking into account relevant delegated acts (Commission Implementing Decision of 12 December 2014³⁰ and any subsequent amendments).

13. CAPITAL CONSERVATION PLANS (Article 142 of CRD IV)

Finally, the ECB intends to retain some flexibility with regard to the capital conservation plan to be submitted under Article 142 of CRD IV. The ECB is of the view that additional information requests can prove useful, taking into account the individual situation of a bank and the content of the capital plan provided by the same credit institution. The ECB will decide on the timeframe for rebuilding capital buffers on a case-by-case basis; as a general rule, however, this timeframe should not exceed a period of two years. Appropriate measures taken by the ECB of the types specified in Article 142(4) of CRD IV and on the basis of Article 16(2) of the SSM Regulation are not excluded in cases where the ECB considers the plan to be insufficient to conserve or raise sufficient capital, so as to enable the institution to meet its combined buffer requirements within an appropriate period. In any case, a capital conservation plan should be submitted to the ECB, after the identification of the failure to meet a requirement, within the time limits set out in Article 142(1) of CRD IV.

³⁰ 2014/908/EU: Commission Implementing Decision of 12 December 2014 on the equivalence of the supervisory and regulatory requirements of certain third countries and territories for the purposes of the treatment of exposures according to Regulation (EU) No 575/2013 of the European Parliament and of the Council (OJ L 359, 16.12.2014, p. 155).

Section III

The ECB's general policy regarding the exercise of certain options and discretions in the CRR and CRD IV where further action or assessment is required

This section provides the ECB's general stance with regard to the exercise of certain options and discretions where further action or assessment is required. Specific policy guidance, potentially including more detailed specifications, will be communicated on the basis of future regulatory developments or further assessment and, where appropriate, also in cooperation with the national competent authorities. The purpose of this section is to communicate the ECB's stance prior to the development of specific policies and specifications.

Chapter 1

Consolidated supervision and waivers of prudential requirements

1. WAIVER OF LIQUIDITY REQUIREMENTS THROUGH MEASURES UNDER ARTICLE 86 OF CRD IV (Article 8(5) of the CRR and Article 2(2) of Commission Delegated Regulation (EU) 2015/61)

The ECB intends to exercise the option in Article 8(5) of the CRR and to determine the policy on the exercise of that option and the option in Article 2(2) of Commission Delegated Regulation (EU) 2015/61, including the potential development of more detailed specifications, following an assessment of future specific cases.

2. SUPERVISION ON A SUB-CONSOLIDATED BASIS (Article 11(5) of the CRR)

The ECB is of the view that it is sensible to require institutions to comply with the capital and liquidity requirements of the CRR at a sub-consolidated level in accordance with Article 11(5) of the CRR, in cases where:

- (i) it is justified for supervisory purposes by the specific nature of the risks or the capital structure of a credit institution;
- (ii) Member States have adopted national laws requiring the structural separation of activities within a banking group.

The ECB intends to further develop its policy in this regard once the European banking structural reform framework is in place.

3. EXCLUSION OF PROPORTIONAL CONSOLIDATION (Article 18(2) of the CRR)

The ECB considers that, in general, full consolidation should be applied for prudential purposes, even in cases where the liability of the parent undertaking is limited to its share of the capital of the subsidiary and the other shareholders must and can meet their liabilities, as specified in Article 18(2) of the CRR. The ECB intends to reassess its policy, based on the criteria to be specified in the Commission Delegated Act which will be issued in accordance with Article 18(7) of the CRR.

4. METHODS FOR CONSOLIDATION IN THE CASE OF PARTICIPATIONS OR CAPITAL TIES OTHER THAN THOSE REFERRED TO IN ARTICLE 18(1) and (4) OF THE CRR (Article 18(5) of the CRR)

The ECB is of the view that, in the case of minority ownership, the use of the equity method is preferable, where feasible, given the available information from the undertaking.

The ECB will also take into account the Commission Delegated Regulation which will be issued in accordance with Article 18(7) of the CRR in order to further develop the specifications for the exercise of this option.

5. CONSOLIDATION IN CASES OF SIGNIFICANT INFLUENCE AND COMMON MANAGEMENT (Article 18(6) of the CRR)

Where a link between credit institutions is established through the exercise of significant influence, without holding a participation or other capital tie, as described in Article 18(6)(a) of the CRR, the ECB considers this as being analogous to cases of minority ownership, thus the policy described above in paragraph 4 of this section will be applied. The ECB also considers the existence of single management, as defined in Article 18(6)(b) of the CRR, as being analogous to the case of subsidiaries. Thus, full consolidation should be applied as required for subsidiaries by Article 18(1) of the CRR and determined above as with the policy for Article 18(2) of the CRR.

The ECB intends to reassess its policy, based on the criteria specified in the Commission Delegated Regulation which will be issued in accordance with Article 18(7) of the CRR.

Chapter 2

Own funds

1. ELIGIBILITY OF CAPITAL INSTRUMENTS SUBSCRIBED BY PUBLIC AUTHORITIES IN EMERGENCY SITUATIONS (Article 31 of the CRR)

In close and timely cooperation with the European Banking Authority, the ECB intends to assess the inclusion in Common Equity Tier 1 of capital instruments subscribed by public authorities in emergency situations in accordance with Article 31(1) of the CRR when future specific cases arise.

2. REDEMPTION OF ADDITIONAL TIER 1 OR TIER 2 INSTRUMENTS BEFORE FIVE YEARS HAVE ELAPSED FROM THE DATE OF ISSUE (Article 78(4) of the CRR)

The ECB intends to permit the redemption of Additional Tier 1 or Tier 2 instruments before five years have elapsed from the date of issue under the conditions specified in Article 78(4) of the CRR on a case-by-case basis and, potentially, to develop further specifications following the assessment of future specific cases.

Chapter 3

Capital requirements

1. EXPOSURES TO PUBLIC SECTOR ENTITIES (Article 116(4) of the CRR)

In exceptional circumstances, the ECB intends to allow exposures to public sector entities to be treated as exposures to the central government, regional government or local authority in whose jurisdiction they are established, in cases where it deems that there is no difference in risk between such exposures because of the existence of an appropriate guarantee by the central government, regional government or local authority. For this purpose, the ECB plans to communicate a list of eligible public sector entities, based on cases assessed.

2. RISK WEIGHTS AND LOSS GIVEN DEFAULT FOR EXPOSURES SECURED BY MORTGAGES ON RESIDENTIAL OR COMMERCIAL IMMOVABLE PROPERTY (Articles 124(2) and 164(4) of the CRR)

Within the participating Member States there are different real estate markets with different features and different levels of risk. In the light of this, it is necessary to adopt a common methodology allowing the ECB to set appropriately higher risk weights or stricter eligibility criteria than those set out in Articles 125(2) and 126(2) of the CRR for exposures fully and completely secured by mortgages on residential and commercial immovable property located in the territory of one or more Member States.

Such methodology should also make it possible to set higher minimum values of exposure-weighted average Loss Given Default (LGD) than those set out in Article 164(4) of the CRR for retail exposures secured by mortgages on residential and commercial immovable property and not benefiting from guarantees from central governments located in the territory of a Member State, in accordance with the conditions of Article 164(5) of the CRR, as well as the regulatory technical standards referred to in Article 164(6) of the CRR.

The exercise of these options will not be fully operational until this methodology is developed and the conditions set out in Article 124(2) of the CRR have been further specified by the Commission via the Delegated Regulation referred to in Article 124(4)(b) of the CRR. Moreover, in the light of financial stability considerations, these ODs will be exercised in close cooperation with the macroprudential authorities.

Appropriate consideration will also be given to any national measures already in place in order to ensure a consistent approach within territories.

For the purpose of these legal provisions, the assessment will be conducted on an annual basis.

3. DEFAULT OF AN OBLIGOR (Article 178(2)(d) of the CRR)

For the purpose of defining the materiality criterion of a credit obligation past due, the ECB intends to determine its policy based on the relevant Commission Delegated Regulation, within 90 days after publication of that Delegated Regulation in the Official Journal of the European Union. Until that policy is published, the ECB intends to permit all credit institutions using the IRB approach to continue to assess materiality in accordance with the relevant national framework in place.

4. ELIGIBILITY OF UNFUNDED CREDIT PROTECTION PROVIDERS (Articles 201 and 119(5) of the CRR)

In order to enable credit institutions to treat the financial institutions as defined in Article 201(1)(f) of the CRR as eligible providers of unfunded credit protection, the ECB considers financial institutions as defined by the CRR as eligible. With regard to other financial institutions, eligibility will be assessed on a case-by-case basis, based on the robustness of the applicable prudential requirements. For this purpose, the ECB intends to develop further specifications specifying which prudential requirements are considered comparably robust to those applied to institutions.

5. OPERATIONAL RISK: BASIC INDICATOR APPROACH (Article 315(3) of the CRR) AND STANDARDISED APPROACH (Article 317 of the CRR) WITH REGARD TO OWN FUNDS REQUIREMENTS

In the case of mergers, acquisitions or disposal of entities or activities, the ECB intends to exercise both options in each article on a case-by-case basis, in accordance with the conditions specified therein, and to further determine the

manner of their exercise, including the potential development of more detailed specifications, after an assessment of future specific cases.

6. NETTING (MARKET RISK) (Article 327(2) of the CRR)

The ECB intends to determine its policy and potentially develop specifications for exercising the option in Article 327(2) of the CRR in order to allow netting between a convertible and an offsetting position in the instrument underlying it, based on the EBA Guidelines to be issued pursuant to Article 327(2) of the CRR.

7. CAPITAL REQUIREMENTS FOR CREDIT VALUATION ADJUSTMENT RISK (Article 382(4)(b) of the CRR)

For the purposes of Article 382(4)(b) of the CRR, the ECB intends to assess the possibility of requiring intragroup transactions between structurally separated institutions to be included in the own funds requirements for Credit Valuation Adjustment (CVA), once the EU framework on banking structural reform is in place.

Chapter 4

Large exposures

1. LARGE EXPOSURE LIMIT TO INTRAGROUP EXPOSURES IN APPLICATION OF STRUCTURAL MEASURES (Article 395(6) of the CRR)

The ECB intends to assess whether and how to apply large exposure limits below 25% in the case of structural measures, pursuant to Article 395(6) of the CRR, once the European banking structural reform framework is in place. National implementations of this provision will, therefore, continue to be in place until the ECB defines a common approach.

Chapter 5

Liquidity

1. LIQUIDITY OUTFLOWS (Article 420(2) of the CRR and Article 23(2) of Commission Delegated Regulation (EU) 2015/61)

The ECB intends to assess the calibration of applicable outflow rates, following the Short Term Exercise within the Supervisory Review and Evaluation Process and having taken the assessment provided for in Article 23(1) and (2) of Commission Delegated Regulation (EU) 2015/61 into account.