



Consultation paper on the draft RTS on investment firms prudential requirements (Consultation Paper EBA/CP/2020/06)

Public hearing, EBA

30 June 2020, Paris

Content

1. New prudential framework for investment firms
2. Consultation paper on prudential requirements
3. Q&As

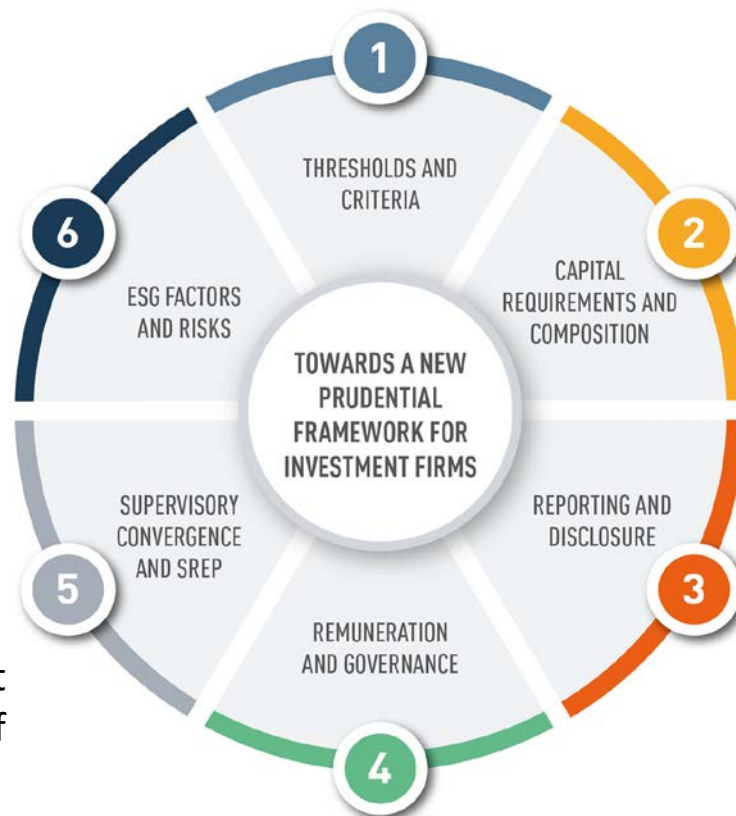
Background information and general objectives



- Under the new prudential framework for investment firms (Directive (EU) 2019/2034 (IFD) and Regulation (EU) 2019/2033 (IFR)) a significant number of **mandates are given to the EBA**
- The EBA is mandated to further specify, develop and determine a **prudential framework** for investment firms to ensure a level playing field among investment firms across the EU and supervisory convergence
- The EBA is strongly **committed to implementing** new framework for investment firms where it plays a significant role
- The EBA will ensure a **proportionate implementation** of this new framework to take account of the different classes of investments firms

Roadmap on Investment firms

- On 4 June 2020 the EBA published the **Roadmap** on Investment firms which outlines all mandates under the IFR/IFD framework ([link to IF-Roadmap](#))
- Mandates are grouped in **six thematic areas**
- The mandates include:
 - 18 RTS, 3 ITS, 6 sets of guidelines, 2 reports
 - 2 mandates are related to ESG aspects
 - the requirement for the EBA to maintain a list of capital instruments and a database of administrative sanctions

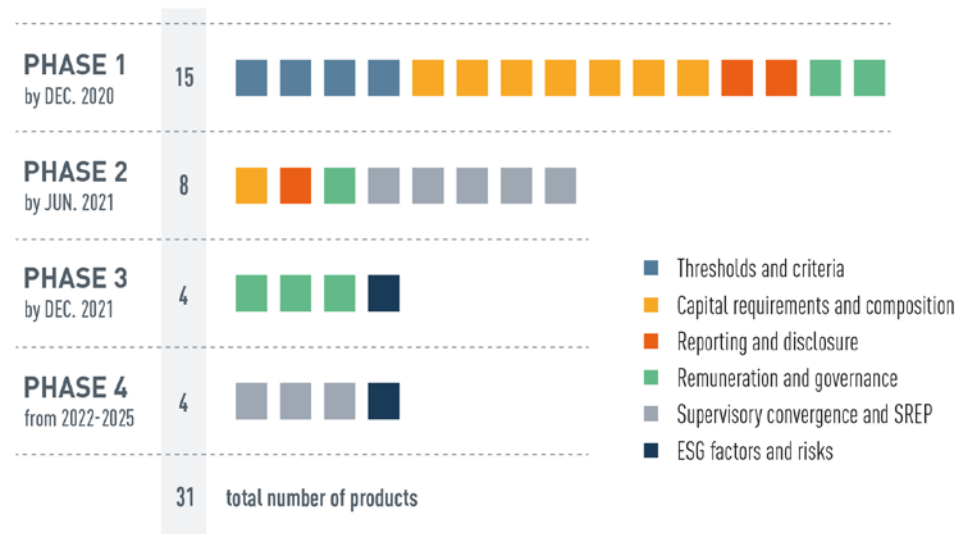


Four phase approach for delivering the EBA mandates



- Mandates will be implemented through a **four** phase approach

- Phases are divided according to:
 - IFR/IFD deadlines
 - area of mandates



- For implementing the first phase, the EBA has published **four consultation papers** on mandates related to:
 - Capital requirements and prudential consolidation (deadline Dec 2020)
 - Remuneration (2 CPs, deadline June 2021, submission expected Dec 2020)
 - Reporting and disclosure (deadline Dec 2020)

Public consultation



- The EBA published the first four Consultation Papers on 4 June 2020
- Public consultation ends on **4 September 2020**
- Responses only via EBA webpage (click on ‘Send your comments’, [link](#))
- Respond to the questions with clear rationale, describe alternatives and provide evidence to support your view.
- Indicate if your response can be disclosed or should be confidential
- ✗ **Late submissions** will not be accepted
- These slides will be available at EBA website > Regulation and policy > Investment Firms
- The EBA will submit the final draft RTS to the European Commission at the end of 2020

Send your comments

Deadline: 04/09/2020

EBA data collection



Purpose

- Assess the **impact** of draft RTS under the IFR/IFD
- Covers draft RTS on classification of investment firms and capital requirements
- Covers draft RTS on the criteria to identify all categories of staff whose professional activities have a material impact on the firm's risk profile or assets it manages ('risk takers')

Scope

- EEA **investment firms** as defined in point (22) of Article 4(1) of IFR (approx. 2500 firms)
- EEA **investment firm groups** that would be subject to prudential consolidation under Article 7 of the IFR
- Data to be reported on an **individual and consolidated** basis as of 31 December 2019

Timeline

- 04 Jun 2020: Launch data collection exercise; Publication of templates/instructions on EBA website
- **19 Aug 2020: Deadline submission of templates to CAs**
- 24 Aug 2020 – 4 Sep 2020: Data quality assurance
- 16 Sep 2020: re-submission of revised templates to CAs

Process

- The EBA will not collect any data directly from investment firms
- **Investment firms should submit templates and any questions to competent authorities (CAs)**
- CAs will transmit templates to the EBA
- The EBA will perform analysis and publish results in cost-benefit analysis/impact assessment section of final draft RTS

Content

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Consultation paper: structure



- The **Consultation Paper EBA/CP/2020/06** on prudential requirements¹ presents a **subset** of the first regulatory products developed under these mandates
 - Part I - Mandates related to the **reclassification** of certain investment firms to credit institutions (2 RTS)
 - Part II - Mandates related to **capital requirements** for investment firms at solo level (6 RTS)
 - Part III - Mandate related to the scope and methods of **prudential consolidation** for investment firm groups (1 RTS)

¹ Link to [Public Consultation](#) page and data collection instructions and templates

Part I - Mandates related to the reclassification of certain investment firms to credit institutions

RTS on the information to be provided for the authorisation of credit institutions



Article 1:
Scope of
required
information

- Paragraph 1: Relevant requirements from the draft RTS 2017/08 on information for the authorisation of credit institutions
- Paragraph 2: Possibility to require additional information
- Paragraph 3: Information to be required when several competent authorities are involved
- Paragraph 4: Scope of activities about which information is required
- Paragraph 5: Additional information
- Paragraph 6: Methods for measuring the execution of orders in COH

RTS on the information to be provided for the authorisation of credit institutions



- Key provisions for the information to be provided for the authorisation as a credit institution
 - Information to be provided:
 - Presentation of the applicant credit institution, place of head office and history
 - Programme of activities
 - Financial information
 - Programme of operations, structural organisation, internal control systems and auditors
 - Initial capital
 - Effective direction
 - Shareholders or members with qualifying holdings
 - 20 largest shareholders or members
 - RTS aims to reflect the business model of the CIs which provide certain investment services and activities as defined in point (1)(b) of Article (4(1) of the CRR
 - Flexibility to require additional information and/or waive some requirements

RTS on the methodology for calculating the EUR 30bn threshold required to be authorised as a credit institution



- Article 62(6) of the IFD: introduction of Article 8a of the CRD
 - ‘Article 8a. Specific requirements for authorisation of credit institutions referred to in point (1)(b) of Article 4(1) of Regulation (EU) No 575/2013’
‘EBA shall develop draft regulatory technical standards to specify: ... (b) the methodology for calculating the thresholds referred to in paragraph 1.’
- Key aspects
 - providing **clarity** on all the areas that deemed relevant in developing such a methodology:
 - **definition** of assets
 - concept of **consolidated** assets
 - clarification of the definition of **intragroup** exposures (two alternatives discussed)
 - **calculation** of assets’ value, including the assets of third country branches and undertakings of European groups that are established outside the EU

RTS on the methodology for calculating the EUR 30bn threshold required to be authorised as a credit institution



CHAPTER 1 Scope and definitions	<ul style="list-style-type: none">• Article 1: Subject matter and scope• Article 2: Definitions
CHAPTER 2 Accounting standards and relevant exchange rate	<ul style="list-style-type: none">• Article 3: Accounting standards and audited figures• Article 4: Relevant exchange rate
CHAPTER 3 Branches of third country groups	<ul style="list-style-type: none">• Article 5: Activities of branches of third-country groups• Article 6: Criteria to measure the total value of assets of branches of third-country groups
CHAPTER 4 Definition of assets, scope of undertakings for the calculation of the threshold for the group test and calculation of the value of assets	<ul style="list-style-type: none">• Article 7: Calculation of total assets - Article 8a(1)(1) of CRD• Article 8: Scope of undertakings for the calculation of the threshold• Article 9: Calculation of consolidated assets - Article 8a(1)(1) of CRD• Article 10: Calculation of combined assets of third country groups• Article 11: Average of monthly total assets criterion

RTS on the methodology for calculating the EUR 30bn threshold required to be authorised as a credit institution



○ Key provisions for the methodology for calculating the EUR 30bn threshold

- Hierarchical approach in the definition of assets with regards to accounting standards
- Definition of consolidated assets by:
 - summing the assets of all undertakings in the group carrying out the MiFID services (3) and/or (6) at individual level, and subtracting intragroup exposures which occur exclusively between those undertakings, subsidiaries in third countries and third country branches carrying out MiFID services (3) and/or (6)

$$CA_u = \sum_{i=1}^N (IA - IE)_i + \sum_{j=1}^M CA_j$$

- Calculation of the combined assets of third country groups

$$CTA_u = CA + \sum_{j=1}^N TA_{TCBj}$$

- Calculations of the average of monthly total assets criterion

$$MTA_{ut} = TA_{Q-1} + m * (TA_Q - TA_{Q-1})/3$$

RTS on the monitoring of information related to the EUR 30bn threshold required to be authorised as a credit institution



○ Article 55(5) of the IFR

- ‘Article 55. Reporting requirements for certain investment firms’:

‘EBA, in consultation with ESMA, shall develop draft regulatory technical standards to specify further the obligation to provide information to the relevant competent authorities referred to in paragraphs 1 and 2 in order to allow effective monitoring of the thresholds set out in points (a) and (b) of Article 8a(1) of the CRD.’

○ Key aspects

- Necessity for a reporting **template** to fill in as part of the regular reporting framework
- List of elements necessary for ensuring the **monitoring** of the EUR 30bn threshold in line with the methodology for the computation of said threshold
- Clarifications regarding the **target** population

○ RTS included in the Consultation Paper on the ITS on reporting under Article 54 of the IFR

Part II - Mandates related to capital requirements for investment firms at solo level

RTS to specify the calculation of the fixed overheads requirement and to define the notion of a material change

o Article 13(4) of the IFR

• ‘Article 13. Fixed overheads requirements’

‘EBA, in consultation with ESMA, shall develop draft regulatory technical standards to supplement the calculation of the requirement referred to in paragraph 1 which includes at least the following items for deduction:

- a) staff bonuses and other remuneration, to the extent that they depend on the net profit of the investment firm in the respective year;
- b) employees’, directors’ and partners’ shares in profits;
- c) other appropriations of profits and other variable remuneration, to the extent that they are fully discretionary;
- d) shared commission and fees payable which are directly related to commission and fees receivable, which are included within total revenue, and where the payment of the commission and fees payable is contingent on the actual receipt of the commission and fees receivable;
- e) fees to tied agents;
- f) non-recurring expenses from non-ordinary activities.

EBA shall also specify for the purposes of this Article the notion of material change.’

RTS to specify the calculation of the fixed overheads requirement and to define the notion of a material change



○ Key aspects

- Fixed costs of third parties
- Further elements to be deducted based on **differences** in applicable accounting standards:
 - fees, brokerage and other charges paid to central counterparties, exchanges and other trading venues and intermediate brokers for the purposes of executing, registering or clearing transactions;
 - interest paid to customers on client money, where there is no obligation of any kind to pay such interest;
 - expenditures from taxes where they fall due in relation to the annual profits of the investment firm;
 - losses from trading on own account in financial instruments;
 - payments related to contract-based profit and loss transfer agreements according to which the investment firm is obliged to transfer, following the preparation of its annual financial statements, its annual result to the parent undertaking.
- Calculation of FOR for commodity and emission allowance dealers
- Notion of **material change**

RTS to specify the calculation of the fixed overheads requirement and to define the notion of a material change

Article 1 Calculation of the FOR	<ul style="list-style-type: none">• Paragraph 1: Clarifications on financial statements• Paragraph 2: Equivalent annual amount for financial statements• Paragraph 3: Net profits as basis for FOR calculation• Paragraph 4: Staff bonuses and other remuneration as part of the current net profit• Paragraph 5: Fixed expenses with third parties• Paragraph 6: other deductions in line with applicable accounting framework
Article 2	<ul style="list-style-type: none">• FOR for commodity and emission allowance dealers
Article 3	<ul style="list-style-type: none">• Notion of material change

RTS to specify the calculation of the fixed overheads requirement and to define the notion of a material change

- Key provisions for the calculation of the FOR and the notion of material change
 - Conditions for staff bonuses and other remuneration to be considered to depend on the net profit of the investment firm in the respective year:
 - have already been paid to employees in the year preceding the year of payment or will have no impact on the firm's capital position in the year of payment
 - the firm is not obliged to award or allocate further bonuses or other payments in the form of remuneration unless it makes a net profit in that year
 - Inclusion of third party fixed costs:
 - Where not already included in total expense and only up to the share applicable to the IF (where breakdown exists) or up to the share included in the IF's business plan
 - Other elements to be deducted in line with the applicable accounting framework
 - Provision for commodity and emission allowance dealers – deduction of expenditure on raw materials
 - Notion of material change – either +/- $\geq 30\%$ in the firm's projected FO of the current year or +/- \geq EUR 2M in the firm's own funds requirements based on projected FO of the current year

RTS to specify the methods for measuring the K-factors



- Article 15(5), point c) of the IFR: specify the methods for measuring the K-factors
 - ‘Article 15. K-factor requirement and applicable coefficients’

‘In order to ensure the uniform application of this Regulation and to take account of developments in financial markets, EBA shall, in consultation with ESMA, develop draft regulatory technical standards to: (a) **specify the methods for measuring the K-factors** in Title II of Part Three’

- Key aspects to be addressed
 - to specify further the K-factors which are **not sufficiently detailed** in the IFR
 - to introduce rules for **valuation** and methods for measuring of the K-factors
 - to specify **articulation** between certain factors
 - K-factors concerning the Risk-to-firm (if not subject of other mandates)

RTS to specify the methods for measuring the K-factors



SECTION 1 Methods for measuring the RtC K-factors

- Article 1: Methods for measuring the Rtc K-factors in the case of investment services and activities conducted using tied agents
- Article 2: Methods for measuring the AUM in cases of non-discretionary advisory arrangements of an on-going nature
- Article 3: Methods for measuring the AUM in case of discretionary portfolio management
- Article 4: Methods for measuring CMH
- Article 5: Methods for measuring ASA
- Article 6: Methods for measuring the execution of orders in COH
- Article 7: Methods for measuring the reception and transmission of orders in the COH
- Article 8: Methods for measuring cash trades for the purpose of COH
- Article 9: Methods for measuring derivatives for the purpose of COH

SECTION 2 Measuring RtF K-factor

- Article 10: Methods for measuring cash trades for the purpose of DTF
- Article 11: Methods for measuring derivatives for the purpose of DTF

RTS to specify the methods for measuring the K-factors



- Key provisions for measuring Risk to Client (RtC) K-factors
 - **Fair value** accounting for all positions (including derivatives and cash) for K-AUM, K-ASA
 - **Absolute value** shall be used where fair value is **negative** - offset should be taken into consideration for K-AUM
 - K-CMH **not** to be included in the K-AUM calculation

RTS to specify the methods for measuring the K-factors



○ Examples of other clarifications/specifications

- **K-CMH** shall be measured using investment firm's internal reconciliations and be based on IF balances
- **Tied agents'** activity shall be included in the amounts of RtC factors where they are registered to act on investment firm's behalf
- K-AUM factor shall **not** include amounts related to ancillary advice activity (**Service of 3** of section B of Annex I of MIFID), but it shall include amounts that relate to advice for another financial entity which is providing portfolio management service
- Amounts for the **K-COH** shall be included at the point of transition of the orders; corporate finance or private equity transactions shall not be included, the price shall be the one contained in the order; MTF or OTF operations shall not be included in the COH.

RTS to specify the methods for measuring the K-factors



○ Key provisions for measuring K-COH and K-DTF

- The IFR distinguishes between **cash trades and derivatives**
- Other RtF factors are not in the scope of these draft RTS:
 - For measuring **K-NPR**, the IFR refers to the market requirements set out in the CRR
 - **K-TCD** is in detail prescribed in the IFR
 - Separate RTS for measuring the K-CMG under mandate set out in Article 23(3) of the IFR
- Some technical aspect is further specified for clarity, such as that for derivatives the **notional** amount already determined in Article 29(3) of the IFR
- Specific clarifications on the calculation of ‘reception and transmission’ of orders and ‘execution’ of clients orders

RTS on the definition of segregated account



○ Article 15(5), point b) of the IFR: notion of segregated account

- ‘Article 15. K-factor requirement and applicable coefficients’

‘In order to ensure the uniform application of this Regulation and to take account of developments in financial markets, EBA shall, in consultation with ESMA, develop draft regulatory technical standards to: ... **specify the notion of segregated accounts** for the purposes of this Regulation for the conditions that ensure the protection of client money in the event of the failure of an investment firm’

○ Key aspects

- Definition of segregated accounts **already provided** in Article 4 (49) of the IFR
- Therefore draft RTS shall establish a subset of requirements (conditions) for the notion of segregation of accounts

RTS on the definition of segregated account



- Key provisions for defining the notion of segregated accounts
 - Conditions are consistent with Delegated Directive 2017/593²
 - Key conditions that shall be fulfilled for segregated accounts in order to safeguard client's asset:
 - Segregated accounts and records are maintained in a way that allows to distinguish client's asset and ensures accuracy
 - Reconciliations are conducted on a regular basis between investment firm's internal and third parties' accounts
 - Due care is exercised towards client funds deposited in segregated accounts
 - Adequate organizational arrangements are put in place to minimize the risk of loss or diminution of client assets

² <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:32017L0593>

RTS to specify adjustments to the K-DTF coefficients



- Article 15(5), point c) of the IFR: to specify adjustments to the K-DTF coefficients
 - ‘Article 15. K-factor requirement and applicable coefficients’

‘In order to ensure the uniform application of this Regulation and to take account of developments in financial markets, EBA shall, in consultation with ESMA, develop draft regulatory technical standards to: ... **specify adjustments to the K-DTF coefficients** referred to in Table 1 of paragraph 2 of this Article in the event that, in **stressed market condition** as referred to in Commission Delegated Regulation (EU) 2017/578, the K-DTF requirements seem overly restrictive and detrimental to financial stability’
- Key aspects
 - Adjustments of the **K-DTF** coefficient under **situation of extreme volatility** in a way which incentivizes trading activities
 - Adjustments to the coefficients shall be adaptable for different **length** (of the period of excess volatility)

RTS to specify adjustments to the K-DTF coefficients



- Key provisions for adjusting K-DTF coefficients
 - In **extreme volatility** cases K-DTF shall be adjusted in order to avoid becoming a constraint or a disincentive to trading activity of investment firms dealing on own account
 - Extreme volatility situations shall be those referred to in Article 3 of the Commission Delegated Regulation (EU) 2017/578³ specifying the requirements on **market making** agreements and schemes
 - **Trading venues** already required to announce and publicly disclose periods of stressed market conditions
 - Draft RTS provides a **formula** for adjusted K-DTF for cash trades and derivatives and defines extreme volatility situations
 - The treatment is the **same** for derivatives and cash trades (although presented separately)

³ https://eur-lex.europa.eu/eli/reg_del/2017/578/oj

RTS to specify the calculation of the amount of the total margin for the calculation of K-CMG



○ Article 23(3) of the IFR: amount and method of calculation on Clearing Margin Given

• ‘Article 23. Calculating K-CMG’

‘EBA, in consultation with ESMA, shall develop draft regulatory technical standards to specify the calculation of the **amount of the total margin required** and the method of calculation of **K-CMG** as referred to in paragraph 2, in particular where K-CMG is applied on a portfolio basis, and the conditions for the fulfilment of the provisions in point (e) of paragraph 1.’

○ Key aspects

- Calculation of the **total amount of margin** required
- The **method of calculation** of K-CMG
- Conditions for CA’s assessment of **regulatory arbitrage** prevention

RTS to specify the calculation of the amount of the total margin for the calculation of K-CMG (1/2)



o Calculation:

- **K-CMG** shall be calculated as **the third highest amount of total margin** required on a daily basis by the clearing member from the investment firm over the preceding three months multiplied by a factor of 1.3
- For the calculation of K-CMG total margin required is the amount of collateral in the **collateral account** comprising the initial margin, variation margins and **other financial collateral**, as required by the clearing member's margin model from the investment firm; **fees** for clearing member services shall be excluded; total margin amount required shall be the **highest** amount during day
- When investment firm use services of **multiply clearing members** it shall calculate the K-CMG as follows: to determine the third highest amount **of each clearing member** over the preceding three months; to add those amounts; to multiply by 1.3

RTS to specify the calculation of the amount of the total margin for the calculation of K-CMG (2/2)



- **Criteria for the CA to assess for the avoidance of arbitrage**
 - Draft RTS set out **criteria which competent authorities shall assess** in order to assess that the choice of the portfolio subject to K-CMG has not been made with a view to engaging in regulatory arbitrage
 - Application of the CMG should be consistent at **trading desk** level
 - During the assessment competent authority shall ascertain that **K-CMG shall be used for continuous 24 month period** or change of business strategy or operations lead to different trading desk
 - Difference between K-CMG and K-NPR may need to be **justified** during the assessment
 - IF shall compare calculation of K-CMG and K-NPR when the **business strategy** of a **trading desk** changes (20% or more) of the capital requirements for that trading desk or the clearing margin requirement changes (10% or more following a margin model change)

RTS on the criteria for subjecting certain investment firms to the CRR (EUR 5bn threshold)



- Article 5(6) of the IFD: discretion of CAs to subject certain IFs to CRR
 - ‘Article 5. Discretion of competent authorities to subject certain investment firms to the requirements of Regulation (EU) No 575/2013’
‘EBA, in consultation with ESMA, shall develop draft regulatory technical standards to further specify the criteria set out in points (a) and (b) of paragraph 1, and shall ensure their consistent application.’
- Key aspects
 - **Scale** of activities in line with point (a) of paragraph 1 of Article 5 of the IFD
 - Requirements related to the provision of **clearing services** in line with point (b) of paragraph 1 of Article 5 of the IFD

RTS on the criteria for subjecting certain investment firms to the CRR (EUR 5bn threshold)



Article 1 Scale of activities	Thresholds for identifying whether failure of distress in the activity could lead to systemic risk
Article 2 Clearing member	Clarifications on when a clearing members should be considered for the application of Article 5 of the IFD

- Key provisions for the criteria for subjecting certain investment firms to the CRR
 - Thresholds:
 - total gross notional value of non-centrally cleared OTC derivatives of EUR 50 billion;
 - total value of financial instruments underwriting and/or placing of financial instruments on a firm commitment basis of EUR 5 billion;
 - total value of granted credits or loans to investors to allow them to carry out transactions of EUR 5 billion; and
 - total value of debt securities outstanding of EUR 5 billion.
 - Clearing member – IF offering clearing services to entities not clearing members themselves

Part III - Mandate related the prudential consolidation of investment firms groups

Article 7 (5): Draft regulatory technical standards to specify scope and methods of prudential consolidation

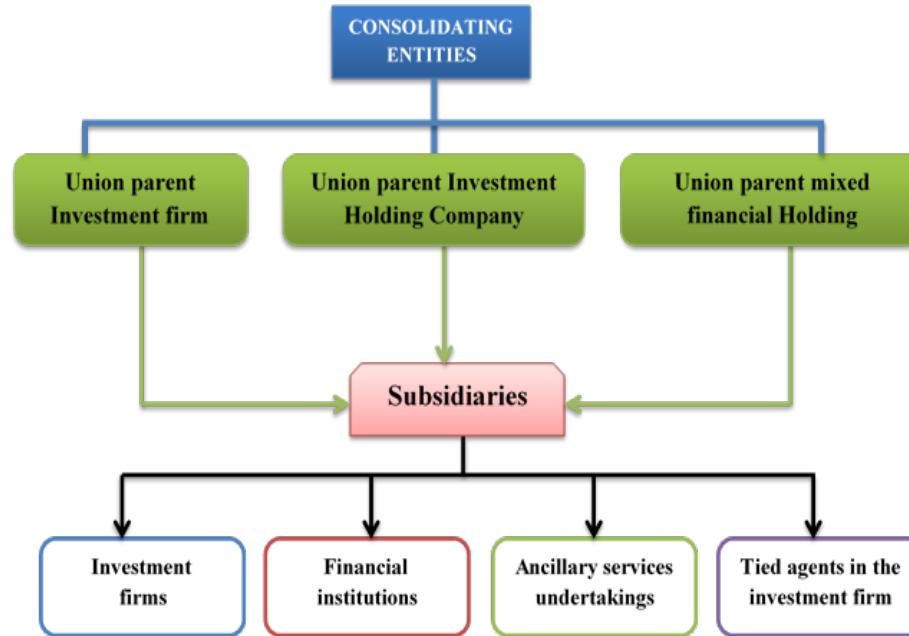
Key aspects are addressed in the CP:

- Scope of consolidation
- Consolidation methods
- Consolidated own funds requirements: how to calculate the three components of IF's own funds based on the consolidated situation:
 - Permanent minimum capital requirement (PMC)
 - Fixed overheads requirement (FOR)
 - K-factor requirements

Scope of prudential consolidation under IFR

Types of entities within the scope of consolidation of an investment firm only group

Figure 1: Scope of prudential consolidation, from Article 4.1(11) of the IFR.



Consolidation methods

- See also: **EBA Public consultation** on technical standards specifying the methods of prudential consolidation (CRR), 9 November 2017 ([link](#))
- Derived from the **CRR** (Article 18), as amended by Regulation (EU) 2019/876, and are adapted to IF groups
- Aligned with the existing framework referred to annual financial statements and **consolidated financial statements** (Article 22, Directive 2013/34/UE)

Articles 2 to 5 of the Draft RTS

- Undertakings related within the meaning of Article 22(7) of Directive 2013/34/EU
- Significant influence without participation or capital ties.
- Single management other than pursuant to a contract, clauses in memoranda or articles of association
- Participations or capital ties

Articles 6 and 7 of the Draft RTS

- Full consolidation (as default method)
 - Methods other than full consolidation: aggregation method
- Proportional consolidation
- X Equity method (not foreseen)

Prudential consolidation of own funds requirements



- **Article 8 of Draft RTS. Consolidation of own funds requirements**
 - On a consolidated basis, the amount of own funds of a Union parent undertaking may not fall below the highest of the following:
 - a) The **fixed overheads requirement** (FOR) calculated in accordance with **Article 9** Draft RTS;
 - b) The **permanent minimum capital requirement** (PMC) in accordance with **Article 10** Draft RTS
 - c) The **K-factor requirement** calculated in accordance with **Article 11** Draft RTS
- Union parent undertaking meeting on a consolidated basis the conditions for qualifying as a **small and non-interconnected IF** (Article 12(1) of IFR) consolidated own funds may not fall below the highest of the amounts specified in points A and B (FOR, PCR), without prejudice of the requirement to calculate a K-factor requirement.
- Duty to notify the group supervisor as soon as the Union parent undertaking becomes aware that it no longer satisfies or will no longer satisfy the requirements described at the preceding points

Prudential consolidation of own funds requirements



○ Article 10 Draft RTS. Consolidated PMC

- Consolidated **PMC** shall amount to the **sum of**:
 - a) The individual minimum capital requirement of the Union parent IF;
 - b) the individual permanent minimum capital requirement of all group undertakings that are fully consolidated; and
 - c) the individual permanent minimum capital requirement of those group undertakings that are consolidated proportionally, in proportion to the rights in its capital held by the Union parent undertaking and included in the consolidation.
- The individual permanent minimum capital requirements of group undertakings established in **third-countries** shall be the permanent minimum requirements applicable **had they been authorised** in the Union

Prudential consolidation of own funds requirements



- **Article 9 Draft RTS. Consolidated FOR**
- Consolidated FOR shall amount to at least **one quarter** of the fixed overheads of the Union parent undertaking of the preceding year on a consolidated basis
 - Expenditure figures resulting from the applicable accounting framework **on a consolidated basis** will be used
 - Where those **consolidated expenditure** figures are **not available**, then the consolidated FOR shall amount to:
 - a) the expenditures of the Union parent investment firm at the individual level;
 - b) the expenditures of the group undertakings that are fully consolidated; at the individual level and
 - c) the expenditures at the individual level of the group undertakings that are consolidated proportionally, in proportion to the rights in its capital held by the parent undertaking included in the consolidation
 - The **expenditures of tied agents** to be included in the group consolidated expenditures figures only if the IFs of the group do not already include them

Article 11 Draft RTS. Consolidated K-factor requirements

- Shall be calculated by adding together all different **K-factors** requirements calculated on a consolidated basis
 - The different K-factor requirements of **fully** consolidated group undertakings shall be included in full
 - The different K-factor requirements of proportionally consolidated entities shall be included **in proportion** to the rights in its capital held by the Union parent undertaking included in the consolidation
 - The **coefficients** set out in Table 1 of Article 15 IFR shall be applied to the consolidated metrics in order to calculate the K-factor requirement for each metric on a consolidated basis

Prudential consolidation of own funds requirements



○ Article 11 Draft RTS. Consolidated K-factor requirements (cont'd)

- Client Money Held (**CMH**), Assets Safeguarded and Administered (**ASA**), Client Orders Handled (**COH**) shall be calculated on a consolidated basis by aggregating the relevant metric for each undertaking that is included within the scope of the consolidation group
- The Assets under Management (**AUM**) of the group shall be obtained by adding together
 - the AUM of the MiFID entities and of **third-country** entities that would have been MiFID entities had they been authorised in the Union
 - the MIFID part of the AUM of asset management companies and of third-country entities that would have been asset management companies had they been authorised in the Union
- Daily Trading Flow (**DTF**) of the group shall be obtained by adding the DTF of each individual undertaking in the consolidation group **after netting** of intragroup trading flows

Prudential consolidation of own funds requirements



○ Article 11 Draft RTS. Consolidated K-factor requirements (cont'd)

- The consolidated Net Position Risk (**K-NPR**) and Trading Counterparty Default (**K-TCD**) shall be obtained by applying the rules in Articles 22 (own funds requirement for the trading book positions of an IF dealing on own account) and Article 26 (K-TCD formula) of IFR on a consolidated basis
- The consolidated Clearing Margin Given (**K-CMG**) shall be obtained by aggregation of the CMG of each individual undertaking in the consolidation group that is approved to use K-CMG.
- To the end of calculating the Consolidated Concentration Risk (**K-CON**), the exposure value of the group shall be the aggregation of the individual exposures.
 - The **limits** of the group with regard to the concentration risk and the exposure value excess of the group are obtained using the methods described in Article 37(1) and 37(2) of IFR

Thank you for attention

Questions & answers



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