BRIEFING

Update on recent banking developments

Calendar week 6

This briefing gives an update on and summarises recent events and developments in the Banking Union, based on publicly available information.
The following topics are specifically addressed: (i) the results of the recent European Central Bank (ECB) Supervisory Review and Evaluation Process; (ii) Single Supervisory Mechanism (SSM) risk assessment and supervisory priorities; (iii) results of the latest Bank Lending Survey; (iv) 2021 stress testing exercise; (v) ECB final guidelines on consolidations; (vi) proportionality; and (vii) Brexit.

I. ECB 2020 Supervisory Review and Evaluation Process results

The ECB regularly assesses and measures the risks for each bank under its direct supervision via the Supervisory Review and Evaluation Process (SREP). The results of that review process feed into the annual SREP decisions, which determine in particular how much additional capital banks need to hold to cover risks that are underestimated or not covered by the minimum capital requirements. That capital add-on, known as **Pillar 2, is meant to address the individual risk profile of each bank** (the legally binding part of that is called Pillar 2 requirement (P2R), the recommended but not binding part Pillar 2 guidance, or P2G).

On 28 January 2021, the ECB published and commented on the aggregate results of its 2020 SREP exercise.

In essence, the ECB decided to take a pragmatic approach in 2020 and to notably

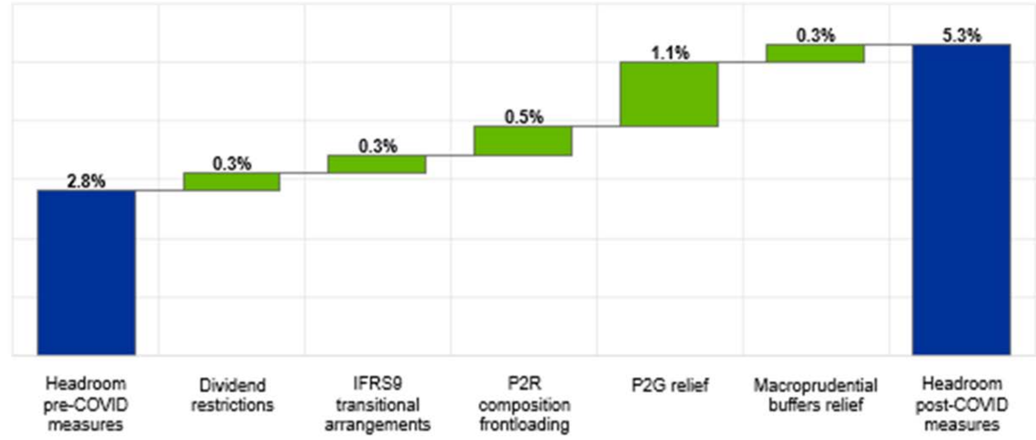
- keep **Pillar 2 requirements stable** (unchanged as compared to the previous year),
- keep **Pillar 2 guidance stable**, and
- to address supervisory concerns mainly via qualitative recommendations.

As a response to the Covid-19 crisis, the ECB took a number of relief measures during the first quarter of 2020 to make compliance with the supervisory requirements easier to achieve. Banks were allowed, among other things, to temporarily operate below the capital conservation buffer threshold and below the level of Pillar 2 guidance until at least the end of 2022. Those relief measures created "capital headroom" as regards the required levels of Common Equity Tier 1 (CET1); the **largest contribution stems from the relief of Pillar 2 guidance**, while other components such as the controversial dividend restrictions, transitional IFRS 9 provisions, and the relief of macroprudential buffers, each added comparatively little to that effect (see Figure 1).

Economic Governance Support Unit (EGOV)
Author: Rebecca SEGALL, Cristina DIAS, Kristina GRIGAITĖ, Marcel MAGNUS
Directorate-General for Internal Policies
PE 659.629 - February 2021

EN

Figure 1: Aggregate capital headroom as at September 2020



Source: ECB.

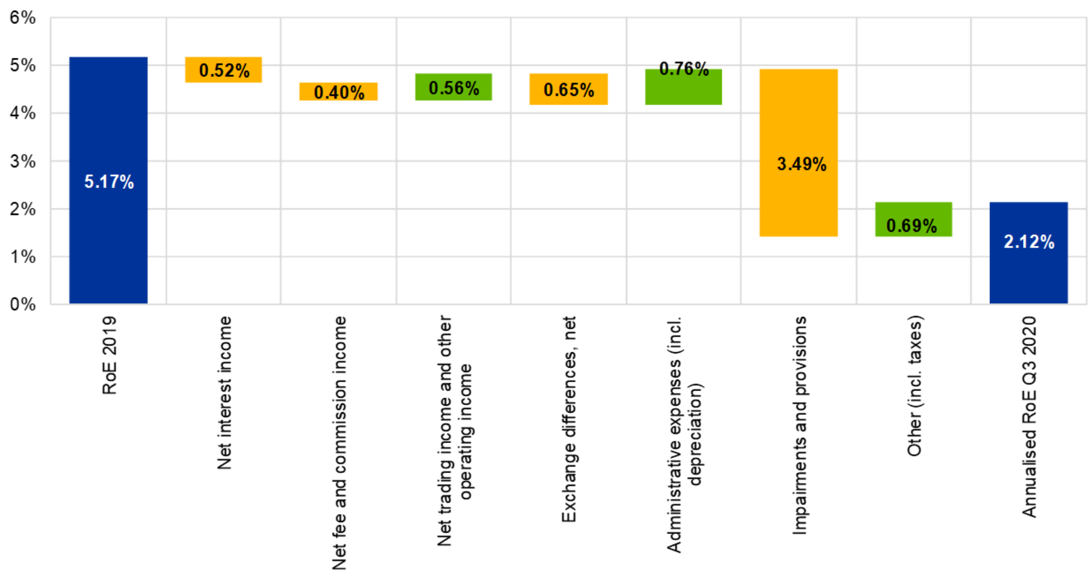
As highlighted by Andrea Enria, Chair of the Supervisory Board of the ECB, in the press conference on the results of the 2020 SREP cycle, the predominant areas of supervisory concern were credit risk, profitability, and internal governance (see Section II).

While Pillar 2 requirements were kept stable, and Pillar 2 guidance was kept stable on paper but effectively suspended, the **underlying risk drivers have not been stable** but rather, have deteriorated: The ECB notes, for example, that the findings on credit risk increased significantly, and that its recommendations to the banks on credit risk were more severe than in the past year. Among the ECB's key messages, one can find warnings that there is an **embedded level of distress in loan books that is not yet fully evident:**

- in the level of non-performing loans currently reported (the phasing out of fiscal support measures may trigger cliff effects with respect to the quality of banks' assets),
- provisions against loan losses appear to fall below the levels observed in other jurisdictions (such as the United States), and below levels previously observed in comparable economic situations.

On an aggregate level, in the context of the Covid-19 crisis, directly supervised banks have on average seen a considerable **loss in profitability**, measured for example by the Return-on-Equity (RoE, see Figure 2), that is mostly driven by the strong increase in impairments and provisions for loan losses.

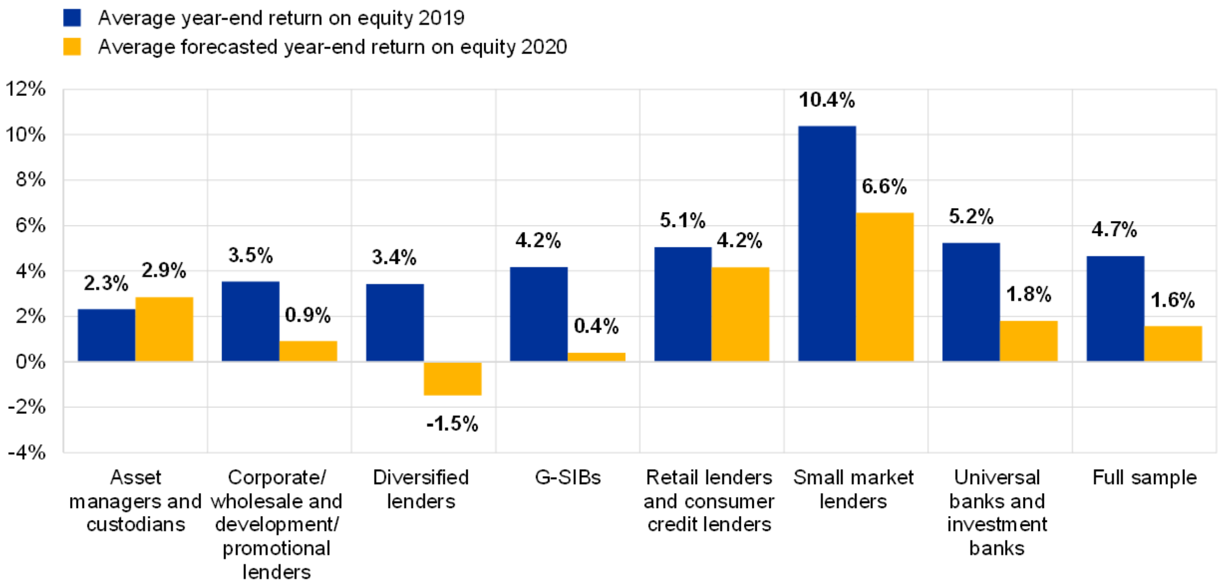
Figure 2: Pandemic impact on banks' profitability (RoE)



Source: ECB.

Moreover, while keeping all Pillar 2 requirements unchanged as compared to the previous year is an approach that treats all banks in the same way, the Covid-19 crisis has apparently had a heterogeneous impact on the **individual risk profile** of each bank; a chart provided by the ECB shows, for example, that the **crisis impacted the profitability of different types of banks quite differently** (see Figure 3).

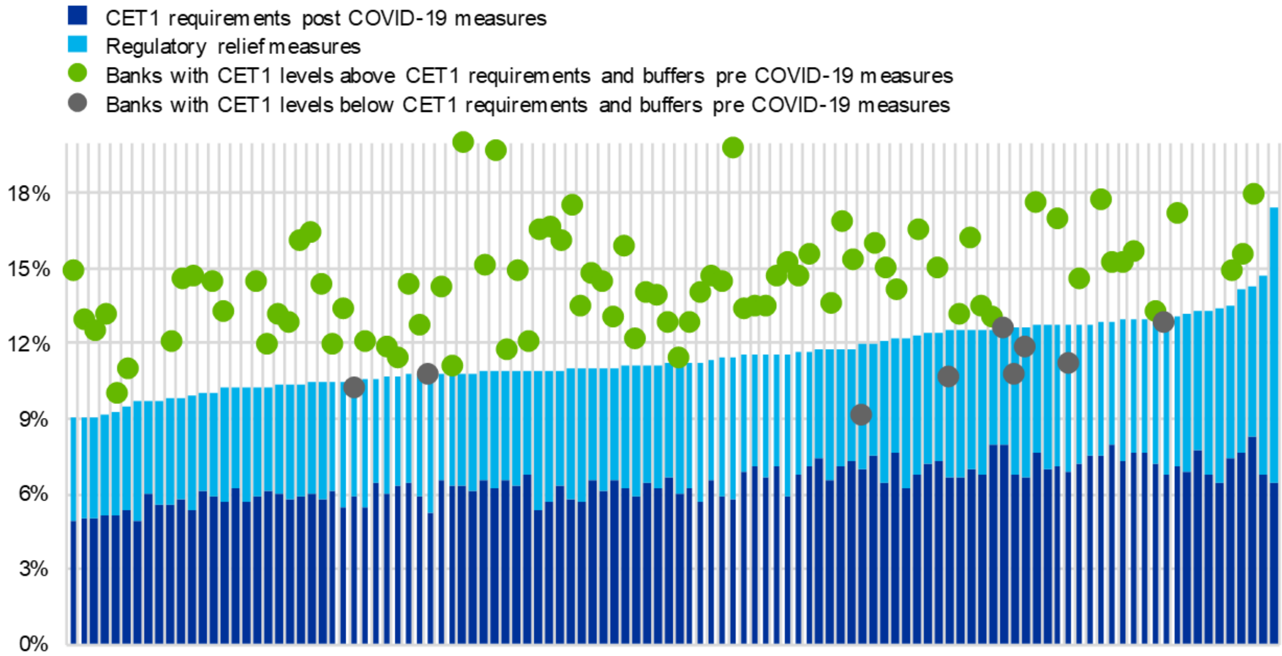
Figure 3: Year-end ROE 2019 vs forecasted year-end ROE 2020 by business model



Source: ECB.

Finally, the ECB found that, overall, only a **few banks have dipped into their buffers** until now. Nine banks are currently making use of the relief measures, with CET1 levels below what was required pre-COVID-19 measures. The ECB only provides a chart on that situation but discloses neither the names of the banks nor the exact numbers; the graph visually suggests that out of the nine banks, four have CET1 levels that are still close to what they were required to hold pre-Covid-19 measures, while four others are by now well below that benchmark (see Figure 4).

Figure 4: Few banks have dipped into their CET1 buffers



Source: ECB.

II. ECB Assessment of risks and vulnerabilities and supervisory priorities for 2021

On 28 January, ECB Banking Supervision published its assessment of risks and vulnerabilities for 2021. The risks identified are those most relevant over the next two or three years from a microprudential perspective.

The ECB identifies the unprecedented fall in euro area activity and heightened uncertainty regarding the pandemic recovery as the major factor shaping risks for the banking sector. This uncertainty is also partly driven by the potential re-emergence of geopolitical and trade conflicts. If these tensions materialise, the ECB warns this could result in a repricing in financial markets. Already, the ECB raises concerns about the possibility of a disconnect from economic fundamentals in some equity markets.

This weaker macroeconomic environment is expected to lead to a deterioration in asset quality, with credit risk amplified by high private and public debt ratios (the latter as a result of pandemic support measures) and the risk of a correction in real estate markets. Banks are therefore warned that *"a potential deterioration in asset quality once support measures have ceased could also pose a challenge to banks' capital adequacy. Banks therefore need to ensure that they have a comprehensive credit risk strategy firmly in place to promptly address any weaknesses in the management and coverage of credit risk"*.

The ECB also highlights the risk facing banks' business model sustainability and governance, as the pandemic puts further pressure on their income generating capacity. The ECB highlights the opportunities and risks presented by digitalisation in this regard, as well as the need for strong internal controls, including in the area of anti-money laundering.

On climate risk, the ECB states that despite progress in awareness *"few banks incorporate climate risk comprehensively in their risk management frameworks. Furthermore, institutions do not yet properly disclose their climate related risk profile, and considerable efforts are still needed to promote transparency in financial markets with regard to climate-related and environmental risks to which institutions are currently exposed"*.

The ECB also calls for a further harmonisation of the EU regulatory framework and completion of the Banking Union.

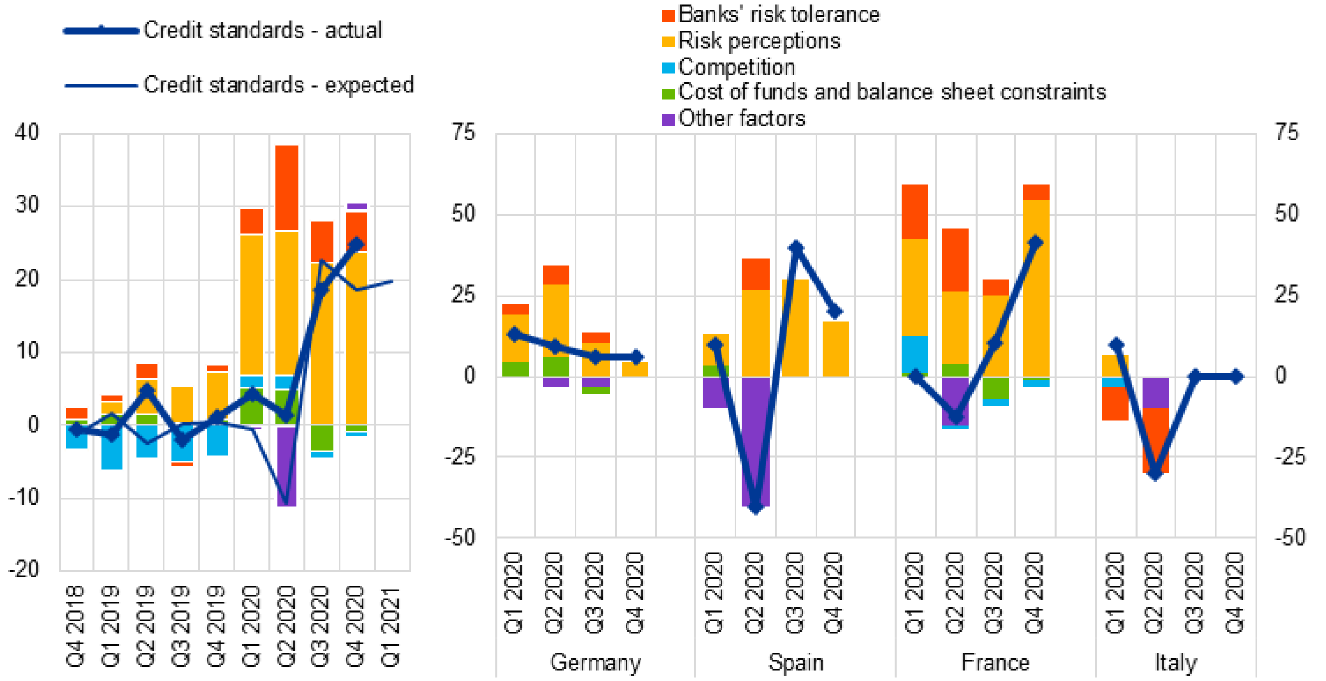
Drawing on these risks and vulnerabilities, the ECB outlined its supervisory priorities for 2021:

- **Credit risk management,** with a focus not only on *"banks' capacity to identify any deterioration in asset quality at an early stage and make timely and adequate provisions accordingly, but also on their capacity to continue taking the necessary actions to appropriately manage loan arrears and non-performing loans*".
- **Capital strength,** whereby banking supervisors will *"scrutinise the appropriateness of banks' capital planning and challenge the adequacy of their dividend and share buyback policies in this respect"*. The EU-wide stress test will also play a role here (see Section IV).
- **Business model sustainability,** including assessing banks' progress regarding digital transformation.
- **Governance,** namely the strength of board governance, the adequacy of crisis risk management frameworks, risk information processes, IT and cyber risk management, and the prudential impact of money laundering risks.

III. Euro area bank lending survey

The latest Bank Lending Survey (BLS) for the fourth quarter of 2020 published by the ECB highlights that credit standards have tightened for loans extended to both enterprises and households. *"Banks referred to the deterioration of the general economic outlook, increased credit risk of borrowers and a lower risk tolerance as relevant factors for the tightening of their credit standards for loans to firms and households. In the first quarter of 2021, banks expect credit standards to continue to tighten for loans to firms and households ... Banks also reported that supervisory or regulatory action continued to have a net tightening impact on their credit standards across all loan categories"*. It should be noted that the credit standards were tightened more stringently than expected (or by a larger number of banks). Moreover, there is a large heterogeneity in credit standard trends among various euro area Member States (see Figure 5).

Figure 5: Changes in credit standards for loans or credit lines to enterprises and contributing factors (net percentages of banks reporting a tightening of credit standards and contributing factors)



Source: [ECB](ECB) (BLS).
Notes: Net percentages are defined as the difference between the sum of the percentages of banks responding "tightened considerably" and "tightened somewhat" and the sum of the percentages of banks responding "eased somewhat" and "eased considerably".

Household demand for housing loans have increased (disregarding the tightening of overall loan terms and conditions); however, despite government guarantees on loans to firms that have supported bank lending conditions, **overall firms' demand for loans continued to decline**. Nevertheless, demand for inventories and working capital had a positive contribution to the loan demand during the fourth quarter.

For every survey round, the standard BLS questionnaire is complemented with ad hoc questions. The January 2021 *ad hoc* part of the questionnaire included questions on *"the impact of the situation in financial markets on banks' access to retail and wholesale funding, the impact of new regulatory and supervisory requirements on banks' lending policies, the impact of banks' non-performing loan (NPL) ratios on their lending policies, the change in bank lending conditions and loan demand across the main economic sectors, and the impact of government loan guarantees related to the coronavirus (COVID-19) pandemic on changes in banks' lending conditions and demand for loans*". Overall, banks have reported that their **access to both retail and wholesale funding continued to improve**: *"Euro area banks indicated that regulatory or supervisory action continued to strengthen banks' capital position and had a strong easing impact on their funding conditions in 2020"*.

IV. Banking stress testing scenarios for 2021

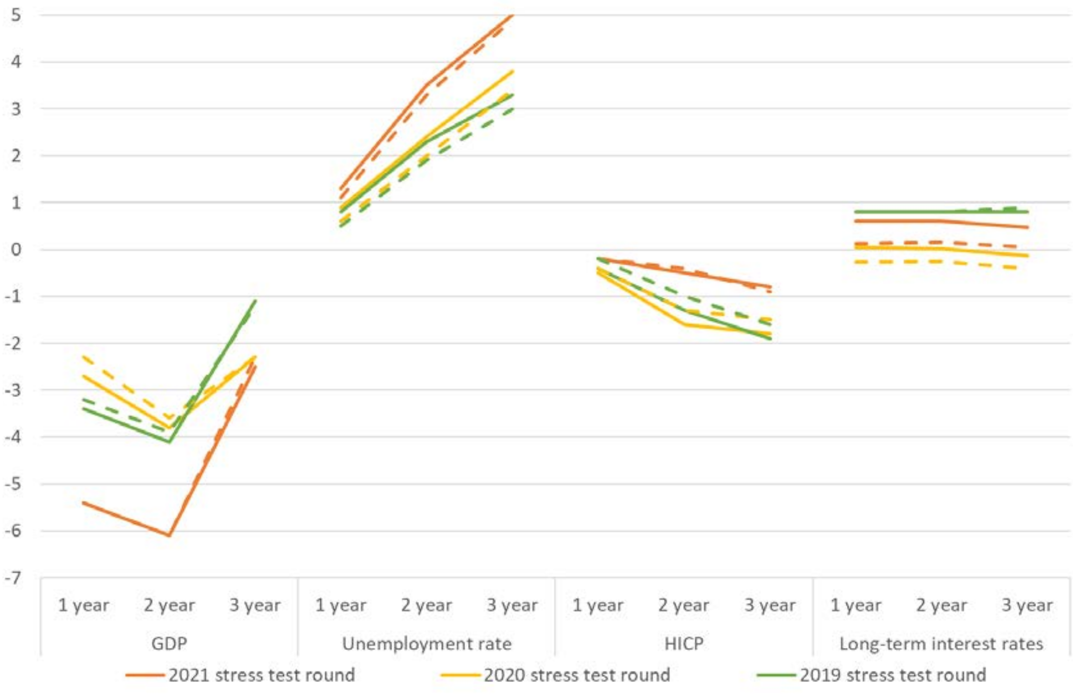
On 29 January, the European Banking Authority (EBA) announced that they will run the stress test exercise in 2021. This stress test exercise is replacing the 2020 EBA stress test that was postponed due to pandemic outbreak. As part of this exercise, the ECB is going to examine 38 significant euro area banks (in total, the EBA is going to conduct stress test on a sample of 50 EU banks covering 70% of total banking assets in the EU) as well as a conduct parallel stress test for 53 directly supervised banks that are not included in EBA sample. The results of this exercise should be made available by the end of July 2021 and *"will shed light on the impact of adverse shock on banks' resilience under challenging macroeconomic conditions. The exercise will factor in public support measures, such as public guarantees, implemented to mitigate the impact of the pandemic"*.

Given the stress testing framework that is still in place, the ESRB is providing the adverse scenario that assumes materialisation of the main financial stability risks that have been identified. In the narrative of the adverse scenario, the ESRB consider that *"the main source of systemic risk in the EU originates from the negative impact of the pandemic on economic activity that may give rise to widespread defaults in the private sector and their feedback effects on the financial system ... [it] noted that broad-based policy support measures have been essential to mitigate the impact of the crisis on households and firms ... However, the longer the COVID-19 crisis lasts ... the more pronounced the deterioration in asset quality will be"*.

In the letter sent to the EBA together with the adverse scenario specification, the Head of the ESRB highlighted that *"for the 2020 scenario, the calibration of this year's scenario has* ***taken into account several of the recommendations proposed by the European Court of*** *Auditors, such as the increase in the overall level of severity and the reduction of the cross-country variation of shocks"*.

Comparing the adverse scenarios prepared by the ESRB for the last three stress testing rounds (namely, 2018, 2020 and 2021), it appears that some indicators of the adverse scenario prepared for the 2021 round are more severe when compared to the previous stress testing rounds. Under the adverse scenario, the shock in GDP growth and unemployment rate are larger than in the 2018 and 2020 exercises; however, the shock applied to inflation is more moderate (see Figure 6). When it comes to the long-term interest rate baseline and shock scenarios, shock direction and size have been aligned with the underlying storyline throughout the years (both interest rate increases and decreases were incorporated in adverse scenarios). Increasing long-term interest rates have negative effects on banks' trading book value (as the value of investments in bonds decrease with an increase in interest rates) and borrowers' abilities to service their debts (as they have to pay higher interest rates), while decreasing long-term interest rates have a negative impact on banks' profitability, just to name a few shock impact channels.

Figure 6: Size of the shock above the baseline scenario (percentage points)



Source: EGOV calculations based on ESRB (here, here and here).
Notes: Size of the shock is calculated as a difference between the baseline scenario and adverse scenario. The solid line represents the shock size for the EU banks, while the dashed line represents the shock size applied for the euro area banks.

It should be noted that it is a positive development to have a more stringent adverse scenario prepared for the stress testing exercise during the crisis year. Nevertheless, it would be difficult to summarise all the channels through which indicators make an impact on the end result (since not all the indicators in the adverse scenario are numerically more stringent compared to the previous years), and to conclude that the scenario prepared for 2021 is definitely more strict.

V. ECB guidelines on consolidation

On 12 January, the ECB published its final Guide on the supervisory approach to consolidation in the banking sector, following a public consultation launched on 1 July 2020 and closed on 1 October 2020. Overbanking has been a long-lasting concern of banking supervisors, even if they have frequently clarified that it is not their role to define and modulate the banking sector or its business models (see here, a presentation by Andrea Enria in 4 July 2019, a speech on 30 January 2020, or his October 2020 hearing in ECON, here, and the ECB feedback statement to the consultation, point 2.2).

The Guide aims at providing transparency and clarifying supervisors' expectations when assessing a consolidation/reorganisation, and addresses:

(i) the overall approach to the supervisory assessment of consolidation projects,

(ii) the supervisory expectations regarding consolidation projects,

(iii) the supervisory approach to key prudential aspects of the consolidation transaction,

(iv) the ongoing supervision of the newly combined entity, and

(v) the application of the framework to consolidation transactions involving less significant institutions.

It also sets out the expected role of the supervisor: to ascertain that the entity resulting from the business combination will meet all prudential requirements upon implementation of the transaction and that the resulting business is sustainable and will comply with the relevant legal requirements going forward. The Guide is not legally binding, it explains how the ECB expects to deal with a proposed operation.

The Guide sets out some of the benchmarks against which the project is to be assessed by referring, namely, to existing Guidelines and regulations, to adequate governance and incentives structures, and, frequently, to a proportionality assessment underpinning the ECB decisions (proportionality was one of the issues raised by respondents to the consultation; see feedback statement, point 2.2).

The Guide also clarifies the treatment of core prudential requirements (post-merger Pillar 2 capital requirements and Guidance, the **prudential treatment of badwill**[1] and the transitional arrangements for the use of internal models), often considered the most relevant when considering a merger. In particular, one can highlight that the ECB would expect the new institution not to distribute dividends on the back of recognised badwill, would allow use of pre-combination internal models for a limited period of time and "*does not intend to adjust the computation of the capital ratio upfront by the costs ... intends to take full consideration of the desynchronisation between the costs and benefits for the capital plan assessment while determining ex post level of capital requirements, not penalising banks with credible trajectories.*" The ECB further notes that it "*intends to clarify the ex post capital requirements and guidance during the application process*" with the aim of providing "*stability to the resulting business combination project in principle for at least a year.*" (see feedback statement, point 2.6).

One can question, in any case, whether consolidation (namely when a stronger competitor takes over a weaker one) is being pursued as an alternative to a cleaning up of the banking sector through more intrusive tools such as resolution or liquidation (see references and analysis of a recent interview by Andrea Enria here). In any case, the potentially positive impacts of consolidation have been recognised by respondents to the ECB consultation (see feedback statement, point 2.1) and underlined by the ECB itself.

[1] The Financial Accounting Standards Board's Statement No. 141 (SFAS 141) defines "badwill" as the difference between the fair market value of an asset and the price paid to acquire it, when the price paid is lower than the fair market value. Such transaction (which might also be called a "bargain purchase") would under normal circumstances be considered anomalous. Economically, it could reflect the acquirer's expected amount of losses due to the business combination with the acquired entity.

The ECB advises institutions to seek early consultations with the supervisor and obtain feedback on the project. The ECB notes the possible relevance of the financial markets' disclosure rules, notably those relating to disclosure of price sensitive information. Provided enough information is made available, the ECB is willing to provide a preliminary assessment parties could take into account in furthering their plans; nevertheless, the ECB reminds firms that a final decision will only be taken when all legally required information is provided.

The Single Resolution Board published recently its own Guidelines on consolidation (see comments here); the ECB Guide is not applicable to institutions under resolution (see paragraph 3 of the Guide).

VI. Proportionality

Specific provisions in banking legislation call for a proportionate application of legal requirements. Proportionality works in a variety of ways: it can be enriched in legislation, when the legislator defines different (and proportionate) requirements itself, considering the different nature of the institutions or situations to be regulated[2], or it can be mandated as a principle to be followed by the applicant when applying legislation to an institution or situation[3]. In the first case, the level of proportionality (or degree of differentiation, as well as the criteria that conform such differentiation) is set by the legislator; in the second such modulation is left to the applicant.

This second level of proportionality entails a level of discretion and of assessment by the applicant supervisor. As Pentti Hakkarainen, Member of the Supervisory Board of the ECB put it, "*For banking supervisors, proportionality means adapting the nature and intensity of supervision to the specifics of the bank – its risk profile, its business model and its size. In deciding how best to adapt their approach, supervisors must be guided by the other primary objectives of banking supervision.*" So, proportionality is necessary to (good, sound) supervision. The issue is to ensure that the discretion necessarily linked to proportionality does not lead to unlevel playing field. To that end, various options can be used, ranging from more informal ones, notably, the convergence of supervisory practices through discussions among supervisors, to more formalised ones, such as issuance of guidelines or recommendations aiming at harmonising such supervisory practices.

The second approach can be found notably in EBA's guidelines on the use of proportionality by national resolution authorities on recovery and resolution planning[4]. On 22 December 2020, EBA issued a second monitoring report on the issue[5].

VII. Brexit

The European Union and United Kingdom settled on a Trade and Cooperation Agreement (TCA) on 25 December 2020 as the basis for the relationship between the two countries going forward. The TCA covers financial services only in a limited way,[6] and the future relationship on these issues will largely be determined

[2] This is the case of differing requirements applying on account of the dimension of an undertaking. For a discussion (and negative opinion) on whether smaller institutions deserve differing requirements see Ignazio Angeloni, "*Another look at proportionality in banking supervision*", February 2018.

[3] See in particular "*Proportionality in bank regulation and supervision - a survey on current practices*", Basel Committee (March 2019) and Principle 8 of the Basel Core Principles of Supervision.

[4] As EBA explains, the BRRD introduced an obligation to prepare and maintain recovery and resolution plans. The framework is based on the principle of proportionality and gives competent and resolution authorities the opportunity to grant simplified obligations and waivers to institutions under their jurisdiction, provided that the institutions concerned fulfil specific eligibility criteria for simplified obligations or meet particular conditions for waivers as specified in Article 4(1) and Article 4(8)-(10) of the BRRD, respectively. The Commission Delegated Regulation 2019/348 of 25 October specify the criteria for assessing the impact of an institution's failure on financial markets, on other institutions and on funding conditions to allow the application of simplified obligations.

[5] The EBA observed "*an increase in a number of authorities applying simplified obligations for less significant banks, especially for resolution planning purposes. There was a higher convergence when assessing which institutions are eligible for simplified obligations. However, significant divergences remained in determining reduced requirements for institutions benefiting from simplified regimes where the regulatory framework does not provide detailed guidance.*"

[6] The Commission states that: "*the Agreement commits both parties to maintain their markets open for operators from the other Party seeking to supply services through establishment. The parties also commit to ensuring that internationally agreed standards in the financial*

through voluntary cooperation outside the Agreement. As committed to in a Joint declaration on financial services regulatory cooperation (as an annex to the TCA), a Memorandum of Understanding (MoU) establishing this framework for cooperation will be signed by March 2021. As the Commission notes, however, "*the purpose of the cooperation framework is not about market access rights – these have been lost since 1 January. Neither will it constrain the EU's unilateral equivalence process*".

On 2 February, ECON submitted an Opinion on the proposal for a Council Decision on the conclusion of the TCA. The Opinion calls for transparency in the negotiations on the MoU and for ECON to be involved to the same degree as the Council (pt. 13). Moreover, it calls on the Commission to "*reflect if and under what conditions the future framework for regulatory cooperation on financial services could strategically integrate the objectives to cooperate in tax matters and fight money laundering into the EU equivalence framework*" (pt. 14). In addition to tax matters, anti-money laundering and competition issues, the Opinion also "*reiterates its position that in the event of concerns about financial stability, market integrity or consumer and investor protection, EU supervisors should be granted direct and enhanced supervisory powers over certain third-country entities recognised under the EU equivalence framework*" (pt. 17).

Following the EU's adoption of a time-limited equivalence decision for UK central counterparties (CCPs), ESMA subsequently determined that three UK-based CCPs will be eligible to continue providing their services in the EU following the transition period.[7] In November 2020, the UK announced a number of equivalence decisions for EEA states following the transition period. Following the adoption of the TCA, the Commission communicated that it had "*assessed the UK's replies to the Commission's equivalence questionnaires in 28 areas. A series of further clarifications will be needed, in particular regarding how the UK will diverge from EU frameworks after 31 December, how it will use its supervisory discretion regarding EU firms and how the UK's temporary regimes will affect EU firms. For these reasons, the Commission cannot finalise its assessment of the UK's equivalence in the 28 areas and therefore will not take decisions at this point in time. The assessments will continue. The Commission has taken note of the UK's equivalence decisions announced in November, adopted in the UK's interest. Similarly, the EU will consider equivalence when they are in the EU's interest*".

Recently, the European Supervisory Authorities have published some guidance on issues relevant to the end of the transition period and third countries more broadly. On 13 January, ESMA published a reminder on the MIFID II rules regarding 'reverse solicitation'. Under Article 42 of MIFID II, should a retail or professional client within the EU initiate "*at its own exclusive initiative*" the provision of services by third-country firms, the firms are not subject to the requirements under Article 39 (Establishment of a branch). However, ESMA notes that some "*questionable practices*" have emerged, and reiterated the MIFID II rules on this issue.

On 23 December 2020, EBA published its final report on implementing standards on contractual recognition of the bail-in clause on third country authorities. Liabilities (such as bonds or other contracts) issued under a third country legislation (as the UK, after Brexit) held by EU undertakings need to be "bailinable" alongside EU law-based liabilities. To that end, liabilities can include a clause recognising the bailinable nature of such liabilities under EU law. Undertakings can, notwithstanding, invoke the "impracticability" of adding such contractual clauses. The EBA has been mandated by BRRD to develop regulatory technical standards and implementing standards around the issue, notably to (i) frame the conditions under which it would be legally or otherwise impracticable for an institution or entity to include such contractual recognition and (ii) the conditions and timeframe for the resolution authority to require inclusion of such clauses. Implementing standards would set uniform formats for such requests by resolution authorities. The EBA notes that the relevant provisions do not allow it to exclude certain liabilities from bail in or conversion; it establishes five conditions (situations) where the impracticability can be demonstrated by the undertaking. These include, notably, where the third country law prohibits write-down or conversion of the liability, where there is a decision by a competent authority limiting or forbidding the conversion, or where the "impracticability" is based on international standards. Increased costs, the unwillingness of the counterparty or the fact that the

---

services sector are implemented and applied in their territories. Both parties preserve their right to adopt or maintain measures for prudential reasons ('prudential carve-out'), including in order to preserve financial stability and the integrity of financial markets." See here for more specific provisions as relating to financial services.

[7] Following the end of the transition period and the change in legal circumstances, ESMA withdrew the registration of six UK based credit rating agencies and four trade repositories.

liability has been acquired from another counterparty are not retained as conditions of "impracticability". The guidance will facilitate resolution and will be submitted to the Commission for approval. This issue has previously been highlighted by the Single Resolution Board in its preparations for Brexit.

On 15 January, EBA also published for public consultation a guidance setting out a common methodology for calculating the total value of assets in the Union, relevant for assessing the requirement for establishment of an intermediate parent undertaking in the EU (IPU) by third country undertakings operating in the EU[8]. The requirements aims at ensuring that EU supervisory authorities can effectively supervise business done in the EU. The guidelines clarify the relevant dates for the calculation of the total value of the assets in the Union, taking into account the fluctuation in the value of assets[9] and that, for the purpose of the application of the IPU requirement, the total value of assets in the Union of the third-country group should be calculated as an average over the last four quarters, to be monitored on a quarterly basis[10] and communicated to the relevant competent authorities. The starting date of reference is to be set at point-in-time basis as of 27 June 2019 (or as at 30 June 2019 if not available). Additionally, where Article 21b(8) CRD applies[11], the threshold should be deemed as reached only where on 30 December 2023, the average of the total value of assets in the Union of the group over the previous four quarters equals or exceeds EUR 40 billion. See also: EGOV briefing Guidance by the EU supervisory and resolution authorities on Brexit, 8 October 2020

Disclaimer and copyright. The opinions expressed in this document are the sole responsibility of the authors and do not necessarily represent the official position of the European Parliament. Reproduction and translation for non-commercial purposes are authorised, provided the source is acknowledged and the European Parliament is given prior notice and sent a copy. © European Union, 2021.

Contact: egov@ep.europa.eu

This document is available on the internet at: www.europarl.europa.eu/supporting-analyses

[8] As EBA explains, the Directive (EU) 2019/878 (CRD V) introduced in the prudential framework a requirement for certain third-country groups to have an Intermediate EU Parent Undertaking (IPU), with a view to ensure the consolidated supervision of the EU activities of such groups and facilitate the resolution of those activities.

[9] More precisely, the guidelines specify that the calculation is made by adding the assets of the EU parent institutions of that group consolidated in accordance with Article 18 of Regulation (EU) No 575/2013 (prudential consolidation) at the highest level of consolidation in the Union to the individual assets of institutions that are not part of a group subject to consolidated supervision pursuant to Article 111 of Directive 2013/36/EU ("stand-alone institutions") and to the assets of the branches of that group referred to in point (b) of Article 21b (5) of Directive 2013/36/EU.

[10] The guidance further specifies that, at least annually the threshold should be assessed against the strategic planning and the forecast of assets for the time horizon of at least three years for the group in its entirety ("forward-looking monitoring").

[11] This provision allows postponing to 31 December 2023 the obligation to establish an intermediate parent undertaking in the EU if the assets of the undertakings in question were below EUR 40 bn at 27 June 2019.