



Public consultation

on the approach for the recognition of institutional protection schemes for prudential purposes

Questions and answers

- 1 What is the purpose of the consultation document on the approach for the recognition of institutional protection schemes for prudential purposes? What do you want to achieve?

The consultation document sets out the ECB's approach concerning the application of Article 113(7) of the Capital Requirements Regulation (CRR)¹. It aims to ensure coherence, effectiveness and transparency regarding the supervisory policy that will be applied when assessing institutional protection schemes (IPSs) in accordance with that Regulation, within the context of the Single Supervisory Mechanism (SSM).

- 2 Does the consultation document introduce new requirements?

The consultation document specifies how the ECB will assess the compliance of IPSs and their member institutions with the conditions laid down in the CRR in order to grant individual institutions permission not to apply the requirements of Article 113(1) of the CRR to exposures to counterparties which are members of the same IPS and to assign a 0% risk weight to those exposures (Article 113(7) of the CRR). The assessment criteria do not establish new regulatory requirements and they should not be construed as being legally binding rules. Rather, they provide guidance on how the ECB will assess applications for permission in the light of the broader legal requirements. The final decision by the ECB to grant that permission will be taken on a case-by-case basis and will be based on a thorough examination of all the aspects covered by the CRR conditions and assessment criteria, additional information obtained in the course of the ongoing supervision of the institutions belonging to the IPS and a horizontal comparison with other existing IPSs.

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).

3 Will permission that has already been granted to institutions that are members of existing IPSs be affected?

The consultation document has been prepared with potential new applications from institutions belonging to IPSs in mind. The assessment criteria will be used by the joint supervisory teams (JSTs) when assessing individual applications by significant institutions that are members of an IPS. Therefore it will not directly affect permission that has already been granted to institutions that are members of an existing IPS. Nevertheless, in its capacity as supervisory authority, the ECB is also tasked with monitoring existing IPSs that have significant institutions as members. In the event of structural changes to an IPS or incidents that may give rise to doubts regarding its compliance with the CRR conditions, a reassessment can be considered.

4 How will IPSs that consist of both significant and less significant institutions be treated?

The ECB is responsible for the effective and consistent functioning of the SSM, and as part of its oversight tasks it should ensure the consistency of supervisory outcomes within the SSM. To foster the harmonisation of supervisory practices and the establishment of a level playing field with regard to IPSs and their members, both the ECB and the NCAs will apply a similar approach to the IPS eligibility assessment and the ongoing monitoring.

5 You specify that decisions to grant permission within the meaning of Article 113(7) of the CRR will be taken on a case-by-case basis. How will you avoid a disproportionate burden being placed on IPSs with a high number of members?

The decision of the competent authority to grant permission within the meaning of Article 113(7) of the CRR is directed at the individual institution. However, this does not prevent certain parts of the assessment being carried out at the level of the IPS as a whole. In addition, the IPS member institutions should appoint a single point of contact for communication with the competent authorities (the ECB and the NCAs) to facilitate communication both in the context of the initial assessment as well as for the purpose of supervisory monitoring activities.

6 What are the main benefits of an IPS being recognised for prudential purposes?

If an IPS is recognised for prudential purposes, its member institutions are treated in some regards in a similar way to entities that belong to a consolidated banking group, while remaining independent and autonomous. This means that they do not

need to hold capital to cover the risk arising from exposures to other IPS members, as they can apply a risk weight of 0% to those exposures. Furthermore, exposures to other IPS members do not fall under the limits of the large exposure regime. Once permission has been granted in accordance with Article 113(7) of the CRR, the application of further derogations and waivers may be authorised. These are: (i) the exemption from the deduction of holdings in own funds in accordance with Article 49(3) of the CRR, (ii) the granting of a liquidity waiver in accordance with Article 8(4) of the CRR; and (iii) 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 the LCR Delegated Act²)³.

7 What are the main criteria that an IPS and its member institutions have to meet to be recognised for prudential purposes?

The consultation document specifies how the ECB will assess the compliance of an IPS and its member institutions with the conditions laid down in the CRR in order to grant permission within the meaning of Article 113(7). In the course of the assessment the IPS has to demonstrate that it has the capacity to provide support to its member institutions in a timely manner. That means it needs to have financial strength and be clearly committed to providing support. In addition, the decision-making process needs to be designed in a way that allows timely intervention. Furthermore, the IPS needs to have adequate systems in place to monitor its members and their risk situations.

8 How will the supervisory monitoring of IPSs be organised? What will the respective roles of the ECB and NCAs be?

IPSs whose members have been granted permission within the meaning of Article 113(7) of the CRR will be monitored by the ECB and the relevant NCA at regular intervals. This supervision will focus primarily on the adequacy of the IPS's systems for monitoring and classifying risk, but will also cover its ongoing compliance with the conditions laid down in the CRR for the application of Article 113(7). The ECB and the relevant NCA responsible for the direct supervision of the IPS member institutions are both involved in organising these monitoring activities. The ECB, however, will coordinate the monitoring and contribute to it by ensuring that the criteria for the IPS eligibility assessment and the related granting of waivers are being applied in a consistent manner across the SSM, as well as providing insight on horizontal comparison with existing IPSs.

² 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

³ The ECB's approach concerning the exercise of those options and discretions has been set out in the draft ECB Guide on options and discretions available in Union law, published for public consultation on 11 November 2015.