



Michel Barnier
European Commissioner for Internal Market
and Services
European Commission
BERL 12/181
1049 Brussels
Belgium

Vienna, March 10th, 2014

Dear Commissioner Barnier, *dear Michel,*

I would like to draw your attention to a question with significant relevance for SME-financing in a both regional and EU-wide context. Art. 4 Paragraph 1 Number 26 of Regulation (EU) No 575/2013 (the "CRR") says that, inter alia, any "undertaking other than an institution, the principal activity of which is to acquire holdings" qualifies as a "financial institution" and accordingly as a "financial sector entity" (FSE) pursuant to Article 4 Paragraph 1 Number 27 of Regulation (EU) No 575/2013 for prudential consolidation purposes and also for purposes of capital deductions for investments in FSEs. In practice, the question arose what the wording "principal activity" means in this context as no specific definition can be found in the above mentioned Regulation.

To clarify this question, the Austrian Financial Market Authority submitted a request to the European Banking Authority in the context of EBA's Single Rulebook Q&A process on 13 February 2014, including a proposed answer which I would like to briefly present to you:

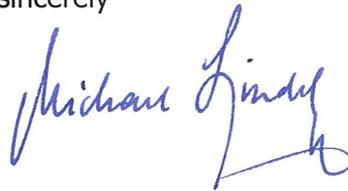
Many non-financial sector entities in which institutions have investments use the holding structure to manage their global operations and do not hold any capital instruments issued by an institution. The assessment of the "principal activity" should therefore take into account the nature of the activities of the whole group, which should be done from the consolidated perspective of the holding company. Consequently, there would be a distinction between holding companies, whose "principal activity" is the acquisition of holdings for investment purposes (and which act as a "financial investor") and holding companies, which

pursue management tasks for its industrial or manufacturing subsidiaries or holdings and whose "principal activity" is the (operative) group management. By focusing on the consolidated basis, equal treatment of investments in industrial groups headed by a holding company and direct investments in operating companies of the industrial sector would be ensured. Such equal treatment would also correspond to the risks at stake, which are the same in both cases.

As I consider the solution which was proposed to EBA by the Austrian Financial Market Authority as legally sound and in line with the goals of the CRR, I would like to express my explicit support in this respect.

I would highly appreciate if you, Commissioner, could agree with this interpretation as I am quite confident that also the EBA will share this view in the course of the Single Rulebook Q&A process.

Yours sincerely

A handwritten signature in blue ink that reads "Michael Lindy". The signature is written in a cursive style with a large, stylized initial 'L' at the end.