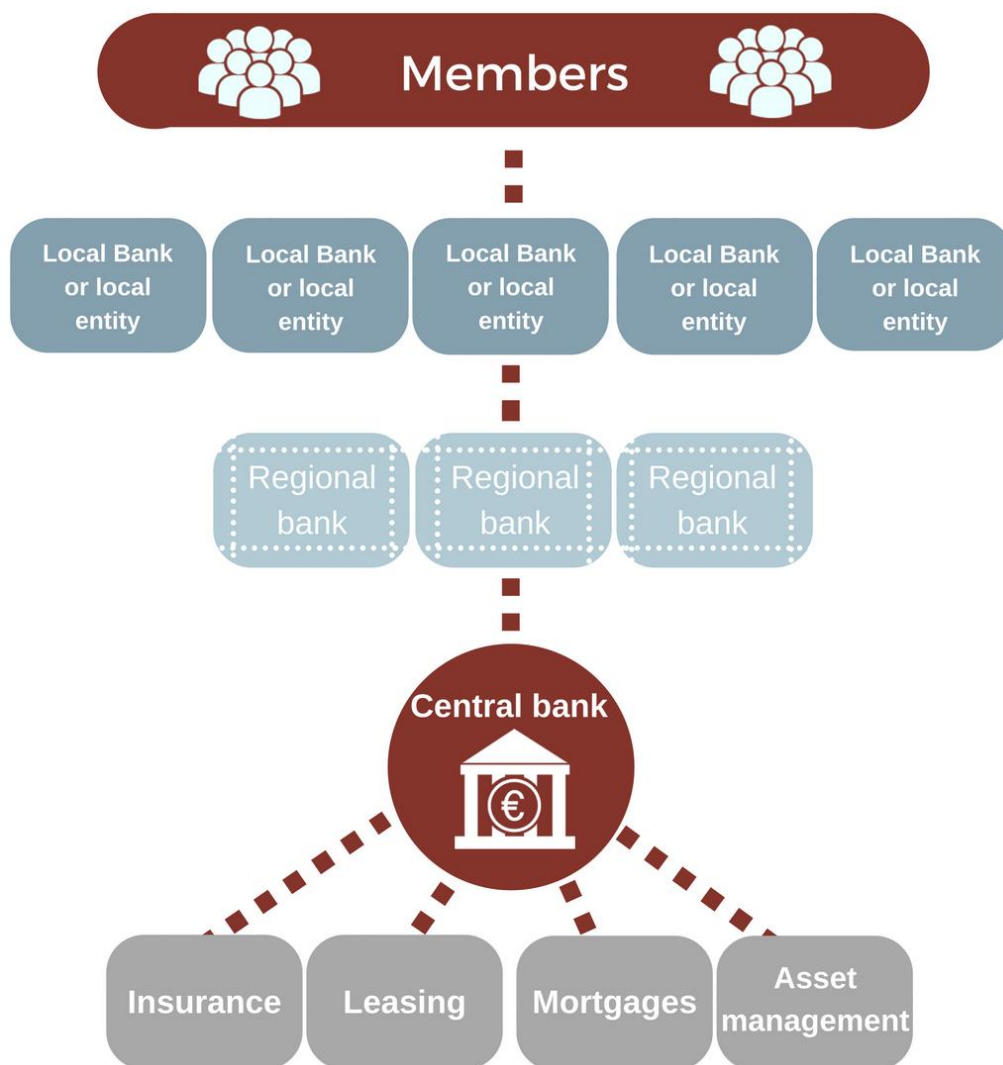




Models of groups and networks of co-operative banks

Co-operative groups are generally characterized by an inverted pyramid structure. As illustrated below, in co-operative networks/groups, the local/regional banks, with their millions of members, own the central institution and its specialized subsidiaries (directly or indirectly, in which case local banks/entities own the regional banks, and the regional banks own the central institution). This distinguishes these groups/networks from non-co-operative structures, where a holding company owns all local branches and subsidiaries within the group.

Some co-operative groups/networks are organized as a two-tier system (local banks - central bodies), while others as a three-tier system (local banks/entities-regional banks- central bodies).



The voice of 4.050 local and retail banks, 79 million members, 210 million customers

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The central institution commonly owned by the local/regional banks is indispensable for the latter. Within the network/group, the role of the central institution is well defined.

Its fundamental tasks are to ensure the liquidity within the group/network and to provide cash clearing for the local and regional co-operative banks. They also serve as a platform for the access to national central banks.

Different co-operative group/network models – references in the CRR

1. Basic models

There are some co-operative networks, where the cooperation among the members is limited. However, cooperative banks jointly own a central institution, which typically ensures the liquidity of the network (Art 400(2)(d) and 422.8 CRR), cash clearing, access to the national central bank and to financial markets. Those local co-operative banks are associated in accordance with statutory or legal provisions.

→ *This basic model is applied for example by co-operative banks in Poland or Hungary.*

2. Integrated models

The majority of cooperative groups in Europe is more integrated. For customers this becomes visible by a common brand, common advertising and common products, etc. As for the legal structure, there are different forms of integrated co-operative networks/groups with a differing levels of management integration, of centralized control and of independence of local/regional banks. However, whichever form of integration they assume, the common features, and in particular the same basic ownership structure, applies.

2.1. Art 113.7 CRR – network with an institutional protection scheme, IPS

Banks within the network entered into a contractual or statutory liability arrangement which protects the local/regional co-operative banks, ensures their liquidity and solvency to avoid bankruptcy where necessary (Art. 113.7 CRR). In order to meet the requirements of Art. 113.7, which grants a 0% risk weight of intragroup exposures, the following requirements have to be met:

- IPS must be able to grant support from readily available funds
- IPS disposes of system for monitoring and classification of risks. Which gives a complete overview of the risk situations of all co-operative banks which are members of the IPS, and has possibilities to take influence
- IPS conducts its own risk review
- IPS draws up on annual basis consolidated report comprising the balance sheet or a report comprising aggregated balance sheet

However, as regards their day-to-day business, the banks adhering to the network remain to a large extent independent

→ *This model is applied for example by BVR (DE), Fachverband der Raiffeisenbanken (AT), and soon together with aspects from Art.10 (see below) by Federcasse (IT).*



2.2. Art 113.6 CRR – integrated (co-operative) network

Under Article 113.6CRR local/regional co-operative banks and the central body are linked by a parent-subsiary relationship, which is characterized by a higher level of control of the central institution. While the local/regional banks remain the owners and dispose of the political control of the central institution, they have nevertheless mandated a number of control powers to that central institution to ensure oversight. Art. 113.6 also allows a 0% risk weight for intra-group exposures and imposes the following requirements:

- The adhering banks are monitored as a whole on the basis of consolidated accounts
 - The central body is subject to the same risk evaluation, measurement and control procedures as the local co-operative banks
 - Under Art 113.6CRR local/regional co-operative banks and the central body are linked by a parent-subsiary relationship, and there is a high level of control of the central institution.
 - There is no current or foreseen material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities from the central body to the local/regional bank.
- *This model is applied for example by Credit Agricole, Credit Mutuel, BPCE (FR)*

2.3. Art 10 CRR – consolidated co-operative group

The model with possibly the highest degree of integration is the one described in Art. 10

CRR. This model aims at a very high degree of integration. While maintaining the basic structure described above, different measures ensure a degree of economic integration that allows to treat the central institution and the local/regional banks as if they were one bank. By consequence, Art. 10 allows supervisors to waive the fulfilment of certain prudential requirements on the solo level and only focuses on the consolidated level. In order to use this provision, the following requirements have to be fulfilled:

- Local/regional co-operative banks are permanently affiliated to the central body which supervises them
 - The management of the central body is empowered to issue instructions to the management of the local/regional co-operative banks
 - There is a cross-guarantee system, which means that the commitments of the central body and affiliated institutions (local/regional co-operative banks) are joint and several liabilities, or the affiliated institutions are guaranteed by the central body
 - The solvency and liquidity of the central body and local/regional co-operative banks are monitored as a whole on the basis of consolidated accounts.
- *This model is applied for example by OP-Pohjola (FI), Österreichischer Genossenschaftsverband- Volksbanken (AT), Credito Agricola (PT), Raiffeisen Luxembourg (LU)*