

# Basel Committee on Banking Supervision

SCO

Scope and definitions

SCO10

Introduction

**Version effective as of  
15 Dec 2019**

First version in the format of the consolidated  
framework.



BANK FOR INTERNATIONAL SETTLEMENTS



- 10.1** This framework will be applied on a consolidated basis to internationally active banks. Consolidated supervision is the best means to provide supervisors with a comprehensive view of risks and to reduce opportunities for regulatory arbitrage.
- 10.2** The scope of application of the framework will include, on a fully consolidated basis, any holding company that is the parent entity within a banking group to ensure that it captures the risk of the whole banking group.<sup>1</sup> Banking groups are groups that engage predominantly in banking activities and, in some countries, a banking group may be registered as a bank.

*Footnotes*

<sup>1</sup> *A holding company that is a parent of a banking group may itself have a parent holding company. In some structures, this parent holding company may not be subject to this framework because it is not considered a parent of a banking group.*

- 10.3** The framework will also apply to all internationally active banks at every tier within a banking group, also on a fully consolidated basis (see illustrative chart at the end of this section).<sup>2</sup>

*Footnotes*

<sup>2</sup> *As an alternative to full sub-consolidation, the application of this framework to the stand-alone bank (ie on a basis that does not consolidate assets and liabilities of subsidiaries) would achieve the same objective, providing the full book value of any investments in subsidiaries and significant minority-owned stakes is deducted from the bank's capital.*

- 10.4** Further, to supplement consolidated supervision, it is essential to ensure that capital recognised in capital adequacy measures is adequately distributed amongst legal entities of a banking group. Accordingly, supervisors should test that individual banks are adequately capitalised on a stand-alone basis.

FAQ

FAQ1

*How should banks treat investments in banks, insurance companies and other financial institutions that are included in the consolidated group in computing the capital ratio for the stand-alone parent bank entity?*

*The Basel framework is applied on a consolidated basis to internationally active banks. It captures the risks of a whole banking group. Although the framework recognises the need for adequate capitalisation on a stand-alone basis, it does not prescribe how to measure the solo capital requirements which is left to individual supervisory authorities.*

- 10.5** The diagram below illustrates the scope of application of this framework, where (A) represents the boundary of the predominant banking group, to which the framework is to be applied on a consolidated basis (ie up to holding company level, as described in [SCO10.2](#)). With respect to (B), (C) and (D), the framework is also to be applied at lower levels to all internationally active banks on a consolidated basis.

