

Financial Conglomerates Directive – Technical Review Amendments

Feedback to CP12/40 including final rules

June 2013



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In this Policy Statement we report on the main issues arising from FSA Consultation Paper 12/40 (*Financial Conglomerates Directive – Technical review amendments*) and publish the final rules.

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You can download this Policy Statement from our website: www.fca.org.uk. Or contact our order line for paper copies: 0845 608 2372.

Abbreviations used in this paper

CP	Consultation Paper
CP12/40	Consultation Paper 12/40 “Financial Conglomerates Directive – Technical review amendments”
EC	European Commission
FCA	Financial Conduct Authority
FSA	Financial Services Authority
FICOD	Financial Conglomerates Directive (2002/87/EC)
FICOD 1	Financial Conglomerates Directive Technical Review (2011/89/EC)
PRA	Prudential Regulation Authority
PS	Policy Statement

1. Overview

Introduction

- 1.1** In this Policy Statement (PS) we publish the final rules implementing Directive 2011/89/EU (FICOD 1), which amends Directive 2002/87/EC (the Financial Conglomerates Directive – FICOD) and certain other directives in so far as they apply to financial conglomerates.
- 1.2** FICOD 1 introduced technical amendments to correct and improve the original directive. The FICOD 1 changes relate to:
- a.** the application of conglomerate supervision, to ensure that it supplements but does not substitute sectoral supervision when a group is headed by a financial or insurance holding company;
 - b.** the conglomerate capital calculation methodology;
 - c.** the inclusion of asset management companies and alternative investment fund managers within the conglomerate identification process;
 - d.** conglomerate identification threshold triggers; and
 - e.** requirements for conglomerate stress testing.
- 1.3** In CP12/40 the Financial Services Authority (FSA) consulted in conjunction with the Treasury on proposals for implementing FICOD 1. Responsibility for implementation is now shared between the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and the Treasury, which is required to amend secondary legislation including the Financial Conglomerates and Other Financial Groups Regulations 2004.

Who does this paper affect?

- 1.4** This Policy Statement is relevant to financial conglomerates and financial groups that carry out activities in both banking/investment and insurance sectors.

Is this of interest to consumers?

- 1.5** This paper may be of interest as we expect our rules to help protect consumers by ensuring financial conglomerates have enough capital and that policyholders, investors and other market participants have access to information about the groups.

Context

- 1.6** The new rules will ensure that consumers can find information about financial conglomerates, which helps us in our objective to secure an appropriate degree of protection of consumers. The new rules will also improve how the markets used by financial conglomerates and financial groups function.
- 1.7** The original FICOD came into effect in 2005. In 2008, the European Commission (EC) began the technical review known as 'FICOD 1', which evaluated the effectiveness of FICOD, concentrating on technical issues that had been highlighted from existing national implementation practices.
- 1.8** On 16 November 2011, the European Parliament and Council adopted the amending Directive 2011/89/EU, which revised, among other things, the existing FICOD. The amending Directive came into force on 9 December 2011, with member states obliged to transpose it into their national legislation by 10 June 2013.

Summary of feedback and our response

- 1.9** The FSA received three responses to the consultation, which covered rules that have, since 1 April 2013, been designated as rules made respectively by the FCA or the PRA.¹ The three respondents supported the proposed general approach of copying the Directive text into our Handbook without supplementary provisions or guidance.
- 1.10** One respondent noted that the introduction of the new threshold test 3A in the financial conglomerate decision tree (GENPRU 3 Annex 4R) implies an automatic exemption from conglomerate status. As indicated in the Consultation Paper, an exemption under threshold test in FICOD1 Article 3(3a) is only available at the discretion of the coordinator, in consultation with other competent authorities, in the same way as is currently the case for an exemption under threshold test 3 in FICOD1 Article 3.3. Where the FCA or PRA is the coordinator, firms would be able to apply to the appropriate regulator for a waiver or rule modification, which would provide an exemption on the basis of FICOD1 Articles 3(3) or 3(3a). The decision tree will therefore remain as currently in force.
- 1.11** One respondent wanted more clarity on our proposed approach to conglomerate stress testing and also whether the industry would be consulted if future guidance by European Supervisory Authorities was issued. For financial conglomerates, case-specific stress testing parameters will be agreed between the supervisor and the conglomerate. They will then be carried out on the individual sectors at the same time rather than in sector silos at differing times. The European Supervisory Authorities may consult on policies and guidelines. The FCA can confirm that if EU-wide stress testing guidance requires changes to our rulebook then we will consult on such changes.
- 1.12** All respondents agreed with our proposed approach to allow financial conglomerates to choose their group solvency calculation method after consulting with the FCA.
- 1.13** One respondent commented that the transparency requirements in SUP 15.9 should apply only at the level of the ultimate mixed financial holding company in the EEA. We have amended the handbook text to clarify the level at which certain reporting and disclosure requirement in SUP 15.9.

¹ Financial Conduct Authority and Prudential Regulation Authority Handbook Designation Instrument 2013 (FCA 2013/8)

Next steps

- 1.14** If your firm is a financial conglomerate:
- consult with your supervisor on the method for calculating group solvency; and
 - discuss with your supervisor how you will report the capital adequacy data in the FCA.

Annex 1

List of non-confidential respondents

Ernst & Young LLP

Old Mutual Group

PricewaterhouseCoopers LLP

Appendix 1

Made rules (legal instrument)

**FINANCIAL CONGLOMERATES DIRECTIVE (FCA HANDBOOK
AMENDMENTS) INSTRUMENT 2013**

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137A (The FCA’s general rules);
 - (2) section 137T (General supplementary powers);
 - (3) section 138D (Actions for damages); and
 - (4) section 139A (Power of the FCA to give guidance).
- B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on 10 June 2013.

Amendments to the FCA Handbook

- D. The modules of the FCA Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
General Prudential sourcebook (GENPRU)	Annex B
Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU)	Annex C
Supervision manual (SUP)	Annex D

Citation

- E. This instrument may be cited as the Financial Conglomerates Directive (FCA Handbook Amendments) Instrument 2013.

By order of the Board of the Financial Conduct Authority
3 June 2013

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

<i>alternative investment fund manager</i>	a manager of alternative investment funds within the meaning of Article 4(1)(b), (l) and (ab) of Directive 2011/61/EU or an <i>undertaking</i> which is outside the <i>EEA</i> and which would require authorisation in accordance with Directive 2011/61/EU if it had its registered office within the <i>EEA</i> .
<i>EEA parent mixed financial holding company</i>	(in accordance with Article 4(17a) of the <i>Banking Consolidation Directive</i> (Definitions)) a <i>parent mixed financial holding company in a Member State</i> which is not a <i>subsidiary undertaking</i> of an <i>institution</i> authorised in any <i>EEA State</i> or of another <i>financial holding company</i> or <i>mixed financial holding company</i> established in any <i>EEA State</i> .
<i>FICOD 1</i>	the European Parliament and Council Directive amending Directives 98/78/EC, 2002/87/EC, 2006/48/EC and 2009/138/EC regarding the supplementary supervision of financial entities in a financial conglomerate (No 2011/89/EU).
<i>MFHC conglomerate</i>	a <i>financial conglomerate</i> which is headed by a <i>mixed financial holding company</i> .
<i>parent mixed financial holding company in a Member State</i>	(in accordance with Article 4(15a) of the <i>Banking Consolidation Directive</i> (Definitions)) a <i>mixed financial holding company</i> which is not itself a <i>subsidiary undertaking</i> of an <i>institution</i> authorised in the same <i>EEA State</i> , or of a <i>financial holding company</i> or <i>mixed financial holding company</i> established in the same <i>EEA State</i> .
<i>ultimate EEA mixed financial holding company</i>	a <i>mixed financial holding company</i> which has its head office in an <i>EEA State</i> and which is not itself the <i>subsidiary undertaking</i> of another <i>mixed financial holding company</i> , <i>insurance parent undertaking</i> or <i>financial holding company</i> which has its head office in an <i>EEA State</i> .
<i>ultimate mixed financial holding company</i>	a <i>mixed financial holding company</i> which is not itself the <i>subsidiary undertaking</i> of another <i>mixed financial holding company</i> , <i>insurance parent undertaking</i> , or <i>financial holding company</i> .

Amend the following definitions as shown.

<i>conglomerate capital resources</i>	(in relation to a <i>financial conglomerate</i> with respect to which <i>GENPRU 3.1.29R</i> (Application of methods <u>method 1, or 2 or 3</u> from Annex I of the <i>Financial Groups Directive</i>) applies) capital resources as defined in whichever of paragraphs 1.1, <u>or 2.1 or 3.1</u> of <i>GENPRU 3 Annex 1R</i> (Capital adequacy calculations for financial conglomerates) applies with respect to that <i>financial conglomerate</i> .
<i>conglomerate capital resources requirement</i>	(in relation to a <i>financial conglomerate</i> with respect to which <i>GENPRU 3.1.29R</i> (Application of methods <u>method 1, or 2 or 3</u> from Annex I of the <i>Financial Groups Directive</i>) applies) the capital resources requirement defined in whichever of paragraphs 1.3, <u>or 2.4 or 3.3</u> of <i>GENPRU 3 Annex 1R</i> (Capital adequacy calculations for financial conglomerates) applies with respect to that <i>financial conglomerate</i> .
<i>EEA parent financial holding company</i>	(in accordance with Article 4(17) of the <i>Banking Consolidation Directive</i> and Article 3 of the <i>Capital Adequacy Directive</i> (Definitions)) a <i>parent financial holding company in a Member State</i> which is not a <i>subsidiary undertaking</i> of an <i>institution</i> authorised in any <i>EEA State</i> or of another <i>financial holding company</i> <u>or mixed financial holding company set-up</u> established in any <i>EEA State</i> .
<i>EEA parent institution</i>	(in accordance with Article 4(16) of the <i>Banking Consolidation Directive</i> and Article 2 of the <i>Capital Adequacy Directive</i> (Definitions)) a <i>parent institution in a Member State</i> which is not a <i>subsidiary undertaking</i> of another <i>institution</i> authorised in any <i>EEA State</i> , or of a <i>financial holding company</i> <u>or mixed financial holding company set-up</u> established in any <i>EEA State</i> .
<i>insurance sector</i>	a sector composed of one or more of the following entities: <ul style="list-style-type: none"> (a) an insurance undertaking <u>insurance undertaking</u>; (b) an <i>insurance holding company</i>; and (c) (in the circumstances described in <i>GENPRU 3.1.39R</i> (The financial sectors: Asset management companies <u>and alternative investment fund managers</u>)) an <i>asset management company</i> <u>or an alternative investment fund manager</u>.
<i>investment services sector</i>	a sector composed of one or more of the following entities: <ul style="list-style-type: none"> (a) an <i>investment firm</i>; (b) a <i>financial institution</i>; and (c) (in the circumstances described in <i>GENPRU 3.1.39R</i>

(The financial sectors: Asset management companies and alternative investment fund managers)) an asset management company or an alternative investment fund manager.

mixed financial holding company

(in accordance with Article 2(15) of the *Financial Groups Directive* (Definitions)) a *parent undertaking*, other than a *regulated entity*, which meets the following conditions:

- (a) it, together with its *subsidiary undertakings*, at least one of which is an *EEA regulated entity*, and other entities, constitutes a *financial conglomerate*;
- (b) it has been notified by its *coordinator* that its group is a *financial conglomerate* in accordance with Article 4(2) of the *Financial Groups Directive*; and
- (c) it has not been notified that its *coordinator* and other *relevant competent authorities* have agreed not to treat the group as a *financial conglomerate* in accordance with Article 3(3) or Article 3(3a) of the *Financial Groups Directive*.

parent financial holding company in a Member State

(in accordance with Article 4(15) of the *Banking Consolidation Directive* (Definitions) and Article 3 of the *Capital Adequacy Directive* (Definitions)) a *financial holding company* which is not itself a *subsidiary undertaking* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* ~~set-up~~ established in the same *EEA State*.

parent institution in a Member State

(in accordance with Article 4(14) of the *Banking Consolidation Directive* and Article 3 of the *Capital Adequacy Directive* (Definitions)) an *institution* which has an *institution* or a *financial institution* as a *subsidiary undertaking* or which holds a *participation* in such an *institution*, and which is not itself a *subsidiary undertaking* of another *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* ~~set-up~~ established in the same *EEA State*.

regulated entity

one of the following:

...

An *asset management company* is treated as a regulated entity for the purposes described in *GENPRU* 3.1.39R (The financial sectors: *asset management companies*).

An *alternative investment fund manager* is treated as a regulated entity for the purposes described in *GENPRU* 3.1.39R (The financial sectors: *alternative investment fund managers*).

regulated related undertaking

a *related undertaking* that is any of the following:

- (a) a *regulated entity*; or
- (b) an *insurance undertaking* which is not a *regulated insurance entity*; or
- (c) an *asset management company*; or
- (d) a *financial institution* which is neither a *credit institution* nor an *investment firm*; or
- (e) a *financial holding company*; or
- (f) an *insurance holding company*; or
- (g) a *mixed financial holding company*.

risk concentration

(in accordance with Article 2(19) of the *Financial Groups Directive* (Definitions)) all risk exposures with a loss potential ~~borne by entities within a *financial conglomerate*, which ~~are~~ is~~ large enough to threaten the solvency or the financial position in general of the *regulated entities* in the *financial conglomerate*; whether such exposures ~~may be~~ are caused by counterparty risk, ~~credit risk~~, investment risk, insurance risk, market risk, other risks, or a combination or interaction of these risks.

UK regulated EEA financial conglomerate

a *financial conglomerate* (other than a *third-country financial conglomerate*) that satisfies one of the following conditions:

- (a) ~~GENPRU 3.1.26 or~~ GENPRU 3.1.29R (Capital adequacy calculations for *financial conglomerates*) applies with respect to it; or
- (b) a *firm* that is a member of that *financial conglomerate* is subject to obligations imposed through its *Part 4A permission* to ensure that *financial conglomerate* meets levels of capital adequacy based or stated to be based on Annex I of the *Financial Groups Directive*.

Annex B

Amendments to the General Prudential sourcebook (GENPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text.

3.1.1 R ...

- (3) ~~GENPRU 3.1.25R (Capital adequacy requirements: high level requirement), GENPRU 3.1.26R (Capital adequacy requirements: application of Method 4 from Annex I of the Financial Groups Directive), GENPRU 3.1.29R (Capital adequacy requirements: application of Methods 1, 2 or 3 from Annex I of the Financial Groups Directive) and GENPRU 3.1.35R (Risk concentration and intra group transactions: the main rule) do not apply with respect to a third-country financial conglomerate.~~

...

Introduction: identifying a financial conglomerate

3.1.3 G ...

- (10) If a mixed financial holding company is subject to equivalent provisions under BIPRU 8 (Group risk consolidation) and under GENPRU 3 (Cross sector groups) and the appropriate regulator is the coordinator, the appropriate regulator may, on application by a firm and after consulting other competent authorities responsible for the supervision of subsidiaries, disapply such provisions of BIPRU 8 with regard to the mixed financial holding company and apply only the relevant provisions of GENPRU 3 to the mixed financial holding company.

...

Definition of financial conglomerate: discretionary changes to the definition

3.1.13 G Articles 3(3) to 3(6), Article 5(4) and Article 6(5) of the *Financial Groups Directive* allow *competent authorities*, on a case by case basis, to:

- (1) change the definition of *financial conglomerate* and the obligations applying with respect to a *financial conglomerate* (which would include, where the appropriate regulator would be the coordinator under GENPRU 3.1.3G(6), permitting firms to apply, on an annual basis and subject to publication and notification to the relevant competent authorities, for a group of which it is a member not to be regarded as a financial conglomerate on the basis of Article 3(3) of the Financial Groups Directive (for a group that, in terms of the tests in GENPRU 3 Annex 4R, does not meet Threshold Test 2 but meets Threshold Test 3) or Article 3(3a) of the Financial Groups

Directive (for a group that, in terms of the tests in GENPRU 3 Annex 4R, meets Threshold Test 2 but not Threshold Test 3);

...

...

- 3.1.17 G Annex I of the *Financial Groups Directive* lays down ~~four~~ three methods for calculating capital adequacy at the level of a *financial conglomerate*. Those ~~four~~ three methods are implemented as follows:

...

- (3) ~~Method 3 calculates capital adequacy using book values and the deduction of capital requirements. It is implemented by GENPRU 3.1.29R to GENPRU 3.1.31R and Part 3 of GENPRU 3 Annex 1R. [deleted]~~
- (4) ~~Method 4~~ Method 3 consists of a combination of Methods ~~1, 2 and 3~~ 1 and 2 from Annex I of the *Financial Groups Directive*, ~~or a combination of two of those Methods. It is implemented by GENPRU 3.1.26R to GENPRU 3.1.28R, GENPRU 3.1.30R and Part 4 of GENPRU 3 Annex 1 and would be implemented by means of a requirement.~~

- 3.1.18 G ~~Part 4 of GENPRU 3 Annex 1R (Use of Method 4 from Annex I of the *Financial Groups Directive*) applies the *appropriate regulator's sectoral rules* with respect to the *financial conglomerate* as a whole, with some adjustments. Where Part 4 of GENPRU 3 Annex 1R applies the *appropriate regulator's sectoral rules* for:~~

- (1) ~~the *insurance sector*, that involves a combination of Methods 2 and 3; and~~
- (2) ~~the *banking sector* and the *investment services sector*, that involves a combination of Methods 1 and 3. [deleted]~~

...

- 3.1.20 G (1) ~~In the following cases, the *appropriate regulator* (acting as *coordinator*) may choose which of the four methods for calculating capital adequacy laid down in Annex I of the *Financial Groups Directive* should apply:~~
- (a) ~~where a *financial conglomerate* is headed by a *regulated entity* that has been authorised by the *appropriate regulator*;~~
~~or~~
- (b) ~~the only *relevant competent authority* for the *financial conglomerate* is the *appropriate regulator*. [deleted]~~

- (2) ~~GENPRU 3.1.28R automatically applies Method 4 from Annex I of the *Financial Groups Directive* in these circumstances except in the cases set out in *GENPRU 3.1.28R(1)(e)* and *GENPRU 3.1.28R(1)(f)*. The process in *GENPRU 3.1.22G* does not apply. [deleted]~~
- 3.1.21 G ~~Where *GENPRU 3.1.20G* does not apply, the The Annex I method to be applied is may be decided by the *coordinator* after consultation with the *relevant competent authorities* and the *financial conglomerate* itself. Where the *appropriate regulator* acts as *coordinator*, the *financial conglomerate* itself may choose which of Method 1 or Method 2 from Annex I it will apply, unless the *firm* is subject to a *requirement obliging the firm* to apply a particular method.~~
- 3.1.22 G ~~The method of calculating capital adequacy chosen in respect of a *financial conglomerate* as described in *GENPRU 3.1.21G* will be applied with respect to that *financial conglomerate* by varying the *Part 4A permission* of a *firm* in that *financial conglomerate* to include a *requirement*. That *requirement* will have the effect of obliging the *firm* to ensure that the *financial conglomerate* has capital resources of the type and amount needed to comply with whichever of the methods in *GENPRU 3 Annex 1R* is to be applied with respect to that *financial conglomerate*. The powers in the *Act* relating to *waiivers* and varying a *firm's Part 4A permission* can be used to implement one of the methods from Annex I of the *Financial Groups Directive* in a way that is different from that set out in *GENPRU 3.1* and *GENPRU 3 Annex 1R* if that is necessary to reflect the consultations referred to in *GENPRU 3.1.21G*. [deleted]~~
- 3.1.23 G ~~If there is more than one *firm* in a *financial conglomerate* with a *Part 4A permission*, the *appropriate regulator* would not normally expect to apply the *requirement* described in *GENPRU 3.1.22G* to all of them. Normally it will only be necessary to apply it to one. [deleted]~~
- 3.1.24 G ~~The *appropriate regulator* expects that in all or most cases falling into *GENPRU 3.1.21G*, the *rules* in Part 4 of *GENPRU 3 Annex 1R* will be applied. [deleted]~~
- ...
- Capital adequacy requirements: application of Method 4 from Annex I of the *Financial Groups Directive*
- 3.1.26 G ~~If this *rule* applies under *GENPRU 3.1.27R* to a *firm* with respect to a *financial conglomerate* of which it is a member, the *firm* must at all times have capital resources of an amount and type:~~
- (1) ~~that ensure that the *financial conglomerate* has capital resources of an amount and type that comply with the *rules* applicable with respect to that *financial conglomerate* under Part 4 of *GENPRU 3 Annex 1R* (as modified by that annex); and~~

(2) ~~that as a result ensure that the *firm* complies with those *rules* (as so modified) with respect to that *financial conglomerate*. [deleted]~~

3.1.27 R ~~*GENPRU 3.1.26R* applies to a *firm* with respect to a *financial conglomerate* of which it is a member if one of the following conditions is satisfied:~~

(1) ~~the condition in *GENPRU 3.1.28R* is satisfied; or~~

(2) ~~this *rule* is applied to the *firm* with respect to that *financial conglomerate* as described in *GENPRU 3.1.30R*. [deleted]~~

Capital adequacy requirements: compulsory application of Method 3 from Annex I of the Financial Groups Directive

3.1.28 R (1) ~~The condition in this *rule* is satisfied for the purpose of *GENPRU 3.1.27R(1)* with respect to a *firm* and a *financial conglomerate* of which it is a member (with the result that *GENPRU 3.1.26R* automatically applies to that *firm*) if:~~

(a) ~~notification has been made in accordance with regulation 2 of the *Financial Groups Directive Regulations* that the *financial conglomerate* is a *financial conglomerate* and that the *appropriate regulator* is *coordinator* of that *financial conglomerate*;~~

(b) ~~the *financial conglomerate* is not part of a wider *UK regulated EEA financial conglomerate*;~~

(c) ~~the *financial conglomerate* is not an *UK regulated EEA financial conglomerate* under another *rule* or under paragraph (b) of the definition of *UK regulated EEA financial conglomerate* (application of supplementary supervision through a *firm's Part 4A permission*);~~

(d) ~~one of the following conditions is satisfied:~~

(i) ~~the *financial conglomerate* is headed by a *regulated entity* that is a *UK domestic firm*; or~~

(ii) ~~the only *relevant competent authority* for that *financial conglomerate* is the *appropriate regulator*;~~

(e) ~~this *rule* is not disapplied under paragraph 5.7 of *GENPRU 3 Annex 1R* (No capital ties); and~~

(f) ~~the *financial conglomerate* meets the condition set out in the box titled *Threshold Test 2* (10% average of balance sheet and solvency requirements) in the *financial conglomerate definition decision tree*. [deleted]~~

(2) ~~Once *GENPRU 3.1.26R* applies to a *firm* with respect to a *financial*~~

~~conglomerate of which it is a member under GENPRU 3.1.27R(1); (1)(f) ceases to apply with respect to that financial conglomerate. Therefore the fact that the financial conglomerate subsequently ceases to meet the condition in (1)(f) does not mean that the condition in this rule is not satisfied. [deleted]~~

Capital adequacy requirements: application of ~~Methods~~ Method 1; or 2 or 3 from Annex I of the Financial Groups Directive

3.1.29 R If, with respect to a firm and a financial conglomerate of which it is a member, this rule is ~~applied~~ applies under GENPRU 3.1.29AR to the firm with respect to that financial conglomerate as described in GENPRU 3.1.30R, the firm must at all times have capital resources of an amount and type that ensures that the conglomerate capital resources of that financial conglomerate at all times equal or exceed its conglomerate capital resources requirement.

3.1.29A R GENPRU 3.1.29R applies to a firm with respect to the financial conglomerate of which it is a member if notification has been made in accordance with regulation 2 of the Financial Groups Directive Regulations that the financial conglomerate is a financial conglomerate and that the appropriate regulator is coordinator of that financial conglomerate.

Capital adequacy requirements: use of ~~Part 4A permission requirement~~ to apply Annex I of the Financial Groups Directive

3.1.30 R ~~With respect to a firm and a financial conglomerate of which it is a member~~ If GENPRU 3.1.29R (application of Method 1 or 2 from Annex I of the Financial Groups Directive) applies to a firm with respect to the financial conglomerate of which it is a member, then with respect to the firm and the financial conglomerate:

- (1) ~~GENPRU 3.1.26R (Method 4 from Annex I of the Financial Groups Directive) is applied to the firm with respect to that financial conglomerate for the purposes of GENPRU 3.1.27R(2); or the definitions of conglomerate capital resources and conglomerate capital resources requirement that apply for the purposes of that rule are the ones from whichever of Part 1 or Part 2 of GENPRU 3 Annex 1R the firm has indicated to the appropriate regulator it will apply, unless the firm is subject to a requirement obliging the firm to apply a specific part of GENPRU 3 Annex 1R, in which case GENPRU 3.1.31R will apply; and~~
- (2) ~~GENPRU 3.1.29R (Methods 1 to 3 from Annex I of the Financial Groups Directive) is applied to the firm with respect to that financial conglomerate; the firm must indicate to the appropriate regulator in advance which Part of GENPRU 3 Annex 1R the firm intends to apply.~~

~~if the firm's Part 4A permission contains a requirement obliging the firm to comply with GENPRU 3.1.26R or, as the case may be, GENPRU 3.1.29R.~~

- 3.1.31 R If *GENPRU 3.1.29 R* (~~application of Methods Method 1-3 or 2~~ from Annex I of the *Financial Groups Directive*) applies to a *firm* with respect to a *financial conglomerate* of which it is a member, and the *firm* is subject to a requirement obliging the *firm* to apply a specific part of *GENPRU 3 Annex 1R*, the definitions of *conglomerate capital resources* and *conglomerate capital resources requirement* that apply for the purposes of that rule are the ones from whichever of Part 1, or Part 2 ~~or Part 3~~ of *GENPRU 3 Annex 1R* is specified in the *requirement referred to in GENPRU 3.1.30R*.

...

The financial sectors: asset management companies and alternative investment fund managers

- 3.1.39 R (1) In accordance with ~~Article~~ Articles 30 and 30a of the *Financial Groups Directive* (Asset management companies and Alternative investment fund managers), this rule deals with the inclusion of an asset management company or an alternative investment fund manager that is a member of a *financial conglomerate* in the scope of regulation of *financial conglomerates*. ~~This rule does not apply to the definition of financial conglomerate.~~
- (2) An asset management company or an alternative investment fund manager is in the overall financial sector and is a regulated entity for the purpose of:
- (a) ~~GENPRU 3.1.26R~~ 3.1.29R to *GENPRU 3.1.36R*;
- ...
- (3) In the case of a *financial conglomerate* for which the *appropriate regulator* is the *coordinator*, all asset management companies and all alternative investment fund managers must be allocated to one financial sector to which they belong for the purposes in (2), being either the *investment services sector* or the *insurance sector*. But if that choice has not been made in accordance with (4) and notified to the *appropriate regulator* in accordance with (4)(d), an asset management company or an alternative investment fund manager must be allocated to the ~~investment services sector~~ smallest financial sector.
- (4) The choice in (3):
- (a)
- (b) applies to all asset management companies and all alternative investment fund managers that are members of the *financial conglomerate* from time to time;

...

...

...

3 Annex 1R Capital adequacy calculations for financial conglomerates (~~GENPRU 3.1.26R and GENPRU 3.1.29R~~)

...

3. Table: PART 3: Method 3 of Annex I of the Financial Groups Directive (Book value/Requirement Method) [~~deleted~~]

Capital resources	3.1	The conglomerate capital resources of a financial conglomerate calculated in accordance with this Part are equal to the capital resources of the person at the head of the financial conglomerate that qualify under paragraph 3.2.
-	3.2	The elements of capital that qualify for the purposes of paragraph 3.1 are those that qualify in accordance with the applicable sectoral rules. In particular, the portion of the conglomerate capital resources requirement attributable to a particular member of a financial sector must be met by capital resources that would be eligible under the sectoral rules that apply to the calculation of its solo capital resources.
Capital resources requirement	3.3	The conglomerate capital resources requirement of a financial conglomerate calculated in accordance with this Part is equal to the sum of the following amounts for each member of the overall financial sector: (1) (in the case of the person at the head of the financial conglomerate) its solo capital resources requirement; (2) (in the case of any other member) the higher of the following two amounts: (a) its solo capital resources requirement; and (b) the book value of the interest of the person at the head of the financial conglomerate in that member.
-	3.4	A participation may be valued using the equity method of accounting.
Partial inclusion	3.5	The capital resources requirement of a member of the financial conglomerate in the overall financial sector must be included proportionally. If however the member has a solvency deficit and is a subsidiary undertaking, it must be included in full.
Accounts	3.6	The information required for the purpose of establishing whether or not a firm is complying with GENPRU 3.1.29R (insofar as the definitions in this Part are applied for the purpose of that rule) must be based on the individual accounts

		of members of the <i>financial conglomerate</i> , together with such other sources of information as appropriate.
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4 Table: PART 4: Method 4 of Annex I of the Financial Groups Directive (Combination of Methods 1, 2 and 3) [deleted]

Applicable sectoral rules	4.1	The <i>rules</i> that apply with respect to a particular <i>financial conglomerate</i> under <i>GENPRU 3.1.26R</i> are those relating to capital adequacy and solvency set out in the table in paragraph 4.2.
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5 Table: Paragraph 4.2: Application of sectoral consolidation rules [deleted]

Type of financial conglomerate	Applicable sectoral consolidation rules
<i>Banking and investment services conglomerate</i>	<i>BIPRU 8</i> and <i>BIPRU TP</i> , subject to paragraph 4.5.
<i>Insurance conglomerate</i>	<i>INSPRU 6.1</i> amended in accordance with Part 5.

6 Table

Types of financial conglomerate	4.3	(1) This paragraph sets out how to determine the category of <i>financial conglomerate</i> for the purposes of paragraphs 4.1 and 4.2. ...
---------------------------------	-----	---

...

8 Table: PART 5: Principles applicable to all methods

...		
Application of sectoral rules: Banking sector and investment services sector	5.6	The following adjustments apply to the <i>applicable sectoral rules</i> for the <i>banking sector</i> and the <i>investment services sector</i> as they are applied by the <i>rules</i> in this annex. (1) References in those <i>rules</i> to <i>non-EEA sub-groups</i> do not apply. (2) (For the purposes of Parts 1 to 3 and 2), where those <i>rules</i> require a group to be treated as if it were a single <i>undertaking</i> , those <i>rules</i> apply to the <i>banking sector</i> and <i>investment services</i>

		<p><i>sector</i> taken together.</p> <p>(3) Any <i>investment firm consolidation waivers</i> granted to members of the <i>financial conglomerate</i> do not apply.</p> <p>(4) (For the purposes of Parts 1 to 4 <u>Part 3</u>), without prejudice to the application of requirements in <i>BIPRU 8</i> preventing the use of an <i>advanced prudential calculation approach</i> on a consolidated basis, any <i>advanced prudential calculation approach permission</i> that applies for the purpose of <i>BIPRU 8</i> does not apply.</p> <p>(5) (For the purposes of Parts 1 to 4 <u>Part 3</u>), <i>BIPRU 8.5.9R</i> and <i>BIPRU 8.5.10R</i> do not apply.</p> <p>(6) (For the purposes of Parts 1 to 4 <u>Part 3</u>), where the <i>financial conglomerate</i> does not include a <i>credit institution</i>, the method in <i>GENPRU 2 Annex 4R</i> must be used for calculating the capital resources and <i>BIPRU 8.6.8R</i> does not apply.</p>
No capital ties	5.7	<p>(1) This <i>rule</i> deals with a <i>financial conglomerate</i> in which some of the members are not linked by capital ties at the time of the notification referred to in <i>GENPRU 3.1.28R(1)</i> (Capital adequacy requirements: Compulsory application of Method 4 from <u>Application of Annex I</u> of the Financial Groups Directive).</p> <p>(2) If:</p> <p>(a) <i>GENPRU 3.1.26R</i> (Capital adequacy requirements: Application of Method 4 from <u>Application of Annex I</u> of the Financial Groups Directive) would otherwise apply with respect to a <i>financial conglomerate</i> under <i>GENPRU 3.1.28R</i>; and</p> <p>(b) all members of that <i>financial conglomerate</i> are linked directly or indirectly with each other by capital ties except for members that collectively are of negligible interest with respect to the objectives of supplementary supervision of <i>regulated entities</i> in a <i>financial conglomerate</i> (the "peripheral members");</p> <p>...</p>

9 Table: PART 6: Definitions used in this Annex

Defining the financial sectors	6.1	<p>For the purposes of Parts 1 to 3 <u>1 and 2</u> of this annex (but, not for the purposes of the definition of <i>most important financial sector</i>):</p> <p>(1) an <i>asset management company</i> is allocated in</p>
--------------------------------	-----	---

		<p>accordance with <i>GENPRU</i> 3.1.39R; and</p> <p>(2) <u>an <i>alternative investment fund manager</i> is allocated in accordance with <i>GENPRU</i> 3.1.39R; and</u></p> <p>(3) <u>a <i>mixed financial holding company</i> must be treated as being a member of the <i>most important financial sector</i>.</u></p>
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...

Annex C

Amendments to the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU)

In this Annex, underlining indicates new text and striking through indicates deleted text.

1 Application

...

1.3 Applications for advanced approaches and waivers

...

Article 129

1.3.3 G An EEA parent institution and its subsidiary undertakings or the subsidiary undertakings of its EEA parent financial holding company or the subsidiary undertakings of its EEA parent mixed financial holding company that wish to use any of the approaches listed in BIPRU 1.3.2G(1) in respect of its group, including members of its group that are BIPRU firms, may apply for an Article 129 permission.

1.3.4 G The Article 129 procedure allows an EEA parent institution and its subsidiary undertakings or the subsidiary undertakings of its EEA parent financial holding company or the subsidiary undertakings of its EEA parent mixed financial holding company to apply for permission to use the approaches in BIPRU 1.3.2G(1) without making separate applications to the competent authority of each EEA State where members of a firm's group are authorised.

...

1.3.8 D When an advanced measurement approach is intended to be used by an EEA parent institution and its subsidiary undertakings or the subsidiary undertakings of an EEA parent financial holding company or an EEA parent mixed financial holding company, the application of a firm must include a description of the methodology used for allocating operational risk capital between the different entities of the group.

[Note: BCD ~~annex~~ Annex X Part 3 point 30]

...

3 Standardised credit risk

...

3.2 The central principles of the standardised approach to credit risk

...

Zero-risk weighting for intra-group exposures: core UK group

...

3.2.25 R (1) Subject to *BIPRU* 3.2.35R, and with the exception of *exposures* giving rise to liabilities in the form of the items referred to in *BIPRU* 3.2.26R, a *firm* is not required to comply with *BIPRU* 3.2.20R (Calculation of risk weighted exposures amounts under the standardised approach) in the case of the *exposures* of the *firm* to a counterparty which is its *parent undertaking*, its *subsidiary undertaking* or a *subsidiary undertaking* of its *parent undertaking*, provided that the following conditions are met:

- (a) the counterparty is:
 - (i) a *core concentration risk group counterparty*; and
 - (ii) an *institution*, *financial holding company*, *mixed financial holding company*, *financial institution*, *asset management company* or *ancillary services undertaking* subject to appropriate prudential requirements;

...

...

...

4.2 The IRB approach: High level material

...

General approach to granting an IRB permission

...

4.2.3 R Where an *EEA parent institution* and its *subsidiary undertakings* or an *EEA parent financial holding company* and its *subsidiary undertakings* or an *EEA parent mixed financial holding company* and its *subsidiary undertakings* use the *IRB approach* on a unified basis, the question whether the *minimum IRB standards* are met is answered by considering the *parent undertaking* and its *subsidiary undertakings* together, unless the *firm's IRB*

permission specifies otherwise.

...

...

Combined use of methodologies: Basic provisions

4.2.26 R ...

- (6) A firm may apply the *standardised approach* to exposures of a firm to a counterparty which is its *parent undertaking*, its *subsidiary undertaking* or a *subsidiary undertaking* of its *parent undertaking*, provided that the counterparty is an *institution*, a *financial holding company*, a *mixed financial holding company*, a *financial institution*, an *asset management company* or an *ancillary services undertaking* subject to appropriate prudential requirements.

...

...

6 Operational risk

...

6.5 Operational risk: Advanced measurement approaches

...

Use of an advanced approach on a groupwide basis

- 6.5.31 R Where an *EEA parent institution* and its *subsidiary undertakings* or an *EEA parent financial holding company* and its *subsidiary undertakings* or an *EEA parent mixed financial holding company* and its *subsidiary undertakings* use an *advanced measurement approach* on a unified basis for the *parent undertaking* and its *subsidiary undertakings*, the qualifying criteria set out in *BIPRU* 6.5 may be met by the *parent undertaking* and its *subsidiary undertakings* considered together where permitted by the *AMA permission*.

...

- 6.5.32 G Where the *AMA* is used on a unified basis for the *parent undertaking* and its *subsidiary undertakings*, and approval and reporting of the *AMA* are carried out at the group level, the qualifying criteria in *BIPRU* 6.5 may be met if:

- (1) the *subsidiary undertakings* have delegated to the *governing body* or *designated committee* of the *EEA parent institution* or *EEA parent financial holding company* or *EEA parent mixed financial holding company* responsibility for approval of the *AMA*;

- (2) the governing body or designated committee of the EEA parent institution or EEA parent financial holding company or EEA parent mixed financial holding company approves either:

...

...

8 Group risk consolidation

...

8.2 Scope and basic consolidation requirements for UK consolidation groups

Main consolidation rule for UK consolidation groups

- 8.2.1 R A firm that is a member of a UK consolidation group must comply, to the extent and in the manner prescribed in BIPRU 8.5, with the obligations laid down in GENPRU 1.2 (Adequacy of financial resources), the main BIPRU firm Pillar 1 rules (but not the base capital resources requirement) and BIPRU 10 (Large exposures requirements) on the basis of the consolidated financial position of:

...

- (2) where either Test 1C or Test 1D in BIPRU 8 Annex 1R apply, the parent financial holding company in a Member State or the parent mixed financial holding company in a Member State.

...

Definition of UK consolidated group

- 8.2.4 R A firm's UK consolidation group means a group that is identified as a UK consolidation group in accordance with the decision tree in BIPRU 8 Annex 1R (Decision tree identifying a UK consolidation group); the members of that group are:

- (1) ...

- (2) where either Test 1C or Test 1D in BIPRU 8 Annex 1R apply, the members of the consolidation group made up of the sub-group of the parent financial holding company in a Member State or the parent mixed financial holding company in a Member State identified in BIPRU 8 Annex 1R together with any other person who is a member of that consolidation group because of a consolidation Article 12(1) relationship or an Article 134 relationship;

in each case only *persons* included under *BIPRU 8.5* (Basis of consolidation) are included in the *UK consolidation group*.

...

8.3 Scope and basic consolidation requirements for non-EEA sub-groups

Main consolidation rule for non-EEA sub-groups

- 8.3.1 R (1) A *BIPRU firm* that is a *subsidiary undertaking* of a *BIPRU firm* or of a *financial holding company* or of a mixed financial holding company must apply the requirements laid down in *GENPRU 1.2* (Adequacy of financial resources), the *main BIPRU firm Pillar 1 rules* (but not the *base capital resources requirement*) and *BIPRU 10* (Large exposures requirements) on a sub-consolidated basis if the *BIPRU firm*, or the *parent undertaking* where it is a *financial holding company* or a mixed financial holding company, have a *third country banking or investment services undertaking* as a *subsidiary undertaking* or hold a *participation* in such an *undertaking*.

...

...

8.5 Basis of consolidation

Undertakings to be included in consolidation

- 8.5.1 R A *firm* must include only the following types of *undertaking* in a *UK consolidation group* or *non-EEA sub-group* for the purposes of this chapter:

...

- (5) a *financial holding company*; ~~and~~
- (6) a mixed financial holding company; and
- (7) an *ancillary services undertaking*.

...

8 Annex 4G Text of Articles 125 and 126 of the Banking Consolidation Directive

Article 125	
1.	...
2.	Where the parent of a credit institution is a parent financial holding company in a Member State, <u>a parent mixed financial holding company in a Member State</u> or an EU parent financial holding company; <u>or an EU parent mixed financial holding company,</u> supervision on a consolidated basis shall be exercised by the competent authorities that authorised that credit institution under Article 6.
Article 126	
1.	Where credit institutions authorised in two or more Member States have as their parent the same parent financial holding company in a Member State, <u>the same mixed parent financial holding company in a Member State,</u> or the same EU parent financial holding company <u>or the same EU parent mixed financial holding company,</u> supervision on a consolidated basis shall be exercised by the competent authorities of the credit institution authorised in the Member State in which the financial holding company was set up <u>or mixed financial holding company</u> is established.
	Where the parents of credit institutions authorised in two or more Member States comprise more than one financial holding company <u>or mixed financial holding company which have their</u> with head offices in different Member States and there is a credit institution in each of these States, supervision on a consolidated basis shall be exercised by the competent authority of the credit institution with the largest balance sheet total.
2.	Where more than one credit institution authorised in the Community <u>Union</u> has as its parent the same financial holding company <u>or the same mixed financial holding company</u> and none of these credit institutions has been authorised in the Member State in which the financial holding company <u>or the mixed financial holding company is established</u> was set up, supervision on a consolidated basis shall be exercised by the competent authority that authorised the credit institution with the largest balance sheet total, which shall be considered, for the purposes of this Directive, as the credit institution controlled by an EU parent financial holding company <u>or an EU parent mixed financial holding company.</u>
3.	In particular cases, the competent authorities may by common agreement waive the criteria referred to in paragraphs 1 and 2 if their application would be inappropriate, taking into account the credit institutions and the relative importance of their activities in different countries, and appoint a different competent authority to exercise supervision on a consolidated basis. In these cases, before taking their decision, the competent authorities shall give the EU parent credit institution, or EU parent financial holding company, <u>the EU parent mixed financial holding company,</u> or credit institution with the largest balance sheet total, as appropriate, an opportunity to state its opinion on that decision.
4.	[Omitted]

Note	...	
	(4a)	<u>a reference to a EU parent mixed financial holding company should be read as being one to an EEA parent mixed financial holding company;</u>

	Parent financial holding company in a Member State, and financial holding company, <u>parent mixed financial holding company in a Member State and mixed financial holding company</u> have the same meaning as they do in the <i>Glossary</i> .	

...

10 Large exposures requirements

...

10.8A Intra group exposures: core UK group

...

Definition of core UK group

10.8A.2 R An *undertaking* is a member of a *firm's core UK group* if, in relation to the *firm*, that *undertaking* satisfies the following conditions:

- (1) ...
- (2) it is an *institution, financial holding company, financial institution, asset management company, ~~or~~ ancillary services undertaking or mixed financial holding company*;
- (3) (in relation to a *subsidiary undertaking*) 100% of the voting rights attaching to the *shares* in its capital is held by the *firm*, ~~or a financial holding company~~ or mixed financial holding company (or a *subsidiary undertaking* of the *financial holding company* or mixed financial holding company), whether individually or jointly, and that *firm*, ~~or financial holding company~~ or mixed financial holding company (or its *subsidiary undertaking*) must have the right to appoint or remove a majority of the members of the board of *directors*, committee of management or other governing body of the *undertaking*;

...

...

11 Disclosure (Pillar 3)

...

11.2 Basis of disclosures

...

Firms controlled by an EEA parent financial holding company

- 11.2.4 R *A firm controlled by an EEA parent financial holding company or an EEA parent mixed financial holding company must comply with the obligations laid down in BIPRU 11.3 on the basis of the consolidated financial situation of that EEA parent financial holding company or EEA parent mixed financial holding company.*

[Note: BCD, Article 72(2)]

- 11.2.5 R *A firm which is a significant subsidiary of an EEA parent financial holding company or an EEA parent mixed financial holding company must disclose the information specified in BIPRU 11.4.5R on an individual or sub-consolidated basis.*

...

11.4 Technical criteria on disclosure: General criteria

...

Disclosures: Significant subsidiaries

- 11.4.5 R *A firm which is a significant subsidiary of:*
- (1) *an EEA parent institution; or*
 - (2) *an EEA parent financial holding company; or*
 - (3) *an EEA parent mixed financial holding company;*

must disclose the information specified in BIPRU 11.5.3R to BIPRU 11.5.4R on an individual or sub-consolidated basis.

[Note: BCD Annex XII Part 1 point 5]

...

Annex D

Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text.

15.9 Notifications by members of financial conglomerates

...

- 15.9.5 R (1) A firm must, at the level of the EEA financial conglomerate, regularly provide the appropriate regulator with details on the financial conglomerate's legal structure and governance and organisational structure, including all regulated entities, non-regulated subsidiaries and significant branches.
- (2) A firm must disclose publicly, at the level of the EEA financial conglomerate, on an annual basis, either in full or by way of references to equivalent information, a description of the financial conglomerate's legal structure and governance and organisational structure.
- (3) For the purposes of (1) and (2), where a firm is a member of an EEA financial conglomerate which is part of a wider UK regulated EEA financial conglomerate, reporting applies only at the level of the EEA parent mixed financial holding company or ultimate EEA mixed financial holding company.

...

16.12 Integrated Regulatory Reporting

...

Financial Conglomerates

...

- 16.12.33 R Financial reports from a member of a financial conglomerate (see SUP 16.12.32R)

Content of Report	Form (Note 1)	Frequency	Due Date
Calculation of supplementary capital adequacy requirements in accordance with one of	Note 2	Note 5 <u>Yearly</u>	Note 5

the four <u>three</u> technical calculation methods			
...			
Note 2	<p>If Part 1 of <i>GENPRU</i> 3 Annex 1R (method 1), <u>or</u> Part 2 of <i>GENPRU</i> 3 Annex 1R (method 2), or Part 3 of <i>GENPRU</i> 3 Annex 1R (method 3) applies, there is no specific form. Adequate information must be provided, <u>specifying the calculation method used</u> and each <i>financial conglomerate</i> for which the <i>appropriate regulator</i> is the <i>co-ordinator</i> must discuss with the <i>appropriate regulator</i> how to do this <u>the form which this reporting will take and the extent to which verification by an auditor will be required.</u></p>		
	<p>If Part 4 of <i>GENPRU</i> 3 Annex 1R applies (method 4): (1) a <i>banking and investment services conglomerate</i> must use FSA003; and</p>		
	<p>(2) an <i>insurance conglomerate</i> must use: (a) (where <i>SUP</i> 16.12.32R(1)(a) applies), Forms 1, 2 and 3 in Appendix 9.1 of <i>IPRU(INS)</i> prepared in accordance with <i>IPRU(INS)</i> 9.35(1); or (b) (in any other case), the Insurance Group Capital Adequacy Reporting Form (Form 95) in Appendix 9.9 of <i>IPRU(INS)</i></p>		
	<p>For the purposes of (b) <u>the above</u>, where <u>relevant to the agreed reporting arrangements</u>, rules 9.40(1), 9.40(1A), 9.40(3) and 9.40(4) of <i>IPRU(INS)</i> apply as they would if the <i>insurance conglomerate</i> <u><i>financial conglomerate</i></u> were an <i>insurance group</i>.</p>		
...			
Note 5	<p>The frequency and due date will be as follows: (1) <i>banking and investment services conglomerate</i>: frequency is half-yearly with due date 45 <i>business days</i> after period end; (2) <i>insurance conglomerate</i>: frequency is yearly with due date four months after period end for the capital adequacy return and three months after period end for the report on compliance with <i>GENPRU</i> 3.1.35R where it</p>		

	applies.
...	

Financial Conduct Authority



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