


**FINANCIAL CONGLOMERATES AND OTHER FINANCIAL GROUPS
INSTRUMENT 2004**

Powers exercised

- A. The Financial Services 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 138 (General rule-making power);
 - (2) section 150(2) (Action for damages);
 - (3) section 156 (General supplementary powers);
 - (4) section 157(1) (Guidance); and
 - (5) section 340 (Appointment).
- B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

- C. The annexes to this instrument come into force as indicated in the following table.

Annex	Commencement Date
D. (IPRU (FSOC))	With respect to a particular firm, group or financial conglomerate, from the earlier of the day on which rule 4.2 of the Interim Prudential sourcebook for insurers ceases to be of effect and the first day of its financial year beginning in 2005.
G. (PRU)	<ul style="list-style-type: none"> • Transitional provisions: on the dates specified in the transitional provisions; • PRU 8.1, PRU 8.4.25 to 8.4.31, PRU 8.4.34 to 8.4.36, as well as the guidance thereon, PRU 8.5.8 and 8.5.9 (with respect to a particular firm, group or financial conglomerate) from the first day of its financial year beginning in 2005; and • remaining provisions on 11 August 2004.
L. (Glossary)	As for the provision in which a term is used.
A. (COND) B. (IPRU(BANK)) C. (IPRU(BSOC)) E. (IPRU(INS)) F. (IPRU(INV)) H. (AUTH) I. (SUP) J. (DEC) K. (ELM)	 <p>With respect to a particular firm, group or financial conglomerate, from the first day of its financial year beginning in 2005.</p>

Amendments to the Handbook

- D. The modules of the FSA's Handbook listed in column (1) are amended or inserted in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Threshold Conditions (COND)	Annex A
Interim Prudential sourcebook for banks (IPRU(BANK))	Annex B
Interim Prudential sourcebook for building societies (IPRU(BSOC))	Annex C
Interim Prudential sourcebook for building societies (IPRU(FSOC))	Annex D
Interim Prudential sourcebook for insurers (IPRU(INS))	Annex E
Interim Prudential sourcebook for investment business (IPRU(INV))	Annex F
Integrated Prudential sourcebook (PRU)	Annex G
Authorisation manual (AUTH)	Annex H
Supervision manual (SUP)	Annex I
Decision making manual (DEC)	Annex J
Electronic money sourcebook (ELM)	Annex K
Glossary of definitions	Annex L

Citation

- E. This instrument may be cited as the Financial Conglomerates and Other Financial Groups Instrument 2004.

By order of the Board
15 July 2004

Amended by Addendum
17 August 2004

Annex A

Amendments to the Threshold Conditions

In this Annex, underlining indicates new text.

2.5.3 G ...

- (3) In relation to a *firm* which is an *EEA regulated entity*, the *Financial Groups Directive* provides that the *FSA* should consult other competent authorities when assessing the suitability of the shareholders and the reputation and experience of directors involved in the management of another entity in the same group.

Annex B

Amendments to the Interim Prudential sourcebook for banks

In this Annex, underlining indicates new text and striking through indicates deleted text. Where an entire section of text is being deleted or inserted, the place where the change will be made is indicated and the text is not struck through or underlined.

Amend IPRU(BANK), Volume 1, Chapter GN, Sections 2 and 3 as follows:

PURPOSE

3. ...
4. The purpose of the prudential standards set out in this sourcebook is to ensure that banks maintain capital and other financial resources commensurate with their risks and appropriate systems and controls to enable them to manage those risks. The FSA requires in particular that banks maintain adequate capital against their risks: capital enables banks to absorb losses without endangering customer deposits; that they maintain adequate liquidity; and that they identify and control their large credit exposures - which might otherwise be a source of loss to a bank on a scale that might threaten a bank's solvency.
5. This sourcebook, together with the separate prudential sourcebook applying to building societies, also implements EC directives setting out prudential standards as these apply to *credit institutions*. Where a bank is part of a financial conglomerate, it will also be subject to additional rules and guidance set out in PRU 8.4. A bank with an ultimate non-EEA parent may also be subject to some provisions in PRU 8.5. And all banks that are part of a group are subject to the general provisions in PRU 8.1.

...

Definitions

Insert new definitions in the following table in the appropriate alphabetical position:

- 3.5.1 R In this section the term or phrase in the first column of the following table has the meaning given to it in the second column:

...	
<u>financial holding company</u>	<u>A financial institution whose subsidiary undertakings are either exclusively or mainly credit institutions or financial institutions (at least one being a credit institution) and which is not a mixed financial holding company.</u>
<u>financial institution</u>	<u>(when used in chapters GN, CA and CS) See definition in <i>Glossary</i></u>
firm	
...	
<u>mixed-activity</u>	<u>A parent undertaking that is not a financial holding company, or</u>

<u>holding company</u>	<u>a credit institution, or a mixed financial holding company, whose subsidiaries include at least one credit institution.</u>
<u>mixed financial holding company</u>	<u>See definition in the <i>Glossary</i>.</u>
...	
<u>participation</u>	<u>See definition in the <i>Glossary</i>, except where the context otherwise requires (such as in the phrase "sub-participation").</u>
...	
<u>PRU</u>	<u>See definition in the <i>Glossary</i>.</u>
...	...

...

Amend IPRU(BANK), Volume 1, Chapter CA, Section 1 as follows:

1.2 Legal sources

- 3 The sources noted in the Legal Sources section of the Capital Adequacy Overview chapter are also relevant to this chapter.
- 4 The Banking Consolidation Directive (formerly The Directive on Own Funds, "Own Funds Directive", "OFD" - 89/299/EEC) establishes a standard EU definition of capital for prudential supervisory purposes. This follows closely the Basel Convergence Agreement on capital standards. The Directive has been amended by the Financial Groups Directive (2002/87/EC) and some of the resulting changes are given effect in this chapter.
- 5 The Capital Adequacy Directive ("CAD" - 93/6/EC) introduced Tier 3 capital for use in supporting trading book activities.
- 6 The Banking Consolidation Directive (formerly the Second Banking Co-ordination Directive, "2BCD" - 89/646/EEC) sets the minimum initial capital requirement and minimum ongoing capital requirement for banks incorporated in the European Economic Area.

See s3

...

Amend IPRU(BANK), Volume 1, Chapter CA, Section 10 as follows:

10.2 Deductions from the total of Tier 1 capital and Tier 2 capital

- 2 Certain deductions should be made from the total of Tier 1 (after Tier 1 deductions) and Tier 2 capital:
 - (a) Investments in subsidiaries and associates which fall outside the scope of a bank's capital adequacy return (including all *material insurance holdings*);
 - (a) ...
 - (b) ...

- (c) ...
- (d) Investments in life assurance companies should be treated on the same principles as other investments. The amount of any *material insurance holding* should (subject to (i) below) be deducted from the total of Tier 1 and Tier 2 capital. A *material insurance holding* means the higher of:

- (1) the book value of an *investment* held in an insurance undertaking, reinsurance undertaking, or insurance holding company (*investment* for this purpose is either a participation, or the investment in a subsidiary undertaking); or
- (2) the bank's proportionate share of that undertaking's local or notional regulatory capital requirement.

Where the undertaking is a subsidiary and it has a solvency deficit, the subsidiary's local or notional regulatory requirement should be deducted in full. A description of how a notional capital requirement is to be calculated is set out in paragraphs 6.7 and 6.8 in Part 6 of PRU 8 Annex 1. A notional requirement should be calculated in all cases where the undertaking is not regulated to EEA or equivalent standards: this is also explained in paragraphs 6.7 and 6.8 in Part 6 of PRU 8 Annex 1.

- (i) ~~However, w~~Where an insurance affiliate undertaking is accounted for using the *embedded value* method, theis following treatment should be ~~applied~~ modified as follows (unless the regulatory capital requirement is the higher figure):

- On acquisition, any “goodwill” element, i.e. the difference between the acquisition value according to the *embedded value* method and the actual investment, should be deducted from Tier 1 capital.
- The *embedded value* should be deducted from the total of Tier 1 & 2 capital.
- Post-acquisition, where the *embedded value* of the ~~company~~ undertaking increases, the increase should be added to reserves, while the new *embedded value* is deducted from total capital. This means that the net impact on the level of capital is zero, although Tier 2 headroom will increase with any increase in Tier 1 reserves.

- (ii) *Embedded value* is the value of the company taking into account the present value of the expected future inflows from existing life assurance business.

- (e) ...

See ch CS s2 & s9

(b)...

(c) All holdings of capital instruments issued by other *credit institutions* and *financial firms-institutions* unless these are covered by a *trading book concession*;

(a) ...

See s3.1

(b) ...

(c) ~~For the purposes of this sub-section~~ The definition of a financial institution is defined as a directly supervised institution (or a financial holding company above a supervised financial institution) whose exclusive or main business is to carry out one or more of the activities listed in points 2-12 in Annex I to The Banking Consolidation Directive (formerly the Annex to 2BCD). These activities are listed in items (b) to (l) of the Appendix to Chapter EU, given in the Glossary

...

10.4 Deductions of qualifying holdings from Tiers 1 and 2 capital

...

22 For the purposes of qualifying holding deductions, ~~commercial~~ non-financial undertakings are defined as all undertakings other than:

See s10.4

(a) Credit *and certain* financial institutions;

a) ~~The above are defined to be credit institutions, supervised financial firms and financial holding companies whose exclusive or main business is to carry out one or more of the activities listed in points 2-12 of Annex I to the Banking Consolidation Directive (formerly the Annex to 2BCD). These activities are also listed in points (b) to (l) of the Appendix to Chapter EU~~

The capital instruments of institutions which meet the definition of financial and credit institutions in section 10.2 fall outside the scope of qualifying holdings. (The full definition of *financial institution* is in the Glossary.)

(b) Institutions whose exclusive or main activities are a direct extension of banking, or concern services ancillary to banking, such as leasing, factoring, the management of unit trusts, the management of data processing services supporting banking services or any other similar activity; and

a) These activities are set out in Article 43(2)(f) of the Bank Accounts Directive (86/635/EEC).

(c) Insurance and reinsurance companies, and insurance holding

companies.

- a) The definition of an insurance ~~company~~ undertaking is contained in the First Non-Life Insurance Directive (73/239/EC) ~~as amended by the Second Non-Life Insurance Directive and Article 4 of the First Life Insurance Assurance Directive (-79/267/EEC-) (2002/83/EC) as amended by the Act of Accession of 1985.~~ The definition of reinsurance undertaking is contained in the Insurance Groups Directive (98/78/EC).

...

Amend IPRU(BANK), Volume 2, Chapter LE as follows:

- 2 The rationale for a large exposures policy
- 1 ...
- 2 ...
- 3 ...
- 4 The need to control risk concentration was the main reason for the minimum standards for a limits-based approach towards large exposures brought in by the LED (now replaced by The Banking Consolidation Directive). Where appropriate, the FSA's policy goes further, to reflect its own view of what constitutes a prudent approach in this key area of banks' internal management controls. (Following the amendments to the Banking Consolidation Directive resulting from the Financial Groups Directive, the FSA is also required to supervise transactions between a bank and a mixed activity holding company (MAHC), to have significant transactions with the MAHC reported to the FSA; and to take appropriate action if these intra-group transactions pose a threat to the bank's financial position.)

These requirements are set out below.

- (i) The FSA's existing requirements for the control and monitoring of exposures to connected counterparties , set out in this chapter LE (particularly section 9.2.2) and the large exposures reporting forms in SUP 16 Ann 1R.
- (ii) A specific new requirement in SUP 16.7 to report significant transactions with an MAHC that do not constitute exposures; and
- (iii) The requirements (Rule 3.3.19 and PRU 8.1) for a bank to have the systems to enable the control and monitoring described above, and provide the necessary information for reporting to the FSA.

Amend IPRU(BANK), Volume 2, Chapter CS as follows:

CONSOLIDATED SUPERVISION

1. INTRODUCTION

1.1 Legal sources

See COND1

- A bank's compliance with the policy set out in this chapter will help establish that it satisfies the Threshold Conditions (as to "Adequate resources" and "Suitability") and complies with the Principles (as to "Management and control" and "Financial prudence").
- 2 The Banking Consolidation Directive (2000/12/EC) ~~formerly the Second Consolidated Supervision Directive 92/30/EEC~~ sets required minimum standards for the performance of consolidated supervision of groups including banks within the EEA. This chapter on consolidated supervision is the principal vehicle implementing ~~2CSD (now replaced by those parts of The Banking Consolidation Directive)~~ that derive originally from the Second Consolidated Supervision Directive (92/30/EEC) and have now been further amended by the Financial Groups Directive (2002/87/EC). Banks that are part of a group should also refer to the rules and guidance on group risks in PRU 8.1.
- 3 The Capital Adequacy Directive (CAD - 93/6/EEC) introduced both a framework for capital requirements for market risk and a requirement for a consolidated assessment of groups including investment firms. This chapter includes the updates to the consolidated supervision regime applied to banks which resulted from its implementation, most notably the introduction of aggregation plus as a technique for consolidating trading book exposures in some cases for CAD banks.
- 4 The obligations in these directives require consolidation ~~only~~ up to the highest relevant parent incorporated in the EEA. ~~and not to~~ Where the ultimate parents is outside the EEA, the FSA also needs to establish whether the bank is subject to equivalent consolidated supervision by the competent authorities in the ultimate parent's home country, and if not, to take appropriate measures to achieve the objectives of the Banking Consolidation Directive. This is covered in more detail in PRU 8.5: banks with non-EEA parents should therefore note that they are also subject to the relevant provisions in PRU 8.5.
- 4A It is open, however, to supervisors to go further than the minimum requirements. It may be important to consolidate other parts of the group, in order to have all the relevant risks included. The FSA is committed to extending its consolidated supervision beyond the requirements of the directives if the result is a more accurate assessment of risk to a bank. Moreover, where a banking group includes an entity active in the insurance sector, it may possibly constitute a *financial conglomerate* and would then be subject to additional rules and guidance necessary to implement the Financial Groups Directive in such cases. The exact definitions and criteria as to what constitutes a *financial conglomerate*, and the additional rules and guidance that apply to them, are set out in PRU 8.4. If a banking group is, or becomes, a *financial*

conglomerate, it will be subject to these additional rules and guidance, as well as to the rules and guidance in this chapter.

1.2 Application

5 This chapter applies to UK-incorporated banks (and banking groups with UK-incorporated non-bank parents) only.

- (a) Banks incorporated elsewhere in the EEA with UK branches are, of course, subject to the requirements of the "2CSD" (now replaced by The Banking eConsolidation Directive as implemented by their home supervisors.

1.3 How this chapter is organised

6 ...

7 ...

8 ~~Section 8 covers~~ Material on qualitative consolidated supervision, formerly in section 8 of this chapter (now deleted), has been replaced by the rules and guidance in PRU 8.1. And Section 9 explains the solo consolidation treatment which may be adopted for solo purposes.

...

2 THE FSA'S APPROACH TO CONSOLIDATED SUPERVISION

1 ...

2 ...

3 ...

4 ...

5 The FSA regards consolidated supervision as a complement to, not a substitute for, solo supervision.

- (a) Solo supervision is needed as well. For events elsewhere in the group and the activities of other group companies can pose a threat to the bank in ways which consolidated supervision alone cannot detect: for example, intra-group linkages arising from transactions between the bank and other group companies will only be revealed by solo supervision. And a complementary assessment of solo capital adequacy permits an assessment of whether, so far as the bank itself is concerned, there is an appropriate distribution of capital in a group.
- (b) So institutions should comply with the FSA's policy on capital adequacy and large exposure on both a solo (or solo-consolidated) and a consolidated basis.

The FSA also seeks to ensure that persons who effectively direct the business of a financial holding company are of sufficiently good repute and have sufficient experience to perform these duties. This requirement was introduced into the Banking Consolidation Directive by the Financial Groups Directive (article 54a of the Banking Consolidation Directive as inserted by article 29(8) of the Financial Groups Directive). But without prejudice to this specific requirement , the Directive also makes clear that the consolidation of the financial situation of a financial holding company (as part of the consolidated supervision of its banking subsidiary by the FSA) in no way implies that the FSA is required to play a supervisory role in relation to that financial holding company on a stand-alone basis .

Article 55a of the Banking Consolidation Directive (as inserted by article 29(9) of the Financial Groups Directive) also requires the FSA to exercise general supervision over transactions between a bank that is a subsidiary of a mixed activity holding company (MAHC), and the MAHC itself and its other subsidiaries. The relevant guidance to banks is set out in section 3 of this chapter, para 3.1.4. If these intra-group transactions were to pose a threat to the bank's financial position , the FSA will take appropriate measures.

...

3 QUANTITATIVE CONSOLIDATED SUPERVISION

...

3.1.3 Adequate controls

See ch GN s3 5 A bank should have adequate internal control mechanisms to produce any data and information which might be relevant for the purpose of supervision on a consolidated basis :this is now placed on a new and stronger footing in PRU 8.1 (see also rule 3.3.19 which requires a bank to have adequate systems and controls which enable it to monitor, control and calculate its large exposures).

3.1.4 Intra group transactions with MAHC

5A Where a bank's parent is a mixed-activity holding company (MAHC), the FSA is required to supervise transactions between the bank, and the MAHC and its other subsidiaries, and any significant transactions are to be reported to the FSA. The most important category of such transactions will be those (i.e. credit exposures and off balance sheet items) that give rise to "exposures" to the relevant connected counterparty for the purposes of chapter LE and the large exposure reporting forms . The FSA considers that in these cases the directive requirement is adequately met by the existing arrangements under which the bank's exposures to individual, or groups of, connected counterparties are reported and monitored (see 3.1.2 above, and also chapter LE section 9.2.2, and the large exposure reporting forms in SUP 16Ann 1R). Reporting of other significant transactions (that do not give rise to “exposures”) is also now required as a separate item by SUP 16.7.8R. The requirements for the bank to have adequate systems and controls to produce the necessary information (see 3.1.3 above), and systems and controls generally to mitigate group risk, are also covered in PRU 8.1 which applies to all banks that are part of groups.

...

4 Scope of consolidation

4.1 INTRODUCTION

See Supervision Manual chapter 16

1 ...

4.2 Domain of consolidation within a group including a bank

2 Consolidation should be undertaken in the following cases:

...

(a) ...

(b) when the bank is not the *parent* company, but:

(i) the bank is part of a group or sub-group whose business wholly or *mainly* comprises the *listed activities*; and

(ii) the *parent* of the group or sub-group is itself a *financial institution*.

See a10.1

(a) The *listed activities* are those given in the first paragraph of the first appendix to this chapter.

See s4.3

(b) The definition of *parent* is given below.

(c) To qualify as a *financial institution*, the exclusive or *main business* of a company should be either to carry out one or more of the listed activities or to acquire holdings in companies undertaking these activities. The formal definition of a *financial institution* is given in the Glossary.

(d) ...

...

4.3 Companies to be consolidated

3 Consolidation then extends to all relevant financial companies within that domain: that is the *parent company*; its *subsidiaries*; and companies in which the parent or its subsidiaries have a *participation*.

(a) The definitions used of *parent* and *subsidiary* are those contained in the Seventh Company Law Directive (83/349/EEC); these are implemented in the United Kingdom in section 258 of the Companies Act 1985. The definition of *participation* is set out in the Table in chapter GN.

(b) The notion of *subsidiary* is also normally extended to cover a company over which the parent or one of its subsidiaries exercises *dominant influence*. The criteria used to determine whether dominant influence exists are those provided by the contemporary UK accounting standards.

(i) The relevant accounting standard is FRS2, Accounting for Subsidiary Undertakings.

- (c) The threshold for the consolidation of group companies which are not subsidiaries – *participations* – is the ownership of 20% or more of the voting rights or capital.
- (d) In the case where undertakings are linked to the domain of consolidation by a relationship within the meaning of article 12(1) of Directive 83/349/EEC (see definition of "consolidation article 12(1) relationship" in the Glossary), the FSA will determine how consolidation is to be carried out.
- (e) Asset management companies (which for this purpose has the meaning given in the Glossary) are also to be consolidated, whether or not they come within the definition of *financial institution* , thereby fulfilling specific requirements in the Financial Groups Directive.

4 Companies whose business is not financial are not usually included in the consolidation; however, the FSA may consider that it is appropriate to include them.

- (a) Insurance and the broking of insurance are not financial activities for this purpose, and so these companies are not usually included in a consolidation.

See ch CA s10

- (i) For an explanation of the treatment of investments in insurance companies, see the chapter on the definition of capital.

5 A non-financial subsidiary or *participation* should be excluded from the consolidation only with the FSA's prior agreement. If the exclusion is agreed, the investment in that company should be deducted from consolidated capital and its assets not included in group weighted risk assets.

...

4.4 General exceptions to the above policy

6 As provided for by ~~article 3.3 of the 2CSD (now replaced by Article 52.3 of The Banking Consolidation Directive,~~ in a limited number of cases the FSA may permit the exclusion from a bank's consolidated returns of subsidiaries or participations which otherwise meet the criteria for consolidation, where:

...

4.5 The policy where a bank is subject to consolidated supervision elsewhere

9 Where a bank is a member of a group including a number of EEA-incorporated banks, the FSA may, following discussion with the other supervisor(s), agree that consolidation is not necessary.

10 For a group including a bank whose ultimate parent is incorporated in a country outside the EEA, the treatment of the whole group is set out in PRU 8.5. This does not affect the usual operation of the Banking Consolidation Directive for the EEA sub-group i.e. from the highest relevant EEA parent down. ~~consolidation of the whole group is not normally necessary.~~

~~In determining the appropriate treatment in these cases, the FSA takes into account whether the parent company is subject to consolidation supervision (by another~~

~~supervisor) that adheres to the Basel minimum standards for the supervision of international banking groups and their cross border establishments~~

In those cases in which it determines that a whole-group consolidation would not be appropriate, the FSA nonetheless considered that sub-consolidation from the highest relevant EEA parent down, as outlined above, would be appropriate.

4.6 Groups not subject to consolidation

- 11 When a bank belongs to a group or sub-group for which the FSA determines consolidation would be inappropriate (for example in cases where the preponderance of the group's business comprises industrial or insurance business), the FSA may ask the parent institution and its other subsidiaries to supply it with any data or information which it considers relevant to the purpose of supervising the bank.
- 12 When the parent of a bank is an insurance company (but the whole group does not constitute a *financial conglomerate*), the FSA does not normally consider it necessary to consolidate down from the insurance company, pending further harmonisation of the basis of accounting for banks and insurance companies. However, the FSA seeks to liaise with the supervisors of the insurance company parent if that supervisor is not the FSA. Where the group as a whole constitutes a *financial conglomerate*, it will in any case be subject to the additional rules and guidance on consolidated supervision set out at PRU 8.4.

...

After Chapter CS, Section 7 delete Section 8 in its entirety.

8 QUALITATIVE CONSOLIDATED SUPERVISION

[deleted]

Annex C

Amendments to the Interim Prudential sourcebook for building societies

In this Annex underlining indicates new text and striking through indicates deleted text. Where an entire section of text is being deleted or inserted, the place where the change will be made is indicated and the text is not struck through or underlined.

Amend IPRU(BSOC), Volume 1, Chapter 1 as follows:

1 SOLVENCY

...

1.4 EU Directives

...

1.4.6 G The BCD also requires the FSA to carry out consolidated supervision of building society groups. The EU provisions for consolidated supervision have been supplemented by the Financial Groups Directive (2002/87/EC). Where a building society group includes an entity active in the insurance sector, while the group's main business lies in the deposit-taking sector, it may possibly constitute a "financial conglomerate" (though the FSA expects this will be rare, at least in the near future). The exact definitions and criteria as to what constitutes a "financial conglomerate" and the additional rules and guidance that apply to them, are set out in the Integrated Prudential Sourcebook (PRU) at PRU 8.4. If (but only if) a building society is, or becomes , a financial conglomerate, it will be subject to these additional rules and guidance , as well as to the rules and guidance in this IPRU (BSOC). Moreover, all building societies that are part of a group are subject to the general provisions in PRU 8.1.

...

1.8 Deductions

1.8.1 G Societies should make certain deductions from own funds and observe certain restrictions on the inclusion of Tier 2 items. The deductions comprise:

(1) ...

(2) ...

(3) ...

(4) ...

- (5) the amount of any material insurance holding (see Annex 1 D for definitions), relating to an insurance undertaking, reinsurance undertaking, or insurance holding company.

1.8.2 G Societies may be expected to make a deduction from own funds to reflect the existence of a contingent liability which, if called, would create an asset that societies would be required to deduct from own funds.

N B: See section 1.13 for ~~deductions in respect~~the treatment of insurance companies that are subsidiaries, section 1.14 for MIG captives, section 1.16 for holdings in other institutions, and for possible deductions arising out of securitisation, section 1.15.

...

1.13 Exclusions from Consolidation

1.13.1 G Subject to a limited degree of discretion allowed to the supervisory authorities, the BCD requires building societies to consolidate subsidiary undertakings which are financial or credit institutions (defined in Annex 1D) for the purposes of calculating their solvency ratio. However unless:

- (1) the inclusion of a particular non financial institution or non-credit institution subsidiary undertaking would result in a higher solvency ratio than if it were to be excluded; or
- (2) the FSA specifically requires the subsidiary undertaking to be excluded;

societies should include all their subsidiary undertakings when calculating their solvency ratio. Exclusion is likely where the FSA believes that a subsidiary's inclusion in the consolidation would be misleading or inappropriate. Life insurance ~~and~~ general insurance, reinsurance and insurance holding companies fall into this category : societies are already expected to deduct material insurance holdings from own funds (see section 1.8 above). ~~and~~ Societies should calculate their solvency ratio after reversing the impact of the investment in, or consolidation of, these subsidiary undertakings. In the society only ratio calculation, the carrying value of the investment should be removed from the weighted asset total, and an equal deduction made from the society's own funds. In the consolidated ratio calculation, the weighted assets of the insurance subsidiary should be removed from the consolidated weighted assets, and the reserves of the subsidiary consolidated into group own funds should be reversed out, including any benefit of the embedded value taken through the group's reserves. The only profits of the subsidiary that may count as group own funds are those that have been distributed to the parent society i.e. as dividends. Societies should also note that the consolidation of asset management companies (which for this purpose have the meaning given in the Handbook Glossary) is now required by article 30 of the Financial Groups Directive, whether or not they come within the definition of a financial institution.

...

1.16 Deductions in Respect of Holdings in Other Institutions

....

1.16.3 G The Directive gives member states the option not to apply the restrictions to life and general insurance companies or reinsurance companies; and not to apply them in other cases provided they require a deduction from the credit institution's own funds of 100% of the amount in excess of the 15% or 60% limits.

1.16.4 G The FSA has decided not to apply the limits to participation in insurance or reinsurance companies but under section 1.8 above - "material insurance holdings" – see Annex 1D for definitions - are already subject to deduction from the society's own funds; see also section 1.13 for capital treatment in respect of holdings on the exclusion of insurance companies subsidiaries from consolidation. The FSA has also decided not to apply the limits in other cases but to recommend a 100% deduction from own funds of the amount of the holding in excess of 15%.

...

Calculation of "Own Funds"

...

1A.6 *Own funds*

1A.6.1 Gross own funds comprise Tier 1 capital plus Tier 2 capital. From this should be deducted:

- (1) ...
- ...
- (4) any deductions in respect of insurance reinsurance or insurance holding companies (section ~~1.13~~1.8), MIG Captives (section 1.14), holdings in other undertakings (section 1.16) and securitisation (paragraph 1.15.2);

to arrive at "own funds".

...

ANNEX 1D

~~HOLDINGS OF CAPITAL INSTRUMENTS OF OTHER CREDIT AND FINANCIAL INSTITUTIONS TO BE EXCLUDED DEDUCTIONS FROM "OWN FUNDS" CALCULATIONS~~

DEFINITIONS (for section 1.8)

G

Insert the following new definitions in Annex 1D.1:

1D.1 Definitions

...

1D.1.4 Material Insurance Holding means the higher of

- a. the book value of an investment held in an insurance undertaking, reinsurance undertaking, or insurance holding company ("investment" for this purpose is either a participation, or the investment in a subsidiary undertaking), or
- b. the society's proportionate share of that undertaking's local or notional regulatory capital requirement.

Where the undertaking is a subsidiary and it has a solvency deficit, the subsidiary's local or notional regulatory requirement should be deducted in full.

A description of how a notional capital requirement is to be calculated is set out in paragraphs 6.7 and 6.8 in Part 6 of PRU 8 Annex 1. A notional requirement should be calculated in all cases where the undertaking is not regulated to EEA or equivalent standards : this is also explained in paragraphs 6.7 and 6.8 in Part 6 of PRU 8 Annex 1.

1D.1.5 Participation means

- (1) a participating interest as defined in section 260 of the Companies Act 1985 (participating interests): or
- (2) the direct or indirect ownership of 20% or more of the voting rights or capital of an undertaking.

Annex D

Amendments to the Interim Prudential sourcebook for friendly societies

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

Chapter 7

DEFINITIONS

Part I Definitions

7.1 In this Part of the *IPRU(FSOC)*, unless the contrary intention appears, the following definitions apply –

insurance holding company means a parent undertaking whose main business is to acquire and hold participations in subsidiary undertakings, where:

- (a) those subsidiary undertakings are exclusively or mainly insurance undertakings;
- (b) at least one of those subsidiary undertakings is a UK insurer or an EEA firm that is a regulated insurance entity; and
- (c) it is not a mixed financial holding company. ~~an undertaking whose main business is to acquire and hold participations in subsidiary undertakings, where those subsidiary undertakings are exclusively or mainly insurance undertakings;~~

notional required minimum margin means:

- (a) in the case of an insurance undertaking (other than a pure reinsurer) that has its head office in a designated state or territory, the amount of the required minimum margin, or the equivalent requirement under the regulatory requirements of that state or territory;
- (b) in the case of a pure reinsurer that has its head office in a designated state or territory, the amount that would be the required minimum margin, or the equivalent requirement under the regulatory requirements of that state or territory, if the regulatory requirements of that state or territory applicable to undertakings carrying on direct insurance business were applied to the pure reinsurer (whether they are or not); and
- (c) in all other cases, the amount of the required minimum margin that would apply if the insurance undertaking were an insurer (other than a pure reinsurer), with its head office in the United Kingdom (whether it

is or not)
<u>participating undertaking</u> means <u>an undertaking which is either a parent undertaking or other undertaking which holds a participation in or is linked by a consolidation Article 12(1) relationship with the undertaking in question</u> an undertaking which holds a participation in another undertaking;
<u>proxy capital resources requirement</u> means <u>the solo capital resources requirement to which an undertaking would have been subject if it had a permission for each activity it carries on anywhere in the world, so far as that activity is a regulated activity.</u>
<u>regulated related undertaking</u> means a <u>related undertaking that is any of the following:</u>
(a) <u>a regulated entity;</u>
(b) <u>an insurance undertaking which is not a regulated insurance entity;</u>
(c) <u>an asset management company;</u>
(d) <u>a financial institution which is neither a credit institution nor an investment firm;</u>
(e) <u>a financial holding company; or</u>
(f) <u>an insurance holding company.</u>
<u>related undertaking</u> means <u>in relation to an undertaking 'U':</u>
(a) <u>any subsidiary undertaking of U;</u>
(b) <u>any undertaking in which U or any of U's subsidiary undertakings holds a participation;</u>
(c) <u>any undertaking linked to U by a consolidation Article 12(1) relationship; or</u>
(d) <u>any undertaking linked by a consolidation Article 12(1) relationship to an undertaking in (a), (b) or (c).</u>
an undertaking in which a participation is held by another undertaking or which is a subsidiary undertaking;
<u>relevant regulatory requirements</u> means:
(a) <u>in the case of a related undertaking that is an insurance undertaking, established in a designated state or territory, at the option of the friendly society:</u>
(i) <u>the regulatory requirements of that state or territory applicable to</u>

an undertaking carrying on *direct insurance business* (even if it only carries on *reinsurance* business or is an *insurance holding company*), or

(ii) the requirements referred to in (b);

(b) in the case of any other *insurance undertaking* or *insurance holding company*, the rules in *IPRU(INS)* applicable to an *insurer* (other than a *pure reinsurer*) with its head office in the United Kingdom (whether or not it is such an *insurer*)

surplus assets has the meaning given in paragraph 3(3) of Appendix 4 ~~except that in relation to a *related undertaking* which is an *insurance undertaking* or an *insurance holding company* it has the meaning given in *IPRU (INS)*;~~

PART II – General Provisions

7.2 A word or phrase which is printed in italics is used in the defined sense. Where a word or phrase is printed in italics and is not given a meaning in Part 1 of Chapter 7, that word or phrase has the meaning given to it in the Handbook Glossary.

7.3 ...

Appendix 4

ASSET VALUATION RULES

Shares in a related undertaking

- ~~3. (1) Where any *shares* are held by a *friendly society* in a *related undertaking*, which is an *insurance undertaking* or *insurance holding company*:~~
- ~~(a) the value of the *shares* must not exceed the value, determined in accordance with rule 4.2 of *IPRU(INS)* of the *related undertaking's* surplus assets (as defined in *IPRU(INS)*);~~
 - ~~(b) the *friendly society* must make provision in respect of the *related undertaking* in accordance with rule 5.3A of *IPRU(INS)*.~~
- ~~(2) Where any *shares* are held by a *friendly society* in a *related undertaking* which is not an *insurance undertaking* or *insurance holding company*, the value of the *shares* must not exceed the greater of:~~
- ~~(a) the value (or, where the shareholding, whether held directly or indirectly, is less than 100%, the relevant *proportional share* of the value), determined in accordance with this Appendix (other than 15(1)(a) to (c)), of the *related undertaking's surplus assets*; and~~
 - ~~(b) the value of those *shares* as determined under 9 reduced:~~
 - ~~(i) by an appropriate amount, to the extent that the *shares* cannot effectively be made available or realised to meet losses (if any) arising in the *friendly society*;~~
 - ~~(ii) by an appropriate amount, to the extent needed to exclude value attributable to goodwill generated from business with the *friendly society* or any *related undertaking* of the *friendly society* that is an *insurance undertaking* or an *insurance holding company*; and~~
 - ~~(iii) by the amount by which the value of any *shares* held by the *group undertaking* in a *related undertaking* of the *friendly society* which is an *insurance undertaking* or an *insurance holding company* exceeds the value (or *proportional share*); determined in accordance with this Appendix (other than 15(1)(a) to (c)), of the *surplus assets* of the *related undertaking*.~~
- ~~(3) The surplus assets of a *related undertaking* (other than an *insurance undertaking* or an *insurance holding company*) are its total assets excluding:~~
- ~~(a) the assets that are selected to cover liabilities;~~

- ~~(b) — assets that are interests directly or indirectly held in the *related undertaking's* own capital;~~
 - ~~(c) — amounts due, or to become due, in respect of *share* capital, or other contributions from members of the *related undertaking*, subscribed or called for but not fully paid up; and~~
 - ~~(d) — assets that cannot effectively be made available or realised to meet losses (if any) arising in the *friendly society*, including assets that represent capital not owned, directly or indirectly, by the *friendly society*.~~
- ~~(4) — The assets selected in (3)(a) to be excluded from the total assets:~~
- ~~(a) — must be of a value at least equal to the amount of the liabilities of the *related undertaking*, determining that value and that amount in accordance with this Appendix (other than 15(1)(a) to (c)) and Appendix 5; and~~
 - ~~(b) — must not include:~~
 - ~~(i) — assets falling within (3)(b), or~~
 - ~~(ii) — assets falling within (3)(c) where the amount is due, or to become due, from a *related undertaking*; but~~
 - ~~(c) — notwithstanding (a), a liability of the *related undertaking* which is a *debt due to the friendly society* is not required to be determined at an amount which is higher than the value placed on that *debt* as an asset of the *friendly society*.~~
3. (1) Where any *shares* are held by a *friendly society* in a *related undertaking*, which is a *regulated related undertaking* the value of the *shares* may be taken as, and in any event must not exceed, the value (or, where the shareholding, whether held directly or indirectly, is less than 100%, the relevant *proportional share* of the value), determined in accordance with this Appendix (other than paragraph 15(1)(a) to (c)), of the *surplus assets* of the *regulated related undertaking*.
- (2) Where any *shares* are held by a *friendly society* in a *related undertaking* which is not a *regulated related undertaking*, the value of the *shares* must not exceed the greater of:
- (a) the value (or, where the shareholding, whether held directly or indirectly, is less than 100%, the relevant *proportional share* of the value), determined in accordance with this Appendix (other than 15(1)(a) to (c)), of the *related undertaking's surplus assets*; and
 - (b) the value of those *shares* as determined under paragraph 9 reduced:

- (i) by an appropriate amount, to the extent that the *shares* cannot effectively be made available or realised to meet losses (if any) arising in the *friendly society*.
 - (ii) by an appropriate amount, to the extent needed to exclude value attributable to goodwill generated from business with the *friendly society* or any *related undertaking* of the *friendly society* that is a *regulated related undertaking*, and
 - (iii) by the amount by which the value of any *shares* held by the *related undertaking* in a *related undertaking* of the *friendly society* which is a *regulated related undertaking* exceeds the value (or *proportional share*), determined in accordance with this Appendix (other than 15(1)(a) to (c)), of the *surplus assets* of the *related undertaking*.
- (3) The surplus assets of a *related undertaking* are its total assets excluding:
- (a) the assets that are selected to cover liabilities and, in the case of a *related undertaking* which is a *regulated related undertaking*, to cover its regulatory requirement;
 - (b) the regulatory requirement of a *regulated related undertaking* is:
 - (i) in respect of an *insurance undertaking*, the *notional required minimum margin*;
 - (ii) in respect of a *regulated entity* with its head office in the *EEA* (excluding an *insurance undertaking*), the *solo capital resources requirement* calculated in accordance with the *sectoral rules* for the *financial sector* applicable to it;
 - (iii) in respect of a *regulated entity* not within (ii) (excluding an *insurance undertaking*), its *proxy capital resources requirement*;
 - (iv) in respect of *asset management company*, the *solo capital resources requirement* that would apply to it if, in connection with its activities, it were treated as an *investment firm* for the purposes of calculating the *solo capital resources requirement*;
 - (v) in respect of a *financial institution* (including a *financial holding company*) which is not a *regulated entity*, the *solo capital resources requirement* that would apply to it if, in connection with its activities, it were treated as being within the *banking sector*; and
 - (vi) in respect of an *insurance holding company*, zero.

- (c) assets that are interests directly or indirectly held in the *related undertaking's* own capital (as defined in the *relevant regulatory requirements* for that undertaking);
 - (d) where the *related undertaking* carries on *long-term insurance business*, profit reserves and future profits;
 - (e) assets which represent either a *long-term insurance fund* or a fund the allocation of which as between *policy holders* and other purposes has yet to be determined;
 - (f) amounts due, or to become due, in respect of *share capital*, or other contributions from members of the *related undertaking*, subscribed or called for but not fully paid up; and
 - (g) assets that cannot effectively be made available or realised to meet losses (if any) arising in the *friendly society*, including assets that represent capital not owned, directly or indirectly, by the *friendly society*.
- (4) The assets selected in (3)(a) to be excluded from the total assets:
- (a) where the *related undertaking* is an *insurance undertaking*, must be identified and valued in accordance with *relevant regulatory requirements* as to the value, admissibility, nature, location or matching that apply to the assets available to cover its liabilities (determined under the *relevant regulatory requirements*) and the *notional required minimum margin*;
 - (b) where the *group undertaking* is a *regulated related undertaking* (excluding an *insurance undertaking*), must be identified and valued in accordance with the *relevant sectoral rules* applicable to the *regulated related undertaking* as to cover its liabilities and the applicable regulatory requirement identified in paragraph 3(3)(b);
 - (c) where the *group undertaking* is not a *regulated related undertaking*, must be of a value at least equal to the amount of its liabilities, determining that value and that amount in accordance with this Appendix (other than 15(1)(a) to (c)) and Appendix 5; and
 - (d) in all cases, must not include:
 - (i) assets falling within (3)(c), or
 - (ii) assets falling within (3)(f) where the amount is due, or to become due, from a *related undertaking*; but
 - (e) notwithstanding (a), (b) and (c), a liability of a *related undertaking* which is a *debt* due to the *friendly society* is not required to be

determined at an amount which is higher than the value placed on that debt as an asset of the friendly society.

- (5) For the purposes of (4), the relevant regulatory requirements must be treated as if paragraphs 15(1)(a) to (c) (or their equivalent in a designated State or territory) do not apply for the purpose of valuing shares in related undertakings that are not dependants.
- (6) For the purposes of this Appendix, any value attributed to any shares held directly or indirectly in a related undertaking which is an ancillary insurance service undertaking, an ancillary investment services undertaking or an ancillary banking services undertaking, calculated in accordance with paragraph 3, must be deducted from the assets of the friendly society.

Value of non capital interests in a group undertaking

- 4A (1) A friendly society must notify the FSA of:
- (a) any related undertaking which:
- (i) no participation is held in by another related undertaking; and
- (ii) is not a subsidiary undertaking; but
- (iii) is linked by a consolidation Article 12(1) relationship with another related undertaking; and
- (b) the value of that undertaking calculated on the basis of paragraph 3.
- (2) For the purposes of this Appendix, the related undertaking referred to in (1)(a)(iii)'s proportional share of the value of the related undertaking in (1)(a) is determined in accordance with Article 28(5) of the Financial Groups Directive.

Appendix 5

LIABILITY VALUATION RULES

Provision for related undertakings

- 3A (1) Except to the extent that provision for the deficit has been made (whether in the calculation of *surplus assets* or otherwise) in another *related undertaking* the value of whose *shares* is taken to be the value of its *surplus assets* under paragraph 3(1) or (2) of Appendix 4 (but only to the extent of the *friendly society's proportional share* of that *undertaking*), a *friendly society* must make provision in respect of a *related undertaking* that is a *regulated related undertaking*:
- (a) where the *related undertaking* is also a *subsidiary undertaking* of the *friendly society*, for the whole of any *solvency deficit*; and
 - (b) in any other case, for the *friendly society's proportional share* of any such deficit.
- (2) For the purposes of (1), the identification and valuation of assets of *regulated related undertaking* available to cover liabilities and the regulatory requirement, set out in paragraph 3(3)(b) of Appendix 4 must be determined in accordance with paragraph 3(4) of Appendix 4.

Annex E

Amendments to Interim Prudential Sourcebook for Insurers (IPRU(INS))

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

IPRU(INS) - VOLUME 1

Chapter 4

VALUATION OF ASSETS

Shares in a group undertaking

- 4.2 (1) Notwithstanding rule 4.8, the value of any *shares* held in a *group undertaking* which is ~~an *insurance undertaking* or an *insurance holding company*~~ a *regulated related undertaking* may be taken as, and, in any event, must not exceed, the value (or, where the shareholding, whether held directly or indirectly, is less than 100%, the relevant *proportional share* of the value), determined in accordance with the *Valuation of Assets Rules* (other than rule 4.14(1)(a) to (c)), of the ~~its~~ *surplus assets of the regulated related undertaking*.
- (1A) The value of any *shares* held in a *group undertaking* which is not ~~an *insurance undertaking* or an *insurance holding company*~~ a *regulated related undertaking* must not exceed the greater of:
- (a) ...
 - (b) ...
 - (i) ...
 - (ii)
 - (iii) by the amount by which the value of any *shares* held by the *group undertaking* in a *related undertaking* of the *insurer* which is an *regulated related undertaking insurance undertaking* ~~or an *insurance holding company*~~ exceeds the value (or *proportional share*), determined in accordance with the *Valuation of Assets Rules* (other than rule 4.14(1)(a) to (c)), of the *surplus assets* of the *related undertaking*.
- (2) The surplus assets of a *group undertaking* are its total assets excluding:
- (a) the assets that are selected to cover liabilities and, in the case of a *group undertaking* which is ~~an *insurance undertaking*~~, ~~to cover the *notional required minimum margin*~~ a *regulated related undertaking*, to cover its regulatory requirement;

- (aa) the regulatory requirement of a regulated related undertaking is:
- (i) in respect of an insurance undertaking, the notional required minimum margin;
 - (ii) in respect of a regulated entity with its head office in the EEA (excluding an insurance undertaking), the solo capital resources requirement calculated in accordance with the sectoral rules for the financial sector applicable to the regulated related undertaking;
 - (iii) in respect of a regulated entity not within (ii) (excluding an insurance undertaking), its proxy capital resources requirement;
 - (iv) in respect of an asset management company, the solo capital resources requirement that would apply to it if, in connection with its activities, it were treated as an investment firm for the purposes of calculating the solo capital resources requirement;
 - (v) in respect of a financial institution (including a financial holding company) which is not a regulated entity, the solo capital resources requirement that would apply to it if, in connection with its activities, it were treated as being within the banking sector; and
 - (vi) in respect of an insurance holding company, zero.
- (c)
- (d)
- (e)
- (f)
- (3) The assets selected in (2)(a) to be excluded from the total assets:
- (a) ...
 - (b) where the group undertaking is a regulated related undertaking (excluding an insurance undertaking), must be identified and valued in accordance with the relevant sectoral rules applicable to the regulated related undertaking as to cover its liabilities and the applicable regulatory requirement identified in rule 4.2(2)(aa);
 - (c) where the group undertaking is not an insurance undertaking a regulated related undertaking, must be of a value at least equal to the amount of its liabilities, determining that value and that amount in accordance with the Valuation of Assets Rules (other than 4.14(1)(a) to (c)) and the Determination of Liabilities Rules; and
 - (d) in all both cases, must not include:

- (i) assets falling within (2)(b), or
 - (ii) assets falling within (2)(e) where the amount is due, or to become due, from a *group undertaking*; but
- (~~de~~) notwithstanding (a), ~~and~~ (b) and (c), a liability of a *group undertaking* which is a *debt* due to the *insurer* is not required to be determined at an amount which is higher than the value placed on that *debt* as an asset of the *insurer*.
- (5) For the purposes of the *Valuation of Assets Rules*, any value attributed to any *shares* held directly or indirectly in a *group undertaking* which is an *ancillary insurance services undertaking*, an *ancillary investment services undertaking* or an *ancillary banking services undertaking*, calculated in accordance with rule 4.2, shall be deducted from the assets of the *insurer*.

Value of non capital interests in a group undertaking

- 4.3A (1) An *insurer* must notify the *FSA* of:
- (a) any *group undertaking* which:
 - (i) no *participation* is held in by another *group undertaking*; and
 - (ii) is not a *subsidiary undertaking*; but
 - (iii) is linked by a *consolidation Article 12(1) relationship* with another *group undertaking*; and
 - (b) the value of that *undertaking* calculated on the basis of rule 4.2.
- (2) For the purposes of *Valuation of Assets Rules*, the *group undertaking* referred to in (1)(a)(iii)'s proportional share of the value of the *group undertaking* in (1)(a) shall be determined in accordance with Article 28(5) of the *Financial Groups Directive*.

Chapter 5

DETERMINATION OF LIABILITIES

Provision for related undertakings

- 5.3A (1) Except to the extent that provision for the deficit has been made (whether in the calculation of *surplus assets* or otherwise) in another *group undertaking* the value of whose *shares* is taken to be the value of its *surplus assets* under rule 4.2(1) or (1A)(a) (but only to the extent of the *insurer's proportional share* of that undertaking), an *insurer* must make provision in respect of a *related undertaking* that is ~~an insurance undertaking or insurance holding company~~ a regulated related undertaking:
- (a) where the *related undertaking* is also a *subsidiary undertaking* of the *insurer*, for the whole of any *solvency deficit*; and
 - (b) in any other case, for the *insurer's proportional share* of any such deficit.
- (2) For the purposes of (1), the identification and valuation of assets of a regulated related undertaking available to cover liabilities and the regulatory requirement, set out in rule 4.2(2)(aa), notional required minimum margin must be determined in accordance with rule 4.2(3).

PARENT UNDERTAKING SOLVENCY CALCULATION

Information to be provided to FSA

- 10.2 (1) ...
- (b) the relationship with each other member of the *insurance group*, including the amounts and descriptions of holdings of *share capital* and voting rights and the nature of any consolidation Article 12(1) relationship;
- ...
- (4) ...
- (c) the valuation of assets and the determination of liabilities of regulated related undertakings ~~insurance undertakings~~ and ~~insurance holding companies~~; and
- (d) the calculation of the required minimum solvency margin or capital resources requirement of those undertakings ~~insurance undertakings~~.

Chapter 11

DEFINITIONS

PART I

DEFINITIONS

- 11.1 For the purposes of *IPRU(INS)*, the term or phrase in the first column has the meaning given to it in the second column unless the context otherwise requires.

<i>Banking Co-ordination Directive</i> or <i>BCD</i>	Council Directive of 20 March 2000, relating to the taking up and pursuit of the business of credit institutions (2000/12/EC)
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<i>Directive</i>	see – <i>Insurance Groups Directive</i> <i>Investment Services Directive</i> <i>Financial Groups Directive</i> <i>First Life Directive</i> <i>First Non-Life Directive</i> <i>Banking Co-ordination Directive</i> <i>Third Life Directive</i> <i>Third Non-Life Directive</i> <i>Consolidated Life Directive</i>
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<i>insurance group</i>	an <i>insurance parent undertaking</i> and its <i>related undertakings</i> (a) — <i>insurance undertakings</i> ; or (b) — <i>insurance holding companies</i>
<i>insurance holding company</i>	a <i>parent undertaking</i> whose main business is to acquire and hold <i>participations</i> in <i>subsidiary undertakings</i> , where: (a) those <i>subsidiary undertakings</i> are exclusively or

	<p>mainly <i>insurance undertakings</i>;</p> <p>(b) <u>at least one of such <i>subsidiary undertakings</i> is a <i>UK insurer</i> or an <i>EEA firm</i> that is a <i>regulated insurance entity</i>; and</u></p> <p>(c) <u>it is not a <i>mixed financial holding company</i>.</u></p>
<i>insurance parent undertaking</i>	<p>in relation to an <i>insurer</i>, is a <i>parent undertaking</i> which is</p> <p>(1) <u>an of that <i>insurer</i> which has a <i>subsidiary undertaking</i> which is an <i>insurance undertaking</i>;</u></p> <p>(2) <u>an which is either itself an <i>insurance undertaking</i> or an <i>insurance holding company</i> which has a <i>subsidiary undertaking</i> which is an <i>insurer</i>; or</u></p> <p>(3) <u>an <i>insurance undertaking</i> which has a <i>subsidiary undertaking</i> which is an <i>insurer</i></u></p>

<i>notional group solvency margin</i>	<p>in relation to an <i>ultimate insurance parent undertaking</i> or an <i>ultimate EEA insurance parent undertaking</i>, the sum of:</p> <p>(a) the <i>notional required minimum margin</i> (if any) of that parent; and</p> <p>(b) the sum of that parent's <i>proportional shares</i> of the <u>regulatory requirements referred to in Rule 4.2(2)(aa) notional required minimum margins</u> of its <u><i>regulated related insurance undertakings</i></u></p>
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<i>participating undertaking</i>	<u>an <i>undertaking</i> which is either a <i>parent undertaking</i> or other <i>undertaking</i> which holds a <i>participation</i> in or is linked by a <i>consolidation Article 12(1) relationship</i> with an <i>undertaking</i> which holds a <i>participation</i> in the undertaking in question</u>
<i>participation</i>	<p>(a) the holding of a participating interest within the meaning of section 421(2) of the <i>Act</i>; or</p> <p>(b) the holding, directly or indirectly, of 20% or more of the voting rights or capital <u>of an <i>undertaking</i></u></p>
<i>proxy capital resources</i>	<u>the <i>solo capital resources requirement</i> to which an <i>undertaking</i> would have been subject if it had a</u>

<i>requirement</i>	<u>permission</u> for each activity it carries on anywhere in the world, so far as that activity is a <i>regulated activity</i> .
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<i>regulated related undertaking</i>	<p><u>a group undertaking</u> that is any of the following:</p> <p>(a) <u>a regulated entity</u>,</p> <p>(b) <u>an insurance undertaking</u> which is not a <i>regulated insurance entity</i>,</p> <p>(c) <u>an asset management company</u>,</p> <p>(d) <u>a financial institution</u> which is not either a <i>credit institution</i> or <i>investment firm</i>,</p> <p>(e) <u>a financial holding company</u>, or</p> <p>(f) <u>an insurance holding company</u>.</p>
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<i>related undertaking</i>	<p>in relation to an <i>undertaking 'U'</i>:</p> <p>(a) <u>any subsidiary undertaking</u> of U;</p> <p>(b) <u>any undertaking</u> in which U or any of U's <u>subsidiary undertakings</u> holds a <i>participation</i> is held by another undertaking; or</p> <p>(c) <u>any undertaking</u> which is linked to U by a <u>consolidation</u> a <u>subsidiary undertaking</u> <u>Article 12(1) relationship</u>; or</p> <p>(d) <u>any undertaking</u> linked by a <u>consolidation Article 12(1) relationship</u> to an undertaking in (a), (b) or (c).</p>
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<i>solvency deficit</i>	a or any deficit in the assets available to cover the undertaking's liabilities and represent its <u>regulatory requirement</u> referred to in Rule 4.2(2)(aa) notional required minimum margin (if any)
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<i>ultimate insurance parent undertaking</i>	an insurance <u>parent undertaking</u> that is either an <u>insurance undertaking</u> or an <u>insurance holding company</u> and is not itself the <i>subsidiary undertaking</i> of another <i>insurance parent undertaking</i>
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PART 2

GENERAL PROVISIONS

Use of definitions

- 11.5 A word or phrase which is printed in italics is used in the defined sense. Where a word or phrase is printed in italics and is not given a meaning in Part 1 of Chapter 11, that word or phrase has the meaning given to it in the Handbook Glossary.

GUIDANCE NOTE 4.1

GUIDANCE FOR INSURERS AND AUDITORS ON THE VALUATION OF ASSET RULES

Annex C

SHARES IN AND DEBTS DUE TO A GROUP UNDERTAKING

Shares in a group undertaking (rule 4.2)

2. *Shares in a group undertaking* may be valued either as arms-length investments under rule 4.8 (see paras 4.63 to 4.76 of Guidance Note 4.1) or under rules 4.2 (1) to (4). *Shares in group undertakings* that are *insurance undertakings* or *insurance holding companies* (see paragraph 4 of Guidance Note 10.1 for guidance on *insurance holding companies*) may not be given a higher value than the *surplus assets* in those undertakings calculated according to rules 4.2(2) to (4), but otherwise the *insurer* has the option whether or not to use rule 4.8¹. If rule 4.8 is used, then admissibility limits apply and from 1 May 2003 there must be a deduction for intra-group goodwill under rule 4.2(1A)(b)(ii) (see 5). When valuing *shares* in a *group undertaking*, rules 4.2 (2) to (4) require net asset value to be used with certain adjustments.

¹ For the purposes of implementing the *Financial Groups Directive* and the amendments to the *Insurance Groups Directive*, with effect from 1 January 2005, *shares* held by an *insurer* in a *group undertaking* that is a *regulated related undertaking* (including *insurance undertakings* and *insurance holding companies*) are to be valued in accordance with the amended rules 4.2(1) to (5) and the *insurer* will not have the option to use rule 4.8 in respect of a *regulated related undertaking*. For the purposes of Annex C of this Guidance Note 4.1, references to *group undertakings* that are either *insurance undertakings* or *insurance holding companies*, or both should be read as references to *group undertakings* that are *regulated related undertakings*. Please note that the examples on pages 76J, K & L have not been amended to take account of this change (although they remain correct for a *firm* which does not have any *regulated related undertakings* which are not *insurance undertakings*).

GUIDANCE NOTE 10.1

THE PARENT UNDERTAKING SOLVENCY CALCULATION

Introduction

1. This guidance relates to the *parent undertaking solvency calculation* required by the *Insurance Groups Directive* and implemented in Chapter 10 of *IPRU(INS)*. The calculation is formulated on a basis analogous to the basis on which *shares in group undertakings* are valued for the *required solvency margin* (see Annex C paragraphs 4.7 to 4.12 of Guidance Note 4.1)¹, but in contrast the *parent undertaking solvency calculation* is applied to an *insurer's ultimate insurance parent undertaking* and its *ultimate EEA insurance parent undertaking*, if different. Valuation of *shares in group undertakings* at the solo level focus "downwards" on the *insurer's* holdings in *group undertakings*, whereas the *parent undertaking solvency calculation* focuses "upwards" towards the ultimate parent of the *insurance group* of which it is a member.

Application and scope

3. The information and calculations to be provided under Chapter 10 are in respect of the *insurer* and each member of its *insurance group*. The *insurance group* consists of the *insurer's ultimate insurance parent undertaking* and its *related undertakings* ~~which are insurance undertakings or insurance holding companies.~~

¹ Annex C of Guidance Note 4.1 has been amended with effect from 1 January 2005 for the purposes of implementing the *Financial Groups Directives* and amendments to the *Insurance Groups Directive* to include *regulated related undertakings* within the scope of rule 4.2(1).

Annex F

Amendments to the Interim Prudential sourcebook for investment business

In this Annex underlining indicates new text and striking through indicates deleted text. Where an entire section of text is being deleted or inserted, the place where the change will be made is indicated and the text is not struck through or underlined.

IPRU(INV), Chapter 1.

...

1.2.4	R	A <i>firm</i> of a kind listed in the left-hand column of Table 1.2.4R must comply with the provisions of <i>IPRU(INV)</i> shown in the right hand column and, where relevant, <u>the provisions of Chapter 14.</u>
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...

In Chapter 3, after the heading "CONSOLIDATED SUPERVISION" insert the following text as a footnote:

Under the Financial Conglomerates and Other Financial Groups Instrument 2004, the rules in Chapter 14 shall (with respect to a particular firm, group or financial conglomerate) apply from the first day of its financial year beginning in 2005 in place of rules 3-190(1) to 3-195.

In IPRU(INV), Chapter 5, Table 5.2.2(1), insert the following:

**PART II
DETAILED REQUIREMENTS**

...

10 Illiquid assets
(Item 16)

Illiquid assets comprise:

...

(i) if not otherwise covered, any holding in eligible capital instruments of an insurance undertaking, insurance holding company, or reinsurance undertaking that is a *subsidiary* or *participation*. Eligible capital instruments include ordinary share capital, cumulative preference shares, perpetual securities and long-term subordinated loans, that are eligible for insurance undertakings under PRU 2.

...

In Chapter 5, after the heading "CONSOLIDATED SUPERVISION" insert the following text as a footnote:

Under the Financial Conglomerates and Other Financial Groups Instrument 2004, the rules in Chapter 14 shall (with respect to a particular firm, group or financial conglomerate) apply from the first day of its financial year beginning in 2005 in place of rules 5.7.1(1) to 5.7.5(4).

In Table 7.3.1 R, insert the following:

PART II

DETAILED REQUIREMENTS

...

10 Illiquid assets (Item 14)

...

Illiquid assets comprise:

...

(i) if not otherwise covered, any holding in eligible capital instruments of an insurance undertaking, insurance holding company, or reinsurance undertaking that is a subsidiary or participation. Eligible capital instruments include ordinary share capital, cumulative preference shares, perpetual securities and long-term subordinated loans, that are eligible for insurance undertakings under PRU 2.

...

In table 10-61(1)B insert the following items:

R TABLE 10-61(1)B – Own funds

the sum of -

material holdings in credit and financial institutions

material insurance holdings

(E)

In table 10-62(2)A insert the following items:

R TABLE 10-62(2)A - Financial resources - version I

the sum of -

material holdings in credit and financial institutions

material insurance holdings

(G)

In table 10-62(2)B insert the following items:

R TABLE 10-62(2)B - Financial resources - version II

the sum of -

material holdings in credit and financial institutions

material insurance holdings

(H)

In table 10-62(2)C insert the following items:

R TABLE 10-62(2)C - Financial resources - version II.2

the sum of -

(G)

non-trading book material holdings in credit and financial institutions
material insurance holdings

In Chapter 10, after the heading "CONSOLIDATED SUPERVISION" insert the following text as a footnote:

Under the Financial Conglomerates and Other Financial Groups Instrument 2004, the rules in Chapter 14 shall (with respect to a particular firm, group or financial conglomerate) apply from the first day of its financial year beginning in 2005 in place of rules 10-200(1) to 10-204.

...

Insert in the Chapter 10, Appendix 1, Glossary of Terms for IPRU(INV) 10:

Material insurance holdings This is calculated as the higher of –

- (a) the book value of an investment held in an insurance undertaking, reinsurance undertaking or insurance holding company; and
- (b) the group's proportionate share of that undertaking's local or notional regulatory requirement.

Investment for this purpose includes both a participation and the investment in a subsidiary undertaking.

...

In Table 13.5.4(1) PART I insert the following:

FIRMS IN CATEGORY A1		
ASSETS	CALCULATION	TYPE OF ADJUSTMENT
...
(13) All other assets	<p>Exclude in full.</p> <p><u>If not otherwise excluded in full in this table, this category should include any holding in eligible capital instruments of an insurance undertaking, insurance holding company, or reinsurance undertaking that is a subsidiary or participation.</u></p> <p><u>Eligible capital instruments include ordinary share capital, cumulative preference shares, perpetual securities and long-term subordinated loans, that are eligible for insurance undertakings under PRU 2.</u></p>	An Illiquid Adjustment
...

In Table 13.5.4(2) PART I insert the following:

FIRMS IN CATEGORY A2 AND A3

ASSETS	CALCULATION	TYPE OF ADJUSTMENT
...
(13) All other assets	<p>Exclude in full.</p> <p><u>If not otherwise excluded in full in this table, this category should include any holding in eligible capital instruments of an insurance undertaking, insurance holding company, or reinsurance undertaking that is a subsidiary or participation.</u></p> <p><u>Eligible capital instruments include ordinary share capital, cumulative preference shares, perpetual securities and long-term subordinated loans, that are eligible for insurance undertakings under PRU 2.</u></p>	An Illiquid Adjustment
...

In Chapter 13, after the heading "Consolidated Supervision of Group Companies" insert the following text as a footnote:

Under the Financial Conglomerates and Other Financial Groups Instrument 2004, the rules in Chapter 14 shall (with respect to a particular firm, group or financial conglomerate) apply from the first day of its financial year beginning in 2005 in place of rules 13.7.1 to 13.7.2B.

After IPRU, Chapter 13, insert the following new Chapter 14:

CHAPTER 14: CONSOLIDATED SUPERVISION FOR INVESTMENT BUSINESSES

14.1 Application

- 14.1.1 R Subject to rule 14.1.2, *consolidated supervision* and this chapter apply to a *firm* which is a member of a group if it is:
- (1) a *securities and futures firm*, subject to the financial rules in Chapter 3, which is a *broad scope firm* but not a *venture capital firm*;
 - (2) an *investment management firm*, which is a *CAD investment firm* subject to the financial rules in Chapter 5;
 - (3) a *UCITS investment firm*, subject to the financial rules in chapter 7;
 - (4) a *securities and futures firm*, subject to the financial rules in Chapter 10, unless the *firm* is a *category D firm*; or
 - (5) a *category A personal investment firm*, subject to the financial rules in Chapter 13.

Cases where consolidated supervision under this chapter will not apply

- 14.1.2 R A *firm* is not subject to *consolidated supervision* under the rules in this Chapter where any of the following conditions are fulfilled:
- (1) the *firm* is included in the supervision on a consolidated basis of the group of which it is a member by a *competent authority* other than the *FSA*; or
 - (2) the *firm* is already included in the supervision on a consolidated basis of the group of which it is a member by the *FSA* under IPRU(BANK) or IPRU(BSOC).
- 14.1.3 G (1) The rules in this chapter apply even if the *firm* is subject to the rules in PRU 8.4 (the financial conglomerates rules) or PRU 8.3 (the insurance group rules), if the *firm* is part of an investment sub-group. Financial conglomerates are subject to the Financial Groups Directive (2002/87/EC). Insurance groups are subject to the Insurance Groups Directive (98/78/EC). Neither directive allows a waiver of consolidation of a Capital Adequacy Directive group. So if there is an investment sub-group within an insurance group, the rules in this chapter apply, regardless of the application of a group capital assessment to the wider group.

- (2) Where firms authorised in two or more member states have as their parent the same *financial holding company*, supervision on a consolidated basis will be exercised by the competent authority of the firms authorised in the member state in which the *financial holding company* was set up. If no firm has been authorised in the Member State in which the financial holding company was set up, the competent authorities of the Member States concerned will seek to reach agreement as to who amongst them will exercise supervision on a consolidated basis. In the absence of such an agreement, supervision on a consolidated basis will be exercised by the competent authority that granted authorisation to the firms with the greatest balance-sheet total (measured on the basis of total assets). If that figure is the same for more than two authorised firms, supervision on a consolidated basis will be exercised by the competent authority which first gave the authorisation.
- (3) Where there is more than one authorised *firm* in the group, subject to the rules of this chapter, one consolidated supervision return may be submitted on behalf of all the *firms* in the group in accordance with SUP 16.3.25G.

Exemption from consolidated supervision

14.1.4 R A *firm* need not meet the requirements in rules 14.3.1 and 14.3.2 if:

- (1) there is no *credit institution* in the group;
- (2) no *firm* in the group *deals in investments as principal*, except where it is an *operator* of a *collective investment scheme* dealing solely as a result of its activity of operating a *collective investment scheme*, or where the *firm's* positions fulfil the *CAD Article 3 exempting criteria*;
- (3) each member of the group which is a *CAD investment firm*:
 - (a) deducts any *material holdings* in *credit* and *financial institutions* from its financial resources;
 - (b) complies with its solo applicable financial resources requirement and the *large exposures requirements*; and
 - (c) has systems and controls to monitor and control the sources of capital and funding of all other *financial institutions* within the group;
- (4) the *firm* notifies the *FSA* of any serious risk that could undermine the financial stability of the group as soon as it becomes aware of that risk;
- (5) the *firm* reports to the *FSA* all group *large exposures* as at the end of each quarter, and within the period specified in SUP 16;
- (6) the *firm* meets the conditions in rule 14.1.5; and

- (7) the *firm* has first notified the *FSA* in writing that it intends to rely on this rule.

14.1.5 R If the *firm* notifies the *FSA* under *rule* 14.1.4 that it will not apply the rules in this section, it must:

- (1) submit to *FSA* a consolidated supervision return within the time period specified by *SUP* 16, together with a consolidated profit and loss account;
- (2) ensure that each *firm* in the group deducts from its solo financial resources any quantifiable *contingent liability* in respect of other group entities;
- (3) ensure that the solo financial resources requirement of each *firm* in the group incorporates the full value of the expenditures of the *firm* wherever they are incurred on behalf of the *firm*; and
- (4) make a note in its audited financial statements that it is not subject to regulatory consolidated capital requirements.

- 14.1.6 G
- (1) The Capital Adequacy Directive (articles 7(4) to 7(6)) provides that a *competent authority* such as the *FSA* may waive *consolidated supervision* provided certain conditions are met. The conditions in *rule* 14.1.4 are mainly derived from the Capital Adequacy Directive.
 - (2) The conditions in *rule* 14.1.5 aim to ensure that the *firm* is protected from weaknesses in other group entities.
 - (3) In *rule* 14.1.5(2), *contingent liabilities* includes direct and indirect guarantees.
 - (4) 14.1.5(3) aims to ensure that the expenditure-based requirement incorporates the *firm's* actual ongoing annual expenditures (including any share of depreciation on fixed assets) where these have been met by another group entity.
 - (5) The *FSA* may require further information from the *firm* if it considers that the *firm's* consolidated financial position raises undue risks to consumers. It may also seek reassurance that the *firm* has sufficiently robust *client money* and asset controls - for example, it may require a *skilled person's* report. The *FSA* may also use its *own initiative power* to impose conditions on the *firm*. This could include raising additional capital or further limitations on the *firm's* intra-group exposures.

- (6) Rule 14.1.4(5) refers to *large exposures*, which should be measured against group consolidated own funds or (if this would result in all *exposures* being classified as *large exposures*) by aggregating all the *exposures* of the individual entities in the group and measuring them against the own funds of the individual *firm* giving rise to the consolidated supervision requirement. If there is more than one *firm* in the group giving rise to the consolidated supervision requirement, the group *large exposures* should be measured against the *firm* with the smallest own funds.

14.2 Scope of consolidation

14.2.1 R For the purposes of the rules in this chapter, a *firm's* group means the *firm* and:

- (1) any *EEA parent* in the group which is a *financial holding company*, a *credit institution*, or an *investment firm*;
- (2) any *credit institution*, *investment firm* or *financial institution* which is a *subsidiary* either of the *firm* or of the *firm's EEA parent* as defined in (1); and
- (3) any *credit institution*, *investment firm* or *financial institution* in which the *firm* or one of the entities in (1) or (2) holds a *participation*.

14.2.2 R If a group exists under rule 14.2.1, the *firm* must also include in the scope of consolidation any *ancillary services undertaking* and *asset management company* in the group.

14.2.3 G Rule 14.1.1 states what type of *firm* may be subject to consolidated supervision (trigger firm). Rule 14.2.1 states what type of relationship triggers the existence of a group for consolidated supervision purposes. Rules 14.2.1 and 14.2.2 specify what entities should be included in the scope of consolidated supervision.

14.2.4(1) G A *firm's parent* is a *financial holding company* if it carries out mainly *listed activities* or activities undertaken by a Chapter 3 *broad scope firm* or if its main business is to acquire holdings in companies undertaking these activities. For this purpose the *FSA* interprets the phrases 'mainly' or 'main business' to mean where the balance of business is over 40% of the relevant group or sub-group's balance sheet (measured on the basis of total assets) or profit and loss statement (measured on the basis of gross income). In addition, if the *firm's parent* has significant holdings in *insurance undertakings* or *reinsurance undertakings*, it is a *mixed financial holding company*, and the *firm* is subject to the rules in PRU 8.4 instead of the rules in this chapter. This is because a *parent* cannot be a *financial holding company* and a *mixed financial holding company* at the same time. PRU 8.4 sets out what constitutes significant insurance holdings (broadly more than 10% of the financial sector activities of the group).

14.2.4(2) G A *firm* with an ultimate non-EEA parent may also be subject to the provisions in PRU 8.5.

14.2.4(3) In the case where undertakings are linked to the domain of consolidation by a
G relationship within the meaning of article 12(1) of Directive (83/349/EEC), the *FSA* will determine how consolidation is to be carried out.

Exclusions

14.2.5 R A *firm* may, having first notified the *FSA* in writing, exclude from its group the following:

- (1) any entity the total assets of which are less than the smaller of the following two amounts:
 - (a) 10 million euros; or
 - (b) 1% of the total assets of the group's *parent* or the undertaking that holds the *participation*;

provided that the total assets of such entities do not collectively breach these limits.

- (2) any entity the inclusion of which within the group would be misleading or inappropriate for the purposes of *consolidated supervision*.

14.2.6 G (1) The *FSA* may require a *firm* to provide information about the position in the group of any undertaking excluded from the consolidation under rule 14.2.5.

(2) An exclusion under rule 14.2.5(2) would normally be appropriate when an entity would be excluded from the scope of consolidation under the relevant UK generally accepted accounting principles.

14.3 Consolidated supervision requirement

14.3.1 R A *firm* must at all times ensure that its group maintains *group financial resources* in excess of its *group financial resources requirement*.

14.3.2 R A *firm*, other than one which is defined in rule 14.1.1(1), must at all times comply with *large exposures* limits applied on a group basis.

14.4 Group financial resources

14.4.1 R A *firm* must calculate its *group financial resources* on the basis of the consolidated accounts of the relevant group, subject to the adjustments in rule 14.4.2 and on the basis specified in rule 14.4.3.

- 14.4.2 R (1) If more than one *firm* in the group is subject to the rules of this chapter, *group financial resources* are defined according to the relevant rules applicable to the main *firm* in the group, with Tier 1 minority interests being allowed as Group Tier 1 capital and Tier 2 minority interests being allowed as Group Tier 2 capital.
- (2) In calculating the *group financial resources*, deductions should be made for intangible assets, material unaudited losses incurred since the balance sheet date and investments in own shares.
- (3) *Material holdings* and *material insurance holdings* must be recalculated on a group basis and deducted in arriving at the *group financial resources*.
- 14.4.3 R Financial resources will be defined based upon the main *firm* in the group as follows:
- (1) if a *broad scope securities and futures firm* (excluding a *venture capital firm*), Table 3-61R;
- (2) if an *investment management firm*, Table 5.2.2(1)R but excluding any illiquid assets or qualifying property adjustments required by that Table;
- (3) if a *UCITS investment firm*, Table 7.3.1R but excluding any illiquid assets or qualifying property adjustments required by that Table;
- (4) if an *ISD securities and futures firm*, Table 10-62(2)AR, but excluding any adjustment in (E) of that Table;
- (5) if a *personal investment firm*, Table 13.3.2(1)R.
- 14.4.4 G (1) The *FSA* interprets ‘main’ by reference to the share of the *firm*’s business in the group, its contribution to the group’s balance sheet (measured on the basis of total assets) or profit and loss statement (measured on the basis of gross income).
- (2) The form in *SUP 16 Ann 19 R*, together with the guidance in *SUP 16 Ann 20G*, shows the mechanics of the calculation.
- 14.4.5G A *firm* may apply for a *waiver* of rule 14.4.1 to permit an aggregation approach to determine *group financial resources*. Any *waiver* application should guarantee future compliance with any relevant own funds limit.

14.5 Group financial resources requirement

- 14.5.1 R A *firm* must calculate its *group financial resources requirement* as the aggregate of:

- (1) the sum of the financial resources requirements of all group entities within the scope of consolidation calculated in accordance with rule 14.5.2, except that:
 - (a) requirements in respect of intra-group balances with other entities within the scope of consolidation should be excluded;
 - (b) *large exposures requirements* of individual group entities should be excluded;
- (2) the sum of any adjustments that are made to each *firm's* financial resources, calculated on a solo basis in accordance with rule 14.4.3, in order to arrive at the amount of financial resources used to meet its solo financial resources requirement. These adjustments must exclude deductions in respect of the investment in and other relationships with other entities that are included within the scope of consolidation; and:
- (3) if the main *firm* in the group is a *securities and futures firm* under rule 14.1.1(4), a group *large exposures requirement*.

The financial resources requirements of entities in which the group holds a *participation* must be included proportionately.

14.5.2 R Financial resources requirements for individual entities in the group are:

- (1) for *firms* regulated by the *FSA*, their regulatory capital requirement under *FSA* rules;
- (2) for entities regulated by an *EEA regulator* or one of the regulators listed in IPRU(INV) 10-App 59 or IPRU(BANK) CS Appendix D, their local regulatory capital requirement; and
- (3) for other entities in the group, a notional financial resources requirement calculated as if the entity were regulated by the *FSA*.

- 14.5.3 G
- (1) For the purposes of rule 14.5.2(3) the notional financial resources requirements of group entities should normally be calculated as if the entities were subject to the financial rules in IPRU(INV) relevant to the main *firm* in the group. The interpretation of 'main' given in 14.4.4 G applies here.
 - (2) For the purposes of calculating an expenditure-based requirement, no account should be taken of expenses that have been recharged to another entity included in the scope of consolidation. For example, in calculating the notional requirement for a service company, the expenditure-based requirement should be calculated net of recharged expenses. This is to avoid double counting of the expenses.

- (3) In 14.5.1(2), the adjustments referred to, are for *investment management firms*, the illiquid assets and qualifying property adjustments, and for *securities and futures firms*, the adjustments referred to in item (E) of Table 10-62(2)A. For *personal investment firms*, the adjustment required by 14.5.1(1) and (2) combined is the higher of:
- (a) the own funds requirement in 13.3.1R or 13.10.1R and;
 - (b) the sum of the relevant expenditure-based requirement and illiquid assets, position risk, and counterparty risk adjustments required by Chapter 13 of IPRU(INV).

14.5.4G A *firm* may apply for a *waiver* of rule 14.5.1R, to permit a line-by-line approach to determine its *group financial resources requirement*. Any *waiver* application should demonstrate (where relevant) that the constraints for intra-group offsets under the Capital Adequacy Directive (article 7) are met. A *firm* should also demonstrate that calculating its requirement in this way does not result in a distortion of the *group financial resources requirement*.

APPENDIX 14(1) (INTERPRETATION)

Glossary of defined terms for Chapter 14

Note: If a defined term does not appear in the glossary below, the definition appearing in the Glossary annexed to the General Provisions Instrument 2001 applies.

<i>ancillary services undertaking</i>	an undertaking the principal activity of which consists of owning or managing property, managing data-processing services, or any other similar activity which is ancillary to the principal activity of one or more of the <i>firms</i> subject to this chapter.
<i>asset management company</i>	in accordance with Article 2(5) of the <i>Financial Groups Directive</i> (Definitions) a management company within the meaning of Article 1a(2) of the <i>UCITS Directive</i> , as well as an <i>undertaking</i> the registered office of which is outside the <i>EEA</i> and which would require authorisation in accordance with Article 5(1) of the <i>UCITS Directive</i> if it had its registered office within the <i>EEA</i> .
<i>broad scope firm</i>	as in the Glossary in IPRU(INV) chapter 3.
<i>CAD Article 3 exempting criteria</i>	the following criteria in respect of the <i>firm's</i> dealing positions: <ul style="list-style-type: none"> - such positions arise only as a result of the <i>firm's</i> failure to match investors orders precisely; - the total market value of all such positions is subject to a ceiling of 15% of the <i>firm's</i> initial capital; and - such positions are incidental and provisional in nature and strictly limited to the time required to carry out the transaction in question.
<i>CAD investment firm</i>	a <i>firm</i> subject to the requirements of the Capital Adequacy Directive (CAD) (93/6/EEC) excluding a person to whom the CAD does not apply under Article 2.2 of that Directive.

<i>Category A personal investment firm</i>	as in the Glossary in IPRU(INV) chapter 13.
<i>Category D firm</i>	as in the Glossary in IPRU(INV) chapter 10.
<i>contingent liability</i>	<p>the meaning in FRS 12 which states that it is:</p> <p>(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control or</p> <p>(b) a present obligation that arises from past events but is not recognised because:</p> <p>(i) it is not probable that a transfer of economic benefits will be required to settle the obligation; or</p> <p>(ii) the amount of the obligation cannot be measured with sufficient reliability.</p>
<i>consolidated supervision</i>	the application of the financial rules in the Interim Prudential sourcebook for investment businesses in accordance with rules and guidance in 14.1.1 to 14.5.4.
<i>EEA parent</i>	a <i>firm's</i> direct or indirect <i>parent</i> which has its head office in the <i>EEA</i> .
<i>financial holding company</i>	a <i>financial institution</i> the <i>subsidiary undertakings</i> of which are either exclusively or mainly <i>credit institutions, investment firms</i> and <i>financial institutions</i> , one of which at least is a <i>credit institution</i> or an <i>investment firm</i> and which is not a <i>mixed financial holding company</i> within the meaning of PRU 8.4.
<i>financial institution</i>	an undertaking other than a <i>credit institution</i> , the principal activity of which is to acquire holdings or to carry on a <i>listed activity</i> .
<i>group of connected third parties</i>	as in the Glossary in IPRU(INV) chapter 10.
<i>group financial resources</i>	the resources of a <i>firm's</i> group calculated in accordance with rules 14.4 (Group financial resources).
<i>group financial resources requirement</i>	the requirement that a <i>firm's</i> group maintains financial resources calculated in accordance with the rules in 14.5 (Group financial resources requirement).
<i>investment firm</i>	<i>investment firm</i> as in the main <i>Glossary</i> except that it excludes persons to which the <i>ISD</i> does not apply as a result of article 2.2 of the <i>ISD</i> .
<i>large exposure</i>	<p>(a) in relation to <i>non-trading book exposures</i>, an <i>exposure</i> or number of <i>exposures</i> to a third party or <i>group of connected third parties</i> which exceed 10% of group consolidated own funds; and</p> <p>(b) in relation to the aggregate of <i>non-trading book</i> and <i>trading book exposures</i>, an <i>exposure</i> or number of <i>exposures</i> to a third</p>

party or group of connected third parties which exceed 10% of group financial resources;

large exposures requirement

as set out in Rule 10-194 of IPRU(INV).

listed activity

a listed activity within the meaning of the *BCD*, that is one or more of the following activities:

- (a) lending;
- (b) financial leasing;
- (c) money transmission services;
- (d) issuing and administering means of payment;
- (e) guarantees and commitments;
- (f) trading for own account or for the account of customers in:
 - (i) money market instruments (cheques, bills, certificates of deposit, etc);
 - (ii) foreign exchange;
 - (iii) financial futures and options;
 - (iv) exchange and interest rate instruments;
 - (v) transferable securities;
- (g) participation in share issues and the provision of services related to such issues;
- (h) corporate finance advice;
- (i) money broking;
- (j) portfolio management and advice; or
- (k) safekeeping and administration of securities.

material holding

a holding of -
(a) ordinary share capital and non cumulative preference share capital; or
(b) subordinated loan and non fixed-term cumulative preference share capital,
in a *credit institution* or a *financial institution* where -
(i) (a) or (b) above exceeds 10% of the share capital plus share premium of the issuer; or
(ii) the aggregate of (a) and (b) above exceeds 10% of the *firm's own funds*, before deducting the holding.

material insurance holding

the higher of –
(1) the book value of an *investment* held in an insurance undertaking, reinsurance undertaking, or insurance holding company (*investment* for this purpose is either a *participation* or the *investment* in a *subsidiary* undertaking); or
(2) the group's proportionate share of that undertaking's local or notional regulatory capital requirement."

non-trading book parent

as in the Glossary in IPRU(INV) chapter 10.
any parent undertaking as defined in section 258 of the Companies Act 1985 or paragraph 14 of Financial Reporting Standard No 2 and any undertaking which effectively exercises a dominant influence over

	another undertaking.
<i>participation</i>	a participation within the meaning of Article 17 of Directive 78/660/EEC or the ownership either direct or indirect of 20% or more of the voting rights or capital of another undertaking which is not a <i>subsidiary</i> .
<i>securities and futures firm</i>	as in the Glossaries in IPRU(INV) chapter 3 and IPRU(INV) chapter 10.
<i>subsidiary</i>	as in section 736 of the Companies Act 1985.
<i>trading book</i>	as in the Glossary in IPRU(INV) chapter 10.
<i>UCITS investment firm</i>	a <i>firm</i> which: (1) is the <i>operator</i> of a <i>UCITS scheme</i> including where in addition the <i>firm</i> is the <i>operator</i> of a <i>collective investment scheme</i> which is not a <i>UCITS scheme</i> ; and (2) has <i>permission</i> to <i>manage investments</i> where the <i>investments managed</i> include one or more of the instruments listed in Section B of the Annex to the <i>ISD</i> .
<i>venture capital firm</i>	as in the Glossary in IPRU(INV) chapter 3.

Annex G

Amendments to the Integrated Prudential sourcebook (PRU)

In this Annex, all the text is new and is not underlined.

Insert the following:

Transitional provisions

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
3	<i>PRU 8.1, PRU 8.4, PRU 8.5, PRU 8 Ann 1R, PRU 8 Ann 2R, PRU 8 Ann 4R</i> and, so far as it applies for the purposes of those provisions, the <i>Glossary</i> .	R	<p>(1) References to the <i>Financial Groups Directive Regulations</i> have no effect.</p> <p>(2) Any reference to notices served under regulation 2 of those Regulations is replaced by a reference to the corresponding notice under Article 4(2) of the <i>Financial Groups Directive</i>.</p>	From the date on which the <i>Handbook</i> material to which those transitional provisions apply come into force until revoked.	The date in column (5) on which the corresponding transitional <i>rule</i> ceases to apply.
4	<i>PRU 8.1, PRU 8.4, PRU 8.5, PRU 8 Ann 1R, PRU 8 Ann 2R, PRU 8 Ann 4R</i> and, so far as it applies for the purposes of those provisions, the	R	<p>(1) References to the <i>EEA</i> are replaced by references to the European Union and so that in particular:</p> <p>(a) an <i>EEA State</i> that is not a member of the European Union is treated in the same way as a state or territory that is neither an <i>EEA State</i> nor a member of the European Union;</p> <p>(b) if:</p>	From the date on which the <i>Handbook</i> material to which it applies comes into force until the <i>Financial Groups Directive</i> is adopted by	The date in column (5) on which the corresponding transitional <i>rule</i> ceases to apply.

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
	<i>Glossary.</i>		<p>(i) an <i>EEA financial conglomerate</i>; or</p> <p>(ii) an <i>EEA banking and investment group</i>;</p> <p>would come within the definition of <i>third-country financial conglomerate</i> or, as the case may be, <i>third-country banking and investment group</i> if the reference in those definitions to the <i>EEA</i> were replaced with a reference to the European Union, it must be treated as a <i>third-country financial conglomerate</i> or a <i>third-country banking and investment group</i> respectively; and</p> <p>(c) the definition of <i>competent authority</i> is, for the purposes of the provisions in column (2), amended by replacing references to <i>EEA States</i> with ones to member states of the European Union.</p> <p>(2) Paragraph 6.6 of <i>PRU 8 Ann 1</i> is amended so as to include the <i>sectoral rules</i> of an <i>EEA State</i> that is not a member of the European Union.</p>	the <i>EEA</i> .	

Insert new Section 1.8 as follows:

1.8 Actions for damages

- 1.8.1 R A contravention of the *rules* in *PRU* does not give rise to a right of action by a *private person* under section 150 of the *Act* (and each of those *rules* is specified under section 150(2) of the *Act* as a provision giving rise to no such right of action).

Sections 2 to 7 – to follow.

Insert new Section 8.1 as follows:

8.1 Group risk systems and controls requirement

Application

- 8.1.1 R Subject to *PRU* 8.1.3R to *PRU* 8.1.5R, *PRU* 8.1 applies to each of the following which is a member of a *group*:
- (1) a *firm* that falls into any of the following categories:
 - (a) a *regulated entity*;
 - (b) a *bank*, *ELMI* or *building society*;
 - (c) an *insurer*;
 - (d) an *own account dealer*;
 - (e) a *matched principal broker*;
 - (f) a *UCITS investment firm*; and
 - (g) a *broker/manager* or an *arranger* that satisfies the following conditions:
 - (i) it is an *ISD investment firm*; and
 - (ii) it is not an *exempt CAD firm*;
 - (2) a *UCITS firm*, but only if its *group* contains a *firm* falling into (1); and
 - (3) the *Society*.
- 8.1.2 R Except as set out in *PRU* 8.1.5R, *PRU* 8.1 applies with respect to different types of *group* as follows:

- (1) *PRU 8.1.9R and PRU 8.1.11R apply with respect to all groups, including FSA regulated EEA financial conglomerates, other financial conglomerates and groups dealt with in PRU 8.1.14R and PRU 8.1.15R;*
 - (2) *the additional requirements set out in PRU 8.1.12R and PRU 8.1.13R only apply with respect to FSA regulated EEA financial conglomerates; and*
 - (3) *the additional requirements set out in PRU 8.1.14R and PRU 8.1.15R only apply with respect to groups of the kind dealt with by whichever of those rules apply.*
- 8.1.3 R *PRU 8.1 does not apply to:*
- (1) *an incoming EEA firm; or*
 - (2) *an incoming Treaty firm; or*
 - (3) *a UCITS qualifier; or*
 - (4) *an ICVC.*
- 8.1.4 R *A venture capital firm that would otherwise be included in PRU 8.1.1R(1)(d) to PRU 8.1.1R(1)(g) is excluded from those rules if it is not an ISD investment firm.*
- 8.1.5 R (1) *This rule applies to:*
- (a) *PRU 8.1.9R(2);*
 - (b) *PRU 8.1.11R(1), so far as it relates to PRU 8.1.9R(2);*
 - (c) *PRU 8.1.11R(2); and*
 - (d) *PRU 8.1.12R to PRU 8.1.14R.*
- (2) *The rules referred to in (1):*
- (a) *only apply with respect to a financial conglomerate if it is an FSA regulated EEA financial conglomerate;*
 - (b) *(so far as they apply with respect to a group that is not a financial conglomerate) do not apply with respect to a group for which a competent authority in another EEA state is lead regulator;*
 - (c) *(so far as they apply with respect to a financial conglomerate) do not apply to a firm with respect to a financial conglomerate of which it is a member if the interest of the financial conglomerate in that firm is no more than a participation;*

(d) (so far as they apply with respect to other *groups*) do not apply to a *firm* with respect to a *group* of which it is a member if the only relationship of the kind set out in paragraph (3) of the definition of *group* between it and the other members of the *group* is nothing more than a *participation*; and

(e) do not apply with respect to a *third-country group*.

8.1.6 G For the purposes of *PRU* 8.1, a *group* is defined in the *Glossary*, and includes the whole of a firm's group, including financial and non-financial undertakings. It also covers undertakings with other links to *group* members if their omission from the scope of *group* risk systems and controls would be misleading. The scope of the *group* systems and controls requirements may therefore differ from the scope of the quantitative requirements for *groups*.

Purpose

8.1.7 G The purpose of this chapter is to set out how systems and controls requirements apply where a *firm* is part of a *group*. *SYSC* 3.1 (Systems and controls) requires a *firm* to take reasonable care to establish and maintain such systems and controls as are appropriate to the nature, scale and complexity of its business. If a *firm* is a member of a *group*, it should be able to assess the potential impact of risks arising from other parts of its *group* as well as from its own activities.

8.1.8 G *PRU* 8.1 implements Articles 52(6) (Supervision on a consolidated basis of credit institutions) and 55a (Intra-group transactions with mixed activity holding companies) of the *Banking Consolidation Directive*, Article 9 of the *Financial Groups Directive* (Internal control mechanisms and risk management processes) and Article 8 of the *Insurance Groups Directive* (Intra-group transactions).

General rules

8.1.9 R A *firm* must:

(1) have adequate, sound and appropriate risk management processes and internal control mechanisms for the purpose of assessing and managing its own exposure to *group* risk, including sound administrative and accounting procedures; and

(2) ensure that its *group* has adequate, sound and appropriate risk management processes and internal control mechanisms at the level of the *group*, including sound administrative and accounting procedures.

8.1.10 G For the purposes of *PRU* 8.1.9R, the question of whether the risk management processes and internal control mechanisms are adequate, sound and appropriate should be judged in the light of the nature, scale and complexity of the *group*'s business.

8.1.11 R The internal control mechanisms referred to in *PRU* 8.1.9R must include:

- (1) mechanisms that are adequate for the purpose of producing any data and information which would be relevant for the purpose of monitoring compliance with any prudential requirements (including any reporting requirements and any requirements relating to capital adequacy, solvency and large exposures):
 - (a) to which the *firm* is subject with respect to its membership of a *group*; or
 - (b) that apply to or with respect to that *group* or part of it; and
- (2) mechanisms that are adequate to monitor funding within the *group*.

Financial conglomerates

- 8.1.12 R Where *PRU* 8.1 applies with respect to a *financial conglomerate*, the risk management processes referred to in *PRU* 8.1.9R(2) must include:
- (1) sound governance and management processes, which must include the approval and periodic review by the appropriate managing bodies within the *financial conglomerate* of the strategies and policies of the *financial conglomerate* in respect of all the risks assumed by the *financial conglomerate*, such review and approval being carried out at the level of the *financial conglomerate*;
 - (2) adequate capital adequacy policies at the level of the *financial conglomerate*, one of the purposes of which must be to anticipate the impact of the business strategy of the *financial conglomerate* on its risk profile and on the capital adequacy requirements to which it and its members are subject;
 - (3) adequate procedures for the purpose of ensuring that the risk monitoring systems of the *financial conglomerate* and its members are well integrated into their organisation; and
 - (4) adequate procedures for the purpose of ensuring that the systems and controls of the members of the *financial conglomerate* are consistent and that the risks can be measured, monitored and controlled at the level of the *financial conglomerate*.
- 8.1.13 R Where *PRU* 8.1 applies with respect to a *financial conglomerate*, the internal control mechanisms referred to in *PRU* 8.1.9R(2) must include:
- (1) mechanisms that are adequate to identify and measure all material risks incurred by members of the *financial conglomerate* and appropriately relate capital in the *financial conglomerate* to risks; and
 - (2) sound reporting and accounting procedures for the purpose of identifying, measuring, monitoring and controlling *intra-group transactions* and *risk concentrations*.

Credit institutions and investment firms

8.1.14 R In the case of a *firm* that:

- (1) is a *credit institution* or *investment firm*; and
- (2) has a *mixed-activity holding company* as a *parent undertaking*;

the risk management processes and internal control mechanisms referred to in *PRU* 8.1.9R must include sound reporting and accounting procedures and other mechanisms that are adequate to identify, measure, monitor and control transactions between the *firm's parent undertaking mixed-activity holding company* and any of the *mixed-activity holding company's subsidiary undertakings*.

Insurance undertakings

8.1.15 R In the case of an *insurer* that has a *mixed-activity insurance holding company* as a *parent undertaking*, the risk management processes and internal control mechanisms referred to in *PRU* 8.1.9R must include sound reporting and accounting procedures and other mechanisms that are adequate to identify, measure, monitor and control transactions between the *firm's parent undertaking mixed-activity insurance holding company* and any of the *mixed-activity insurance holding company's subsidiary undertakings*.

8.1.16 G *PRU* 8.1.14R cannot apply to a *building society* as it cannot have a *mixed-activity holding company* as a *parent undertaking*. *PRU* 8.1.15R cannot apply to a *friendly society* as it cannot have a *mixed-activity insurance holding company* as a *parent undertaking*.

Nature and extent of requirements and allocation of responsibilities within the group

8.1.17 G Assessment of the adequacy of a *group's* systems and controls required by *PRU* 8.1 will form part of the *FSA's* risk management process.

8.1.18 G The nature and extent of the systems and controls necessary under *PRU* 8.1.9R(1) to address *group* risk will vary according to the materiality of those risks to the *firm* and the position of the *firm* within the *group*.

8.1.19 G In some cases the management of the systems and controls used to address the risks described in *PRU* 8.1.9R(1) may be organised on a *group-wide* basis. If the *firm* is not carrying out those functions itself, it should delegate them to the *group* members that are carrying them out. However, this does not relieve the *firm* of responsibility for complying with its obligations under *PRU* 8.1.9R(1). A *firm* cannot absolve itself of such a responsibility by claiming that any breach of that *rule* is caused by the actions of another member of the *group* to whom the *firm* has delegated tasks. The risk management arrangements are still those of the *firm*, even though personnel elsewhere in the *firm's group* are carrying out these functions on its behalf.

- 8.1.20 G *PRU 8.1.9R(1)* deals with the systems and controls that a *firm* should have in respect of the exposure it has to the rest of the *group*. On the other hand, the purpose of *PRU 8.1.9R(2)* and the *rules* in *PRU 8.1* that amplify it is to require *groups* to have adequate systems and controls. However a *group* is not a single legal entity on which obligations can be imposed. Therefore the obligations have to be placed on individual *firms*. The purpose of imposing the obligations on each *firm* in the *group* is to make sure that the *FSA* can take supervisory action against any *firm* in a *group* whose systems and controls do not meet the standards in *PRU 8.1*. Thus responsibility for compliance with the *rules* for *group* systems and controls is a joint one.
- 8.1.21 G If both a *firm* and its *parent undertaking* are subject to *PRU 8.1.9R(2)*, the *FSA* would not expect systems and controls to be duplicated. In this case, the *firm* should assess whether and to what extent it can rely on its parent's *group* risk systems and controls.

Sections 8.2 and 8.3 - to follow.

Insert new Sections 8.4 and 8.5 as follows:

8.4 Cross sector groups

Application

- 8.4.1 R (1) *PRU 8.4* applies to every *firm* that is a member of a *financial conglomerate* other than:
- (a) an *incoming EEA firm*;
 - (b) an *incoming Treaty firm*;
 - (c) a *UCITS qualifier*; and
 - (d) an *ICVC*.
- (2) *PRU 8.4* does not apply to a *firm* with respect to a *financial conglomerate* of which it is a member if the interest of the *financial conglomerate* in that *firm* is no more than a *participation*.
- (3) *PRU 8.4.25* (Capital adequacy requirements: high level requirement), *PRU 8.4.26R* (Capital adequacy requirements: application of Method 4 from Annex I of the Financial Groups Directive), *PRU 8.4.29R* (Capital adequacy requirements: application of Methods 1, 2 or 3 from Annex I of the Financial Groups Directive) and *PRU 8.4.35* (Risk concentration and intra group transactions: the main rule) do not apply with respect to a *third-country financial conglomerate*.

Purpose

- 8.4.2 G PRU 8.4 implements the *Financial Groups Directive*. However, material on the following topics is to be found elsewhere in the *Handbook* as follows:
- (1) further material on *third-country financial conglomerates* can be found in PRU 8.5;
 - (2) SUP 15.9 contains notification *rules* for members of *financial conglomerates*;
 - (3) material on reporting obligations can be found in SUP 16.7.73R and SUP 16.7.74R; and
 - (4) material on systems and controls in *financial conglomerates* can be found in PRU 8.1.

Introduction: identifying a financial conglomerate

- 8.4.3 G
- (1) In general the process in (2) to (8) applies for identifying *financial conglomerates*.
 - (2) *Competent authorities* that have authorised *regulated entities* should try to identify any *consolidation group* that is a *financial conglomerate*. If a *competent authority* is of the opinion that a *regulated entity* authorised by that *competent authority* is a member of a *consolidation group* which may be a *financial conglomerate* it should communicate its view to the other *competent authorities* concerned.
 - (3) A *competent authority* may start (as described in (2)) the process of deciding whether a group is a *financial conglomerate* even if it would not be the *coordinator*.
 - (4) A member of a group may also start that process by notifying one of the *competent authorities* that have authorised group members that its group may be a *financial conglomerate*, for example by notification under SUP 15.9.
 - (5) If a group member gives a notification in accordance with (4), that does not automatically mean that the group should be treated as a *financial conglomerate*. The process described in (6) to (9) still applies.
 - (6) The *competent authority* that would be *coordinator* will take the lead in establishing whether a group is a *financial conglomerate* once the process has been started as described in (2) and (3).
 - (7) The process of establishing whether a group is a *financial conglomerate* will normally involve discussions between the *financial conglomerate* and the *competent authorities* concerned.

- (8) A *financial conglomerate* should be notified by its *coordinator* that it has been identified as a *financial conglomerate* and of the appointment of the *coordinator*. The notification should be given to the *parent undertaking* at the head of the group or, in the absence of a *parent undertaking*, the *regulated entity* with the largest balance sheet total in the *most important financial sector*. That notification does not of itself make a group into a *financial conglomerate*; whether or not a group is a *financial conglomerate* is governed by the definition of *financial conglomerate* as set out in PRU 8.4.
- (9) PRU 8 Ann 4G is a questionnaire (together with its explanatory notes) that the FSA asks groups that may be *financial conglomerates* to fill out in order to decide whether or not they are.

Introduction: The role of other competent authorities

- 8.4.4 G A lead supervisor (called the *coordinator*) is appointed for each *financial conglomerate*. Article 10 of the *Financial Groups Directive* describes the criteria for deciding which *competent authority* is appointed as *coordinator*. Article 11 of the *Financial Groups Directive* sets out the tasks of the *coordinator*.

Definition of financial conglomerate: basic definition

- 8.4.5 R A *financial conglomerate* means a *consolidation group* that is identified as a *financial conglomerate* in accordance with the decision tree in PRU 8 Ann 3R.

Definition of financial conglomerate: sub-groups

- 8.4.6 R A *consolidation group* is not prevented from being a *financial conglomerate* because it is part of a wider:

- (1) *consolidation group*; or
- (2) *financial conglomerate*; or
- (3) group of persons linked in some other way.

Definition of financial conglomerate: the financial sectors: general

- 8.4.7 R For the purpose of the definition of *financial conglomerate*, there are two *financial sectors* as follows:

- (1) the *banking sector* and the *investment services sector*, taken together; and
- (2) the *insurance sector*.

- 8.4.8 R (1) This *rule* applies for the purpose of the definition of *financial conglomerate* and the *financial conglomerate definition decision tree*.
- (2) Any *mixed financial holding company* is considered to be outside the *overall financial sector* for the purpose of the tests set out in the boxes titled Threshold Test 1, Threshold Test 2 and Threshold Test 3 in the *financial*

conglomerate definition decision tree.

- (3) Determining whether the tests set out in the boxes titled Threshold Test 2 and Threshold Test 3 in the *financial conglomerate definition decision tree* are passed is based on considering the consolidated and/or aggregated activities of the members of the *consolidation group* within the *insurance sector* and the consolidated and/or aggregated activities of the members of the *consolidation group* within the *banking sector* and the *investment services sector*.

Definition of financial conglomerate: adjustment of the percentages

- 8.4.9 R Once a *financial conglomerate* has become a *financial conglomerate* and subject to supervision in accordance with the *Financial Groups Directive*, the figures in the *financial conglomerate definition decision tree* are altered as follows:
- (1) the figure of 40% in the box titled Threshold Test 1 is replaced by 35%;
 - (2) the figure of 10% in the box titled Threshold Test 2 is replaced by 8%; and
 - (3) the figure of six billion Euro in the box titled Threshold Test 3 is replaced by five billion Euro.

- 8.4.10 R The alteration in *PRU 8.4.9R* only applies to a *financial conglomerate* during the period that:
- (1) begins when the *financial conglomerate* would otherwise have stopped being a *financial conglomerate* because it does not meet one of the unaltered thresholds referred to in *PRU 8.4.9R*; and
 - (2) covers the three years following that date.

Definition of financial conglomerate: balance sheet totals

- 8.4.11 R The calculations referred to in the *financial conglomerate definition decision tree* regarding the balance sheet must be made on the basis of the aggregated balance sheet total of the members of the *consolidation group*, according to their annual accounts. For the purposes of this calculation, *undertakings* in which a *participation* is held must be taken into account as regards the amount of their balance sheet total corresponding to the aggregated proportional share held by the *consolidation group*. However, where consolidated accounts are available, they must be used instead of aggregated accounts.

Definition of financial conglomerate: solvency requirement

- 8.4.12 R The solvency and capital adequacy requirements referred to in the *financial conglomerate definition decision tree* must be calculated in accordance with the provisions of the relevant *sectoral rules*.

Definition of financial conglomerate: discretionary changes to the definition

- 8.4.13 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*;
 - (2) apply the scheme in the *Financial Groups Directive* to *EEA regulated entities* in specified kinds of group structures that do not come within the definition of *financial conglomerate*; and
 - (3) exclude a particular entity in the scope of capital adequacy requirements that apply with respect to a *financial conglomerate*.

Capital adequacy requirements: introduction

- 8.4.14 G The capital adequacy provisions of PRU 8.4 are designed to be applied to *EEA-based financial conglomerates*.
- 8.4.15 G *PRU 8.4.25R* is a high level capital adequacy *rule*. It applies whether or not the *FSA* is the *coordinator* of the *financial conglomerate* concerned.
- 8.4.16 G *PRU 8.4.26R* to *PRU 8.4.31R* and *PRU 8 Ann 1R* implement the detailed capital adequacy requirements of the *Financial Groups Directive*. They only deal with a *financial conglomerate* for which the *FSA* is the *coordinator*. If another *competent authority* is *coordinator* of a *financial conglomerate*, those *rules* do not apply with respect to that *financial conglomerate* and instead that *coordinator* will be responsible for implementing those detailed requirements.
- 8.4.17 G Annex I of the *Financial Groups Directive* lays down four methods for calculating capital adequacy at the level of a *financial conglomerate*. Those four methods are implemented as follows:
- (1) Method 1 calculates capital adequacy using accounting consolidation. It is implemented by *PRU 8.4.29R* to *PRU 8.4.31R* and Part 1 of *PRU 8 Ann 1R*.
 - (2) Method 2 calculates capital adequacy using a deduction and aggregation approach. It is implemented by *PRU 8.4.29R* to *PRU 8.4.31R* and Part 2 of *PRU 8 Ann 1R*.
 - (3) Method 3 calculates capital adequacy using book values and the deduction of capital requirements. It is implemented by *PRU 8.4.29R* to *PRU 8.4.31R* and Part 3 of *PRU 8 Ann 1R*.
 - (4) Method 4 consists of a combination of Methods 1, 2 and 3 from Annex I of the *Financial Groups Directive*, or a combination of two of those Methods. It is implemented by *PRU 8.4.26R* to *PRU 8.4.28R*, *PRU 8.4.30R* and Part 4 of *PRU 8 Ann 1R*.

- 8.4.18 G Part 4 of *PRU 8 Ann 1R* (Use of Method 4 from Annex I of the *Financial Conglomerates Directive*) applies the *FSA's sectoral rules* with respect to the *financial conglomerate* as a whole, with some adjustments. Where Part 4 of *PRU 8 Ann 1R* applies the *FSA'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.
- 8.4.19 G Paragraph 5.5 of *PRU 8 Ann 1R* (Capital adequacy calculations for financial conglomerates) deals with a case in which there are no capital ties between entities in a *financial conglomerate*. In particular, the *FSA*, after consultation with the other *relevant competent authorities* and in accordance with Annex I of the *Financial Groups Directive*, will determine which proportional share of a solvency deficit in such an entity will have to be taken into account, bearing in mind the liability to which the existing relationship gives rise.
- 8.4.20 G (1) In the following cases, the *FSA* (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 *FSA*; or
 - (b) the only *relevant competent authority* for the *financial conglomerate* is the *FSA*.
- (2) *PRU 8.4.28R* automatically applies Method 4 from Annex I of the *Financial Groups Directive* in these circumstances except in the cases set out in *PRU 8.4.28R(1)(e)* and *PRU 8.4.28R(1)(f)*. The process in *PRU 8.4.22G* does not apply.
- 8.4.21 G Where *PRU 8.4.20G* does not apply, the Annex I method to be applied is decided by the *coordinator* after consultation with the *relevant competent authorities* and the *financial conglomerate* itself.
- 8.4.22 G The method of calculating capital adequacy chosen in respect of a *financial conglomerate* as described in *PRU 8.4.21G* will be applied with respect to that *financial conglomerate* by varying the *Part IV 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 *PRU 8 Ann 1R* is to be applied with respect to that *financial conglomerate*. The powers in the *Act* relating to *wavers* and varying a *firm's Part IV 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 *PRU 8.4* and *PRU 8 Ann 1R* if that is necessary to reflect the consultations referred to in *PRU 8.4.21G*.

8.4.23 G If there is more than one *firm* in a *financial conglomerate* with a *Part IV permission*, the *FSA* would not normally expect to apply the *requirement* described in *PRU 8.4.22G* to all of them. Normally it will only be necessary to apply it to one.

8.4.24 G The *FSA* expects that in all or most cases falling into *PRU 8.4.21G*, the *rules* in Part 4 of *PRU 8 Ann 1R* will be applied.

Capital adequacy requirements: high level requirement

8.4.25 R (1) A *firm* that is a member of a *financial conglomerate* must at all times have capital resources of such an amount and type that results in the capital resources of the *financial conglomerate* taken as a whole being adequate.

(2) This *rule* does not apply with respect to any *financial conglomerate* until notification has been made that it has been identified as a *financial conglomerate* as contemplated by Article 4(2) of the *Financial Groups Directive*.

Capital adequacy requirements: application of Method 4 from Annex I of the *Financial Groups Directive*

8.4.26 R If this *rule* applies under *PRU 8.4.27R* 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 *PRU 8 Ann 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*.

8.4.27 R *PRU 8.4.26R* 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 *PRU 8.4.28R* is satisfied; or

(2) this *rule* is applied to the *firm* with respect to that *financial conglomerate* as described in *PRU 8.4.30R*.

Capital adequacy requirements: compulsory application of Method 4 from Annex I of the *Financial Groups Directive*

8.4.28 R (1) The condition in this *rule* is satisfied for the purpose of *PRU 8.4.27R*(1) with respect to a *firm* and a *financial conglomerate* of which it is a member (with the result that *PRU 8.4.26R* 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 *FSA* is *coordinator* of that *financial conglomerate*;
 - (b) the *financial conglomerate* is not part of a wider *FSA regulated EEA financial conglomerate*;
 - (c) the *financial conglomerate* is not an *FSA regulated EEA financial conglomerate* under another *rule* or under paragraph (b) of the definition of *FSA regulated EEA financial conglomerate* (application of supplementary supervision through a *firm's Part IV 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 *FSA*;
 - (e) this *rule* is not disapplied under paragraph 5.5 of *PRU 8 Ann 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*.
- (2) Once *PRU 8.4.26R* applies to a *firm* with respect to a *financial conglomerate* of which it is a member under *PRU 8.4.27R(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.

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

- 8.4.29 R If with respect to a *firm* and a *financial conglomerate* of which it is a member, this *rule* is applied to the *firm* with respect to that *financial conglomerate* as described in *PRU 8.4.30R*, 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*.

Capital adequacy requirements: use of Part IV permission to apply Annex I of the Financial Groups Directive

- 8.4.30 R With respect to a *firm* and a *financial conglomerate* of which it is a member:

- (1) *PRU 8.4.26R* (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 *PRU 8.4.27R(2)*; or
- (2) *PRU 8.4.29R* (Methods 1 to 3 from Annex I of the *Financial Groups Directive*) is applied to the *firm* with respect to that *financial conglomerate*;

if the *firm's Part IV permission* contains a *requirement* obliging the *firm* to comply with *PRU 8.4.26R* or, as the case may be, *PRU 8.4.29R*.

- 8.4.31 R If *PRU 8.4.29R* (Methods 1-3 from Annex I of the *Financial Groups Directive*) applies to a *firm* with respect to a *financial conglomerate* of which it is a member, 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, Part 2 or Part 3 of *PRU 8 Ann 1R* is specified in the *requirement* referred to in *PRU 8.4.30R*.

Risk concentration and intra-group transactions: introduction

- 8.4.32 G *PRU 8.4.35R* implements Article 7(4) and Article 8(4) of the *Financial Groups Directive*, which provide that where a *financial conglomerate* is headed by a *mixed financial holding company*, the *sectoral rules* regarding *risk concentration* and *intra-group transactions* of the *most important financial sector* in the *financial conglomerate*, if any, shall apply to that sector as a whole, including the *mixed financial holding company*.

- 8.4.33 G Articles 7(3) (Risk concentration) and 8(3) (Intra-group transactions) and Annex II (Technical application of the provisions on intra-group transactions and risk concentration) of the *Financial Groups Directive* say that Member States may apply at the level of the *financial conglomerate* the provisions of the *sectoral rules* on *risk concentrations* and *intra-group transactions*. *PRU 8.4* does not take up that option, although the *FSA* may impose such obligations on a case by case basis.

Risk concentration and intra-group transactions: application

- 8.4.34 R *PRU 8.4.35R* applies to a *firm* with respect to a *financial conglomerate* of which it is a member if:
- (1) the condition in Articles 7(4) and 8(4) of the *Financial Groups Directive* is satisfied (the *financial conglomerate* is headed by a *mixed financial holding company*); and
 - (2) that *financial conglomerate* is an *FSA regulated EEA financial conglomerate*.

Risk concentration and intra group transactions: the main rule

- 8.4.35 R A firm must ensure that the *sectoral rules* regarding *risk concentration* and *intra-group transactions* of the *most important financial sector* in the *financial conglomerate* referred to in PRU 8.4.34R are complied with with respect to that *financial sector* as a whole, including the *mixed financial holding company*. The FSA's *sectoral rules* for these purposes are those identified in the table in PRU 8.4.36R.

Risk concentration and intra-group transactions: Table of applicable sectoral rules

- 8.4.36 R Table: application of sectoral rules
This table belongs to PRU 8.4.35R

The most important financial sector	Applicable sectoral rules	
	Risk concentration	Intra-group transactions
<i>Banking sector</i>	<i>Rules 3.3.13, 3.3.19 and 3.3.21 of chapter GN of IPRU(BANK) (as they apply to large exposures on a consolidated basis)</i>	<i>Rules 3.3.13, 3.3.19 and 3.3.21 of chapter GN of IPRU(BANK) (as they apply to large exposures on a solo basis)</i>
<i>Insurance sector</i>	None	<i>Rule 9.39 of IPRU(INS)</i>
<i>Investment services sector</i>	<i>Rule 14.3.2 in Chapter 14 of IPRU(INV)</i>	<i>Rule 10-190 in Chapter 10 of IPRU(INV) as it applies on a solo basis</i>
Note:	The <i>rules</i> as applied in column three apply without any concession or exemption for exposures to other group members.	
Note	The decision tree in paragraph 4.5 of PRU 8 Ann 1R applies for the purpose of identifying the <i>most important financial sector</i> .	

- 8.4.37 G The material in *IPRU(BANK)* that has particular application to the *rules* in *IPRU(BANK)* referred to in the table in PRU 8.4.36R is:
- (1) (in the case of column 2) Chapter LE as it applies on a consolidated basis;
 - (2) (in the case of column 3) Chapter LE as it applies on a solo basis.
- 8.4.38 G The table in PRU 8.4.36R does not refer to the *rules* for *building societies* as a *building society* cannot have a *mixed financial holding company* as a parent.

The financial sectors: asset management companies

- 8.4.39 R (1) In accordance with Article 30 of the *Financial Groups Directive* (Asset management companies), this *rule* deals with the inclusion of an *asset management company* 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* is in the *overall financial sector* and is a *regulated entity* for the purpose of:
- (a) *PRU 8.4.26R* to *PRU 8.4.36R*;
 - (b) *PRU 8 Ann 1R* (Capital adequacy calculations for financial conglomerates) and *PRU 8 Ann 2R* (Prudential rules for third country groups); and
 - (c) any other provision of the *Handbook* relating to the supervision of *financial conglomerates*.
- (3) In the case of a *financial conglomerate* for which the *FSA* is the *coordinator*, all *asset management companies* must be allocated to one *financial sector* 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 *FSA* in accordance with (4)(d), an *asset management company* must be allocated to the *investment services sector*.
- (4) The choice in (3):
- (a) must be made by the *undertaking* in the *financial conglomerate* holding the position referred to in Article 4(2) of the *Financial Groups Directive* (group member to whom notice must be given that the group has been found to be a *financial conglomerate*);
 - (b) applies to all *asset management companies* that are members of the *financial conglomerate* from time to time;
 - (c) cannot be changed; and
 - (d) must be notified to the *FSA* as soon as reasonably practicable after the notification in (4)(a).

8.5 Third-country groups
Application

8.5.1 R *PRU 8.5 applies to every firm that is a member of a third-country group. But it does not apply to:*

- (1) *an incoming EEA firm; or*
- (2) *an incoming Treaty firm; or*
- (3) *a UCITS qualifier; or*
- (4) *an ICVC.*

Purpose

8.5.2 G *PRU 8.5 implements in part Article 18 of the Financial Groups Directive and Article 56a of the Banking Consolidation Directive.*

Equivalence

8.5.3 G *The first question that must be asked about a third-country financial group is whether the EEA regulated entities in that third-country group are subject to supervision by a third-country competent authority, which is equivalent to that provided for by the Financial Groups Directive (in the case of a financial conglomerate) or the EEA prudential sectoral legislation for the banking sector or the investment services sector (in the case of a banking and investment group). Article 18(1) of the Financial Groups Directive sets out the process for establishing equivalence with respect to third-country financial conglomerates and the first three paragraphs of Article 56a of the Banking Consolidation Directive does so with respect to third-country banking and investment groups.*

Other methods: General

8.5.4 G *If the supervision of a third-country group by a third-country competent authority does not meet the equivalence test referred to in PRU 8.5.3G, competent authorities may apply other methods that ensure appropriate supervision of the EEA regulated entities in that third-country group in accordance with the aims of supplementary supervision under the Financial Groups Directive or consolidated supervision under the applicable EEA prudential sectoral legislation.*

Supervision by analogy: introduction

- 8.5.5 G If the supervision of a *third-country group* by a *third-country competent authority* does not meet the equivalence test referred to in *PRU 8.5.3G*, a *competent authority* may, rather than take the measures described in *PRU 8.5.4G*, apply, by analogy, the provisions concerning supplementary supervision under the *Financial Groups Directive* or, as applicable, consolidated supervision under the applicable *EEA prudential sectoral legislation*, to the *EEA regulated entities* in the *banking sector*, *investment services sector* and (in the case of a *financial conglomerate*) *insurance sector*.
- 8.5.6 G The *FSA* believes that it will only be right to adopt the option in *PRU 8.5.5G* in response to very unusual group structures.
- 8.5.7 G *PRU 8.5.8R* and *PRU 8.5.9R* and *PRU 8 Ann 2* set out *rules* to deal with the situation covered in *PRU 8.5.5G*. Those *rules* do not apply automatically. Instead, they can only be applied with respect to a particular *third-country group* through the *Part IV permission* of a *firm* in that *third-country group*. Broadly speaking the procedure described in *PRU 8.4.22G* also applies to this process.

Supervision by analogy: rules for third-country conglomerates

- 8.5.8 R If the *Part IV permission* of a *firm* contains a *requirement* obliging it to comply with this *rule* with respect to a *third-country financial conglomerate* of which it is a member, it must comply, with respect to that *third-country financial conglomerate*, with the *rules* in Part 1 of *PRU 8 Ann 2R*, as adjusted by Part 3 of that annex.

Supervision by analogy: rules for third-country banking and investment groups

- 8.5.9 R If the *Part IV permission* of a *firm* contains a *requirement* obliging it to comply with this *rule* with respect to a *third-country banking and investment group* of which it is a member, it must comply, with respect to that *third-country banking and investment group*, with the *rules* in Part 2 of *PRU 8 Ann 2R*, as adjusted by Part 3 of that annex.

PRU 8 Ann 1R

Capital adequacy calculations for financial conglomerates (PRU 8.4.26R and PRU 8.4.29R)

1 Table: PART 1: Method of Annex I of the Financial Groups Directive (Accounting Consolidation Method)

Capital resources	1.1	The <i>conglomerate capital resources</i> of a <i>financial conglomerate</i> calculated in accordance with this Part are the capital of that <i>financial conglomerate</i> , calculated on an accounting consolidation basis, that qualifies under paragraph 1.2.	
	1.2	The elements of capital that qualify for the purposes of paragraph 1.1 are those that qualify in accordance with the <i>applicable sectoral rules</i> , in accordance with the following:	
		(1)	the <i>conglomerate capital resources requirement</i> is divided up in accordance with the contribution of each <i>financial sector</i> to it; and
		(2)	the portion of the <i>conglomerate capital resources requirement</i> attributable to a particular <i>financial sector</i> must be met by capital resources that are eligible in accordance with the <i>applicable sectoral rules</i> for that <i>financial sector</i> .
Capital resources requirement	1.3	The <i>conglomerate capital resources requirement</i> of a <i>financial conglomerate</i> calculated in accordance with this Part is equal to the sum of the capital adequacy and solvency requirements for each <i>financial sector</i> calculated in accordance with the <i>applicable sectoral rules</i> for that <i>financial sector</i> .	
Consolidation	1.4	The information required for the purpose of establishing whether or not a <i>firm</i> is complying with PRU 8.4.29R (insofar as the definitions in this Part are applied for the purpose of that <i>rule</i>) must be based on the consolidated accounts of the <i>financial conglomerate</i> , together with such other sources of information as appropriate.	
	1.5	The <i>applicable sectoral rules</i> that are applied under this Part are the <i>applicable sectoral consolidation rules</i> . Other <i>applicable sectoral rules</i> must be applied if required.	

2 Table: PART 2: Method 2 of Annex I of the Financial Groups Directive (Deduction and aggregation Method)

Capital resources	2.1	<p>The <i>conglomerate capital resources</i> of a <i>financial conglomerate</i> calculated in accordance with this Part are equal to the sum of the following amounts (so far as they qualify under paragraph 2.3) for each member of the <i>overall financial sector</i>:</p> <p>(1) (for the <i>person</i> at the head of the <i>financial conglomerate</i>) its <i>solo capital resources</i>;</p> <p>(2) (for any other member):</p> <p>(a) its <i>solo capital resources</i>; less</p> <p>(b) the book value of the <i>financial conglomerate's</i> investment in that member.</p>
	2.2	<p>The deduction in paragraph 2.1(2) must be carried out separately for each type of capital represented by the <i>financial conglomerate's</i> investment in the member concerned.</p>
	2.3	<p>The elements of capital that qualify for the purposes of paragraph 2.1 are those that qualify in accordance with the <i>applicable sectoral rules</i>. In particular, the portion of the <i>conglomerate capital resources requirement</i> attributable to a particular member of a <i>financial sector</i> must be met by capital resources that would be eligible under the <i>sectoral rules</i> that apply to the calculation of its <i>solo capital resources</i>.</p>
Capital resources requirement	2.4	<p>The <i>conglomerate capital resources requirement</i> of a <i>financial conglomerate</i> calculated in accordance with this Part is equal to the sum of the <i>solo capital resources requirement</i> for each member of the <i>financial conglomerate</i> that is in the <i>overall financial sector</i>.</p>
Partial inclusion	2.5	<p>The capital resources and capital resources requirements of a member of the <i>financial conglomerate</i> in the <i>overall financial sector</i> must be included proportionally. If however the member is a <i>subsidiary undertaking</i> and it has a <i>solvency deficit</i>, they must be included in full.</p>
Accounts	2.6	<p>The information required for the purpose of establishing whether or not a <i>firm</i> is complying with <i>PRU 8.4.29R</i> (insofar as the definitions in this Part are applied for the purpose of that <i>rule</i>) must be based on the individual accounts of members of the <i>financial conglomerate</i>, together with such other sources of information as appropriate.</p>

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

Capital resources	3.1	The <i>conglomerate capital resources</i> of a <i>financial conglomerate</i> calculated in accordance with this Part are equal to the capital resources of the <i>person</i> at the head of the <i>financial conglomerate</i> that qualify under paragraph 3.2.
Capital resources requirement	3.2	The elements of capital that qualify for the purposes of paragraph 3.1 are those that qualify in accordance with the <i>applicable sectoral rules</i> . In particular, the portion of the <i>conglomerate capital resources requirement</i> attributable to a particular member of a <i>financial sector</i> must be met by capital resources that would be eligible under the <i>sectoral rules</i> that apply to the calculation of its <i>solo capital resources</i> .
Capital resources requirement	3.3	The <i>conglomerate capital resources requirement</i> of a <i>financial conglomerate</i> calculated in accordance with this Part is equal to the sum of the following amounts for each member of the <i>overall financial sector</i> : (1) (in the case of the <i>person</i> at the head of the <i>financial conglomerate</i>) its <i>solo capital resources requirement</i> ; (2) (in the case of any other member) the higher of the following two amounts: (a) its <i>solo capital resources requirement</i> ; and (b) the book value of the interest of the <i>person</i> at the head of the <i>financial conglomerate</i> in that member.
Partial inclusion	3.4	A <i>participation</i> may be valued using the equity method of accounting.
Partial inclusion	3.5	The capital resources requirement of a member of the <i>financial conglomerate</i> in the <i>overall financial sector</i> must be included proportionally. If however the member has a <i>solvency deficit</i> and is a <i>subsidiary undertaking</i> , it must be included in full.
Accounts	3.6	The information required for the purpose of establishing whether or not a <i>firm</i> is complying with PRU 8.4.29R (insofar as the definitions in this Part are applied for the purpose of that <i>rule</i>) must be based on the individual accounts of members of the <i>financial conglomerate</i> , together with such other sources of information as appropriate.

4 Table: PART 4: Method 4 of Annex I of the Financial Groups Directive
(Combination of Methods 1, 2 and 3)

Applicable sectoral rules	4.1	The <i>rules</i> that apply with respect to a particular <i>financial conglomerate</i> under <i>PRU</i> 8.4.26R are those relating to capital adequacy and solvency set out in the table in paragraph 4.2.
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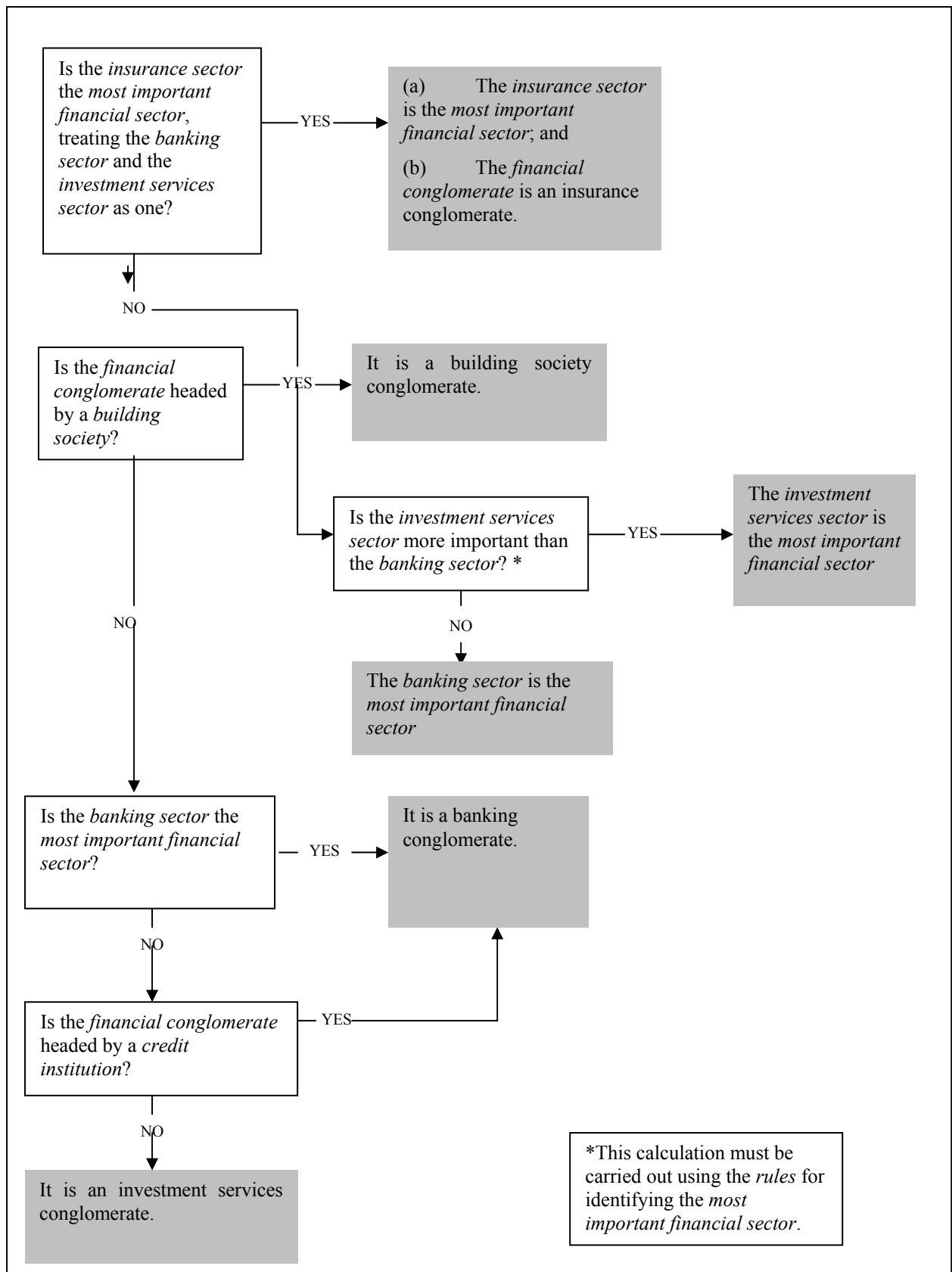
5 Table: Paragraph 4.2: Application of sectoral consolidation rules

Type of financial conglomerate	Applicable sectoral consolidation rules
<i>Banking conglomerate</i>	<i>IPRU(BANK)</i> Chapter GN <i>rule</i> 3.3.13 (as it applies on a consolidated basis), subject to paragraph 4.7.
<i>Insurance conglomerate</i>	Whichever of <i>IPRU(INS)</i> or <i>IPRU(FSOC)</i> would apply if those <i>rules</i> were amended in accordance with Part 5.
<i>Building society conglomerate</i>	<i>IPRU(BSOC)</i> (Volume 1) Chapter 1, <i>rule</i> 1.2.1 (as it applies on a consolidated basis).
<i>Investment services conglomerate</i>	Chapter 14 of <i>IPRU(INV)</i> .

6 Table

How to apply chapter 14 of IPRU(INV)	4.3	<p>Where chapter 14 of <i>IPRU(INV)</i> applies:</p> <ol style="list-style-type: none"> (1) the <i>main investment services undertaking</i> is treated as being the main firm for the purpose of <i>rule</i> 14.4.2 of chapter 14 of <i>IPRU(INV)</i>; (2) if the <i>main investment services undertaking</i> is not subject to any of the <i>FSA's sectoral rules</i> applied by chapter 14 of <i>IPRU(INV)</i>, then the <i>FSA's sectoral rules</i> that are applied are those that would do so if: <ol style="list-style-type: none"> (a) it were a <i>UK domestic firm</i>; and (b) it had a <i>permission</i> that includes all the <i>regulated activities</i> that it would need to have in its <i>Part IV permission</i> if it carried on all its activities in the <i>United Kingdom</i>.
The different types of financial conglomerate	4.4	<ol style="list-style-type: none"> (1) The decision tree in paragraph 4.5: <ol style="list-style-type: none"> (a) decides into which of the categories listed in the table in paragraph 4.2 a <i>financial conglomerate</i> falls; and (b) modifies the definition of the <i>most important financial sector</i> for the purposes of <i>PRU 8 Ann 1R</i> and for the purposes of any other provision in <i>PRU 8 (Group risk)</i> that applies that decision tree. (2) Paragraph 6.1(2) (<i>financial institution</i> allocated to the <i>banking sector</i>) and paragraph 6.1(3) (allocation of <i>asset management companies</i>) apply for the purpose of 4.4 and the table in paragraph 4.5.

Table: Paragraph 4.5: Types of financial conglomerate and definition of most important financial sector



8 Table

A mixed financial holding company	4.6	<p>A <i>mixed financial holding company</i> must be treated in the same way as:</p> <ol style="list-style-type: none"> (1) a <i>financial holding company</i> (if the rules in <i>IPRU(BANK)</i> or <i>IPRU(INV)</i>) are applied; or (2) an <i>insurance holding company</i> (if the rules in <i>IPRU(INS)</i> are applied).
E-money	4.7	<p>If there are no <i>full credit institutions</i> or <i>investment firms</i> in a <i>banking conglomerate</i> but there are one or more <i>e-money issuers</i>, the <i>sectoral rules</i> in <i>IPRU(BANK)</i> are amended as follows :</p> <ol style="list-style-type: none"> (1) the rules in <i>ELM</i> that apply on a solo basis must be used to establish the capital requirement for the <i>e- money issuers</i>; and (2) for the purpose of (1), those rules in <i>ELM</i> shall be amended by calculating the amount of the deductions in respect of <i>ownership shares</i> and capital falling into <i>ELM 2.4.17R(6)</i> in accordance with paragraph 3.3(2).

9 Table: PART 5: Principles applicable to all methods

Transferability of capital	5.1	<p>Capital may not be included in:</p> <ol style="list-style-type: none"> (1) a <i>firm's conglomerate capital resources</i> under <i>PRU 8.4.29R</i>; or (2) in the capital resources of the <i>financial conglomerate</i> for the purposes of <i>PRU 8.4.26R</i>; <p>if the effectiveness of the transferability and availability of the capital across the different members of the <i>financial conglomerate</i> is insufficient, given the objectives (as referred to in the third unnumbered sub-paragraph of paragraph 2(ii) of Annex I of the <i>Financial Groups Directive</i> (Technical principles)) of the capital adequacy rules for <i>financial conglomerates</i>.</p>
Double counting	5.2	<p>Capital must not be included in:</p> <ol style="list-style-type: none"> (1) a <i>firm's conglomerate capital resources</i> under <i>PRU 8.4.29R</i>;

Cross sectoral capital	5.3	<p>or</p> <p>(2) the capital resources of the <i>financial conglomerate</i> for the purposes of <i>PRU 8.4.26R</i>;</p> <p>if:</p> <p>(3) it would involve double counting or multiple use of the same capital; or</p> <p>(4) it results from any inappropriate intra-group creation of capital.</p> <p>In accordance with the second sub-paragraph of paragraph 2(ii) of Section I of Annex I of the <i>Financial Groups Directive</i> (Other technical principles and insofar as not already required in Parts 1-3):</p> <p>(1) the solvency requirements for each different <i>financial sector</i> represented in a <i>financial conglomerate</i> required by <i>PRU 8.4.26R</i> or, as the case may be, <i>PRU 8.4.29R</i> must be covered by own funds elements in accordance with the corresponding <i>applicable sectoral rules</i>; and</p> <p>(2) if there is a deficit of own funds at the <i>financial conglomerate</i> level, only cross sectoral capital (as referred to in that sub-paragraph) shall qualify for verification of compliance with the additional solvency requirement required by <i>PRU 8.4.26R</i> or, as the case may be, <i>PRU 8.4.29R</i>.</p>
Application of sectoral rules	5.4	<p>The following adjustments apply to the <i>applicable sectoral rules</i> as they are applied by the <i>rules</i> in this annex.</p> <p>(1) The scope of those <i>rules</i> will be extended to cover any <i>mixed financial holding company</i> and each other member of the <i>overall financial sector</i>.</p> <p>(2) If any of those <i>rules</i> would otherwise not apply to a situation in which they are applied by <i>PRU 8 Ann 1R</i>, those <i>rules</i> nevertheless still apply (and in particular, any of those <i>rules</i> that would otherwise have the effect of disapplying consolidated supervision (or, in the case of the <i>insurance sector</i>, supplementary supervision) do not apply).</p> <p>(3) (If it would not otherwise have been included) an <i>ancillary investment services undertaking</i> is included in the <i>investment services sector</i>.</p> <p>(4) (If it would not otherwise have been included) an <i>ancillary insurance services undertaking</i> is included in the <i>insurance sector</i>.</p>

		<p>(5) (In relation to the <i>insurance sector</i>) to the extent that:</p> <ul style="list-style-type: none"> (a) those <i>rules</i> merely require a report on whether or not a specified level of solvency is met (a soft limit); or (b) the requirements in those <i>rules</i> concern having certain net assets of an amount at or above certain levels; <p>those requirements are restated so as to include an obligation at all times actually to have capital at or above that level (a hard limit), thereby turning a soft limit drafted by reference to assets and liabilities into a hard limit requiring capital to be held at or above specified levels. If those <i>rules</i> apply both a hard and a soft limit, and the level of the soft limit is higher, that soft limit is applied under this annex, but translated into a hard limit in accordance with the earlier provisions of (5).</p> <p>(6) The scope of the those <i>rules</i> is amended so as to remove restrictions relating to where members of the <i>financial conglomerate</i> are incorporated or have their head office, so that the scope covers every member of the <i>financial conglomerate</i> that would have been included in the scope of those <i>rules</i> if those members had their head offices in an <i>EEA State</i>.</p> <p>(7) (For the purposes of Parts 1 to 3) those <i>rules</i> must be adjusted, if necessary, when calculating the capital resources, capital resources requirements or solvency requirements for a particular <i>financial sector</i> to exclude those for a member of another <i>financial sector</i>.</p>
No capital ties	5.5	<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>PRU 8.4.28R(1)</i> (Capital adequacy requirements: Compulsory application of Method 4 from Annex I of the Financial Groups Directive).</p> <p>(2) If:</p> <ul style="list-style-type: none"> (a) <i>PRU 8.4.26R</i> (Capital adequacy requirements: Application of Method 4 from Annex I of the Financial Groups Directive) would otherwise apply with respect to a <i>financial conglomerate</i> under <i>PRU 8.4.28R</i>; and

- (b) all members of that *financial conglomerate* 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 *regulated entities* in a *financial conglomerate* (the "peripheral members");

PRU 8.4.28R continues to apply. Otherwise *PRU 8.4.28R* does not apply with respect to a *financial conglomerate* falling into (1).

- (3) If *PRU 8.4.28R* applies with respect to a *financial conglomerate* in accordance with (2) the peripheral members must be excluded from the calculations under *PRU 8.4.26R*.

- (4) If:

- (a) *PRU 8.4.26R* applies with respect to a *financial conglomerate* falling into (1) under *PRU 8.4.27R(2)* (Use of *Part IV permission* to apply Annex I of the *Financial Groups Directive*); or

- (b) *PRU 8.4.49R* (Capital adequacy requirements: Application of Methods 1, 2 or 3 from Annex I of the *Financial Groups Directive*) applies with respect to a *financial conglomerate* falling into (1);

then:

- (c) the treatment of the links in (1) (including the treatment of any *solvency deficit*) is as provided for in the *requirement* referred to in *PRU 8.4.30R*; and

- (d) *PRU 8.4.26R* or *PRU 8.4.29R*, as the case may be, apply even if the *applicable sectoral rules* do not deal with how *undertakings* not linked by capital ties are to be dealt with for the purposes of consolidated supervision (or, in the case of the *insurance sector*, supplementary supervision).

- (5) Once *PRU 8.4.26R* applies to a *firm* with respect to a *financial conglomerate* of which it is a member under *PRU 8.4.27R(1)* (automatic application of Method 4 from Annex I of the *Financial Groups Directive* on satisfaction of the condition in *PRU 8.4.28R*), the disapplication of *PRU 8.4.28R* under (2) ceases to apply with respect to that *financial conglomerate*.

10 Table: PART 6: Definitions used in this Annex

Defining the financial sectors	6.1	<p>For the purposes of Parts 1 to 3 of this annex (but, unless specified otherwise in paragraph 4.4, not for the purposes of the definition of <i>most important financial sector</i>):</p> <ol style="list-style-type: none"> (1) the <i>banking sector</i> and the <i>investment services sector</i> are considered separately; (2) if a <i>financial institution</i> could otherwise fall into both the <i>banking sector</i> and the <i>investment services sector</i>, it must be allocated to the <i>banking sector</i>; (3) an <i>asset management company</i> is allocated in accordance with PRU 8.4.39R; and (4) a <i>mixed financial holding company</i> must be treated as being a member of the <i>most important financial sector</i>.
Solo capital resources requirement: UK domestic firms	6.2	<p>The <i>solo capital resources requirement</i> for a <i>regulated entity</i> that is a <i>UK domestic firm</i> is its solo regulatory capital requirement under the <i>FSA's sectoral rules</i> for its <i>financial sector</i> applicable to it.</p>
Solo capital resources requirement: EEA firms	6.3	<p>The <i>solo capital resources requirement</i> for an <i>EEA regulated entity</i> that is subject to the solo capital adequacy <i>sectoral rules</i> for its <i>financial sector</i> of the <i>competent authority</i> that authorised it is equal to the amount of capital resources it is obliged to hold under those <i>sectoral rules</i>.</p>
Solo capital resources requirement: mixed financial holding company	6.4	<p>The <i>solo capital resources requirement</i> for a <i>mixed financial holding company</i> is a notional capital requirement. It is the capital adequacy requirement that applies to <i>regulated entities</i> in the <i>most important financial sector</i> under the table in paragraph 6.8.</p>
Solo capital resources requirement: non-EEA firms subject to equivalent regimes	6.5	<p>The <i>solo capital resources requirement</i> for a <i>regulated entity</i> that:</p> <ol style="list-style-type: none"> (1) does not fall into paragraphs 6.2 to 6.4; (2) is subject to any of the <i>sectoral rules</i> referred to in paragraph 6.6 applicable to its <i>financial sector</i>; and (3) is incorporated in and has its head office in: <ol style="list-style-type: none"> (a) (where the <i>sectoral rules</i> in (2) are for the <i>banking sector</i> or the <i>investment services sector</i>) the same state

Solo capital resources requirement: other members		<p>or territory as the regulator for those <i>sectoral rules</i>, as referred to in paragraph 6.6(1) or 6.6(2)); or</p> <p>(b) (where the <i>sectoral rules</i> in (2) are for the <i>insurance sector</i>) the designated state or territory in question, as referred to in 6.6(3);</p>
	6.6	<p>is equal to the amount of capital resources it is obliged to hold under those <i>sectoral rules</i>. However, where 3(b) would otherwise apply, paragraph 6.7 may be applied instead.</p> <p>The <i>sectoral rules</i> referred to in paragraph 6.5 are:</p> <p>(1) (for the <i>banking sector</i>) the <i>sectoral rules</i> of or administered by one of the regulators listed in Appendix D of chapter CS of <i>IPRU(BANK)</i>;</p> <p>(2) (for the <i>investment services sector</i>) the <i>sectoral rules</i> of or administered by one of the regulators listed in Appendix 59 of chapter 10 of <i>IPRU(INV)</i>; and</p> <p>(3) (for the <i>insurance sector</i>) the <i>sectoral rules</i> of the states or territories referred to in the definition of designated states or territories in chapter 11 of <i>IPRU(INS)</i> (Definitions), but excluding <i>EEA States</i>.</p>
	6.7	<p>The <i>solo capital resources requirement</i> for any member of a <i>financial conglomerate</i> in the <i>overall financial sector</i> not treated under paragraphs 6.2 to 6.6 is a notional capital requirement. It is the capital resources requirement that would apply to it under the following <i>rules</i>:</p> <p>(1) (in the case of an <i>asset management company</i>) the <i>rules</i> in Chapter 7 of <i>IPRU(INV)</i>; and</p> <p>(2) (in any other case) the <i>rules</i> applicable to its <i>financial sector</i> under the table in paragraph 6.8.</p>

11 Table: Paragraph 6.8: The FSA's sectoral rules for the solo capital resources requirement

Financial sector	FSA's sectoral rules
<i>Banking sector</i>	The <i>FSA's sectoral rules</i> for <i>banks</i> , except that <i>e-money issuers</i> are subject to <i>ELM</i> .
<i>Insurance sector</i>	The <i>FSA's sectoral rules</i> for <i>insurance undertakings</i> .
<i>Investment services sector</i>	(1) The <i>rules</i> in <i>IPRU(INV)</i> that would apply on the assumptions in paragraph 4.3(2). (2) (If (1) does not result in the application of any <i>rules</i> in <i>IPRU(INV)</i>) the <i>rules</i> in <i>IPRU(INV)</i> that would be applied to it under <i>rule</i> 14.5.2 of Chapter 14 of <i>IPRU(INV)</i> (Group financial resources requirement).

12 Table

Solo capital resources requirement: the insurance sector	6.9	References to capital requirements in the provisions of <i>PRU</i> 8 Ann 1R defining <i>solo capital resources requirement</i> must be interpreted in accordance with paragraph 5.4(5).
Applicable sectoral consolidation rules	6.10	The <i>applicable sectoral consolidation rules</i> for a <i>financial sector</i> are the <i>FSA's sectoral rules</i> about capital adequacy and solvency on a consolidated basis that are applied in the table in paragraph 6.11.

13 Table: Paragraph 6.11: Application of sectoral consolidation rules

Financial sector	Type of financial conglomerate	FSA's sectoral rules
<i>Banking sector</i>	<i>Building society conglomerate</i>	The <i>rules</i> for <i>building societies</i> .
	Any other type	The <i>rules</i> for <i>banks</i> .
<i>Insurance sector</i>	N/A	The <i>rules</i> for <i>insurance undertakings</i> .
<i>Investment services sector</i>	N/A	The <i>rules</i> for <i>investment firms</i> .
Note 1: Paragraph 4.6 applies for the purposes of those <i>rules</i> .		

14 Table:

Applicable sectoral consolidation rules (contd.)	6.12	<p>The <i>rules</i> referred to in the third column of the table in paragraph 6.11 are as follows:</p> <ol style="list-style-type: none"> (1) the <i>rules</i> for <i>building societies</i> are the ones for <i>building society conglomerates</i> listed in the table in paragraph 4.2; (2) the <i>rules</i> for <i>banks</i> are the ones for <i>banking conglomerates</i> listed in the table in paragraph 4.2 as adjusted under paragraph 4.7; (3) the <i>rules</i> for <i>insurance undertakings</i> are whichever of the ones for <i>insurance conglomerates</i> that are applied by the table in paragraph 4.2; and (4) the <i>rules</i> for <i>investment firms</i> are the ones for <i>investment services conglomerates</i> listed in the table in paragraph 4.2 as applied under paragraph 4.3 (How to apply chapter 14 of IPRU(INV)).
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Prudential rules for third country groups (PRU 8.5.8R to PRU 8.5.9R)

1 Table: PART 1: Third-country financial conglomerates

1.1	This Part of this annex sets out the <i>rules</i> with which a <i>firm</i> must comply under <i>PRU 8.5.8R</i> with respect to a <i>financial conglomerate</i> of which it is a member.
1.2	A <i>firm</i> must comply, with respect to the <i>financial conglomerate</i> referred to in paragraph 1.1, with whichever of <i>PRU 8.4.26R</i> and <i>PRU 8.4.29R</i> is applied under paragraph 1.3.
1.3	For the purposes of paragraph 1.2: <ol style="list-style-type: none"> (1) the <i>rule</i> in <i>PRU 8.4</i> that applies as referred to in paragraph 1.2 is the one that is specified by the <i>requirement</i> referred to in <i>PRU 8.5.8R</i>; (2) (where <i>PRU 8.4.29R</i> is applied) the definitions of <i>conglomerate capital resources</i> and <i>conglomerate capital resources requirement</i> that apply for the purposes of that <i>rule</i> are the ones from whichever of Part 1, Part 2 or Part 3 of <i>PRU 8 Ann 1R</i> is specified in that <i>requirement</i>; and (3) the <i>rules</i> so applied (including those in <i>PRU 8 Ann 1R</i>) are adjusted in accordance with paragraph 3.1.
1.4	If the condition in Articles 7(4) and 8(4) of the <i>Financial Groups Directive</i> is satisfied (the <i>financial conglomerate</i> is headed by a <i>mixed financial holding company</i>) with respect to the <i>financial conglomerate</i> referred to in paragraph 1.1 the <i>firm</i> must also comply with <i>PRU 8.4.35R</i> (as adjusted in accordance with paragraph 3.1) with respect to that <i>financial conglomerate</i> .
1.5	A <i>firm</i> must comply with the following with respect to the <i>financial conglomerate</i> referred to in paragraph 1.1: <ol style="list-style-type: none"> (1) <i>PRU 8.1</i> (as it applies to <i>financial conglomerates</i> and as adjusted under paragraph 3.1); and (2) <i>PRU 8.4.25R</i>.

2 Table: PART 2: Third-country banking and investment groups

2.1	This Part of this annex sets out the <i>rules</i> with which a <i>firm</i> must comply under <i>PRU 8.5.9R</i> with respect to a <i>third-country banking and investment group</i> of which it is a member.
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2.2	A <i>firm</i> must comply with one of the sets of <i>rules</i> specified in paragraph 2.3 as adjusted under paragraph 3.1 with respect to the <i>third-country banking and investment group</i> referred to in paragraph 2.1.
2.3	The <i>rules</i> referred to in paragraph 2.2 are as follows: <ul style="list-style-type: none"> (1) the <i>applicable sectoral consolidation rules</i> in <i>IPRU(BANK)</i>; or (2) the <i>applicable sectoral consolidation rules</i> for the <i>investment services sector</i>; or (3) the <i>rules</i> in <i>ELM 7</i>.
2.4	The set of <i>rules</i> from paragraph 2.3 that apply with respect to a particular <i>third-country banking and investment group</i> (as referred to in paragraph 2.1) are those that would apply if they were adjusted in accordance with paragraph 3.1.
2.5	The <i>sectoral rules</i> applied by Part 2 of this annex cover all prudential <i>rules</i> applying on a consolidated basis including those relating to large exposures.
2.6	A <i>firm</i> must comply with <i>PRU 8.1</i> (as it applies to <i>banking and investment groups</i> and as adjusted under paragraph 3.1) with respect to the <i>third-country banking and investment group</i> referred to in paragraph 2.1.

3 Table: PART 3: Adjustment of scope

3.1	The adjustments that must be carried out under this paragraph are that the scope of the <i>rules</i> referred in Part 1 or Part 2 of this annex, as the case may be, are amended: <ul style="list-style-type: none"> (1) so as to remove any provisions disapplying those <i>rules</i> for <i>third-country groups</i>; (2) so as to remove all limitations relating to where a member of the <i>third-country group</i> is incorporated or has its head office; and (3) so that the scope covers every member of the <i>third-country group</i> that would have been included in the scope of those <i>rules</i> if those members had their head offices in, and were incorporated in, an <i>EEA State</i>.
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PRU 8 Ann 3G: CLASSIFICATION OF GROUPS (PRU 8.4.3G)

(form ref)

Part 1 : General Information

A	Name of Group:																									
B	Name of FSA supervisor:																									
C	Name of entity at head of the group:																									
D	Type of entity at head of the group: (select one of D1, D2, D3 and D4)	<table border="0" style="width: 100%;"><tr><td style="border: 1px solid black; width: 30px; text-align: center;">D1</td><td style="padding-left: 10px;">EU regulated entity country of authorisation</td><td style="border: 1px solid black; width: 180px; height: 30px;"></td></tr><tr><td style="border: 1px solid black; width: 30px; text-align: center;">(a)</td><td style="padding-left: 10px;">Credit institution</td><td style="border: 1px solid black; width: 30px; height: 20px;"></td></tr><tr><td style="border: 1px solid black; width: 30px; text-align: center;">(b)</td><td style="padding-left: 10px;">Investment firm</td><td style="border: 1px solid black; width: 30px; height: 20px;"></td></tr><tr><td style="border: 1px solid black; width: 30px; text-align: center;">(c)</td><td style="padding-left: 10px;">Insurance firm</td><td style="border: 1px solid black; width: 30px; height: 20px;"></td></tr><tr><td colspan="3" style="text-align: right; padding-right: 10px;">(tick one)</td></tr><tr><td style="border: 1px solid black; width: 30px; text-align: center;">D2</td><td style="padding-left: 10px;">EU non-regulated entity country of location</td><td style="border: 1px solid black; width: 180px; height: 30px;"></td></tr><tr><td style="border: 1px solid black; width: 30px; text-align: center;">D3</td><td style="padding-left: 10px;">Non-EU regulated entity country of authorisation</td><td style="border: 1px solid black; width: 180px; height: 30px;"></td></tr><tr><td style="border: 1px solid black; width: 30px; text-align: center;">D4</td><td style="padding-left: 10px;">Non- EU non-regulated entity country of location</td><td style="border: 1px solid black; width: 180px; height: 30px;"></td></tr></table>	D1	EU regulated entity country of authorisation		(a)	Credit institution		(b)	Investment firm		(c)	Insurance firm		(tick one)			D2	EU non-regulated entity country of location		D3	Non-EU regulated entity country of authorisation		D4	Non- EU non-regulated entity country of location	
D1	EU regulated entity country of authorisation																									
(a)	Credit institution																									
(b)	Investment firm																									
(c)	Insurance firm																									
(tick one)																										
D2	EU non-regulated entity country of location																									
D3	Non-EU regulated entity country of authorisation																									
D4	Non- EU non-regulated entity country of location																									
E	Year-end for group consolidation purposes																									

Part 2 : Threshold Information

F1	Is at least one of the entities in the group within the insurance sector and at least one in the banking/investment sector?	<input type="checkbox"/> Yes	<input type="checkbox"/> No (go to part 3)
F2	For D2 & D4 groups only: enter the ratio of the balance sheet total of the financial sectors in the group to the balance sheet total of the group as a whole. <i>Enter percentage in box*.</i>	<input type="text"/>	%
F3	What is the smallest financial sector?	<input type="checkbox"/>	Insurance
		<input type="checkbox"/>	Banking/Investment
F4	Ratio of balance sheet total of smallest financial sector to the balance sheet total of the financial sector entities in the group. <i>Enter percentage in box*.</i>	<input type="text"/>	%
F5	Ratio of the solvency requirement of the smallest financial sector to the solvency requirements of the total financial sector entities in the group. <i>Enter percentage in box*.</i>	<input type="text"/>	%
F6	What is the balance sheet total of the smallest financial sector in the group (identified in F3)*?	<input type="text"/>	(€'m)

*see guidance notes on a recommended method of calculation

Part 3: Conclusion on reason for becoming a financial conglomerate

G Select **ONE** of the following based on the answers in section 1 & 2.

If answer to F1 is NO or if none of the following are met then select type Z:

Z		Not a conglomerate.
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If the group is category D1 or D3 and the average of F4 and F5 is greater than 10% then select type i.

i		Conglomerate headed by a regulated institution with significant cross sector activities. [article 3(2)]
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If the group is category D1 or D3 and the average of F4 and F5 is less than 10% but F6 is greater than €6bn then select ii.

ii		Possible conglomerate headed by a regulated institution with presumed significant cross sector activities. [article 3(3)]
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If the group is category D2 or D4 and the answer to F2 is greater than 40% AND the average of F4 and F5 is greater than 10% then select type iii.

iii		Conglomerate headed by non-regulated entity with significant cross sector activities. [article 3(1) & 3(2)]
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If the group is category D2 or D4 and the answer to F2 is greater than 40% AND the average of F4 and F5 is less than 10% but F6 is greater than €6bn then select type iv.

iv		Possible conglomerate headed by non-regulated entity with presumed significant cross sector activities. [article 3(1) & 3(3)]
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Part 4: Other relevant information

H1	<p>Who do you think are the relevant competent authorities for your group (i.e. supervisors in EEA States in which the group has significant regulated activity)?</p> <p>See article 2 (17)(a) for definition of relevant competent authorities.</p>	
H2	<p>Who do you think should be the likely coordinator for the group (i.e. EEA supervisor of the group's most important regulated activity in the EU)?</p> <p>See article 10(1) and 10(2).</p>	
H3	<p>Do you consider that balance sheet value and solvency requirements were an appropriate criterion to determine whether a group is financial and whether cross sector activities exist? If not, do you consider there are other parameters (as referred to in article 3(5)) that would be more appropriate?</p>	
H4	<p>Do you have any other relevant comments? (use continuation sheet if necessary)</p>	

PRU 8 Ann 3G: Guidance Notes for Classification of Groups

Purpose and scope

The form is designed to identify groups and sub-groups that are likely to be financial conglomerates under the Financial Groups Directive. A group may be a financial conglomerate if it contains both insurance and banking/investment businesses and meets certain threshold tests. The FSA needs to identify conglomerates with their head offices in the EEA and those with their head offices outside the EEA, although this does not necessarily mean that the latter will be subject to EEA conglomerate supervision.

This form's purpose is to enable the FSA to obtain sufficient information so as to be able to determine how likely a group/sub-group is to be a financial conglomerate. In certain cases this can only be determined after consultation with the other EU relevant competent authorities. A second purpose of the form is therefore to identify any groups and sub-groups that may need such consultation so that this can be made as soon as possible. This should allow firms time to prepare to comply.

The third purpose of the form is to gain information from firms on the most efficient way to implement the threshold calculations in detail (consistently with the directive). We have, therefore, asked for some additional information in part 4 of the form.

A copy of this form will can be found on the FSA's Financial Groups Website with current contact details.

Please include workings showing the method employed to determine the percentages in part 2 (for the threshold conditions) and giving details of all important assumptions / approximations made in doing the calculations.

The definition of financial conglomerate includes not only conventional groups made up of parent-subsidiary relationships but groups linked by control and "consolidation Article 12(1) relationships". If this is the case for your group, please submit along with this form a statement that this is the case. Please include in that statement an explanation of how you have included group members not linked by capital ties in the questionnaire calculations.

A consolidation Article 12(1) relationship arises between undertakings in the circumstances set out in Article 12(1) of the Seventh Company Law Directive. These are set out in the Handbook Glossary (in the definition of consolidation Article 12(1) relationship). Broadly speaking, undertakings come within this definition if they do not form a conventional group but:

- (a) are managed on a unified basis; or
- (b) have common management.

General guidance

We would like this to be completed based on the most senior parent in the group, and, if applicable, for the company heading the most senior conglomerate group in the EEA. If appropriate, please also attach a list of all other likely conglomerate sub-groups.

Please use the most recent accounts for the top level company in the group together with the corresponding accounts for all subsidiaries and participations that are included in the consolidated accounts. Please indicate the names of any significant subsidiaries with a different year-end from the group's year-end.

Please note the following:

- (a) Branches should be included as part of the parent entity.
- (b) Include in the calculations overseas entities owned by the relevant group or sub-group.
- (c) There are only two sectors for this purpose: banking/investment and insurance.
- (d) You will need to assign non-regulated financial entities to one of these sectors:
 - **banking/investment** activities are listed in - IPRU Banks CS 10 Appendix A
 - **insurance** activities are listed in - IPRU Insurers Annex 11.1 and 11.2 p 163-168.
 - Any **operator of a UCITS scheme, insurance intermediary, mortgage broker and mixed financial holding company** does not fall into the directive definitions of either financial sector or insurance sector. They should therefore be ignored for the purposes of these calculations.

Threshold tests

For the purpose of completing section 2 of the form relating to the threshold tests, the following guidance should be used. However, if you consider that for your group there is a more appropriate calculation then you may use this calculation so long as the method of computation is submitted with the form.

Calculating balance sheet totals

Generally, use total (gross) assets for the balance sheet total of a group/entity. However, investments in other entities that are part of the group will need to be deducted from the sector that has made the investment and the balance sheet total of the entity is added to the sector in which it operates.

Our expectation of how this may be achieved efficiently is as follows:

- (i) Off-balance-sheet items should be excluded.
- (ii) Where off-balance sheet treatment of **funds under management** and on-balance sheet treatment of **policy holders' funds** may distort the threshold calculation, groups should consult the FSA on the appropriateness of using other measures under article 3.5 of the Financial Groups Directive.
- (iii) If consolidated accounts exist for a sub-group consisting of financial entities from only one of the two sectors, these consolidated accounts should be used to measure the balance-sheet total of the sub-group (i.e. total assets less investments in entities in the other sector). If consolidated accounts do not exist, intra-group balances should be netted out when calculating the balance sheet total of a single sector (but cross-sector intra-group balances should not be netted out).
- (iv) Where consolidated accounts are used, minority interests should be excluded and goodwill should be included.
- (v) Where accounting standards differ between entities, groups should consult the FSA if they believe this is likely materially to affect the threshold calculation.
- (vi) Where there is a subsidiary or participation in the opposite sector from its parent (i.e. insurance sector for a banking/investment firm parent and vice versa), the balance sheet amount of the subsidiary or participation should be allocated to its sector using its individual accounts.
- (vii) The balance-sheet total of the parent entity/sub-group is measured as total assets of the parent/sub-group less the book value of its subsidiaries or participations in the other sector (i.e. the value of the subsidiary or participation in the parent's consolidated accounts is deducted from the parent's consolidated assets).
- (viii) The cross-sector subsidiaries or participations referred to above, valued according to their own accounts, are allocated pro-rata, according to the aggregated share owned by the parent/sub-group, to their own sector.

- (ix) If the cross-sector entities above themselves own group entities in the first sector (i.e. that of the top parent/sub-group) these should (in accordance with the methods above) be excluded from the second sector and added to the first sector using individual accounts.

Solvency (capital adequacy) requirements

Generally, the solvency requirements should be according to sectoral rules (that is EEA prudential sectoral legislation – see Glossary). However, for convenience, you may choose to use either EEA rules, FSA rules or local rules. But if this choice makes a significant difference, either with respect to whether the group is a financial conglomerate or with respect to which sector is the biggest, you should consult with the FSA. Non-regulated financial entities should have proxy requirements calculated on the basis of the most appropriate sector. If sub-groups submit single sector consolidated returns then the solvency requirement may be taken from those returns.

Our expectation of how this may be achieved efficiently is as follows:

- (i) If you complete a solvency return for a sub-group consisting of financial entities from only one of the two sectors, the total solvency requirement for the sub-group should be used.
- (ii) Solvency requirements taken must include any deductions from available capital so as to allow the appropriate aggregation of requirements.
- (iii) Where there is a regulated subsidiary or participation in the opposite sector from its parent/sub-group, the solvency requirement of the subsidiary or participation should be from its individual regulatory return. If there is an identifiable contribution to the parent's solvency requirement in respect of the cross-sector subsidiary or participation, the parent's solvency requirement may be adjusted to exclude this.
- (iv) Where there is an unregulated financial undertaking in the opposite sector from its parent/sub-group, the solvency requirement of the subsidiary or participation should be one of the following:
 - (a) as if the entity were regulated by the FSA under the appropriate sectoral rules;
 - (b) using EU minimum requirements for the appropriate sector; or
 - (c) using non-EU local requirements* for the appropriate sector.

Please note on the form which of these options you have used, according to the country and sector, and whether this is the same treatment as in your latest overall group solvency calculation.

(v) For banking/investment requirements, use the total amount of capital required.

(vi) For insurance requirements, use the Required Minimum Margin:

(a) UK firms, Form 9: for general insurance business = capital resources requirement [line 29]; for long-term insurance business = capital resources requirement (higher of Minimum Capital Requirement and Enhanced Capital Resources Requirement) [line 52].

(b) Overseas firms, either:

- the local requirement*;
- the EU minimum; or
- the FSA requirement.

* N.B. local requirements may only be used if they are at least equivalent to the EU minimum (designated states or territories). However, local requirements of a non-designated state or territory may be used if the resulting ratio in F5 is significantly below the 10% threshold (for this purpose "significantly below" may be taken to mean <5%).

Market share measures

These are not defined by the directive. The aim is to identify any standard industry approaches to measuring market share in individual EU countries by sector, or any data sources which are commonly used as a proxy.

Threshold tests

Test F2

B/S of banking/investment + insurance sector = result %
B/S total

Test F3/F4/F5

B/S of insurance sector
B/S of banking/investment sector + insurance sector = A%

B/S of banking/investment sector

B/S of banking/investment sector + insurance sector = B%

Solvency requirement of insurance sector

Solvency requirement of banking/investment sector + insurance sector = C%

Solvency requirement of banking/investment sector

Solvency requirement of banking/investment sector + insurance sector = D%

The relevant percentage for the insurance sector is:

$$(A\% + C\%)/2 = I\%$$

The relevant percentage for the banking/investment sector is:

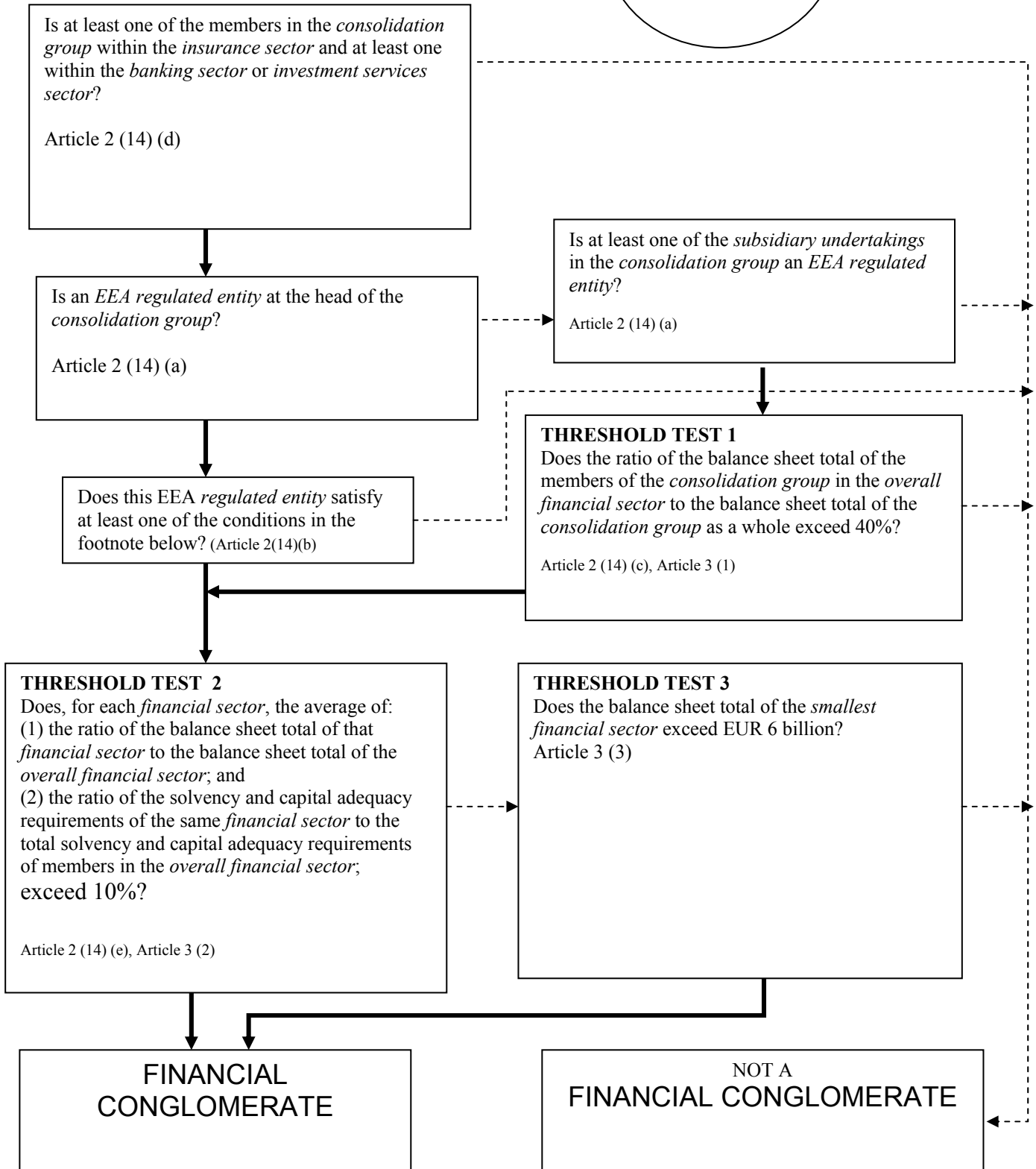
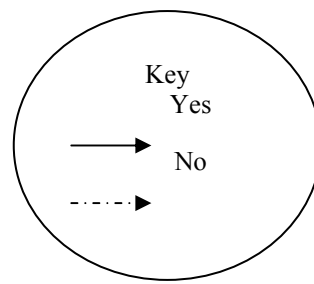
$$(B\% + D\%)/2 = BI\%$$

The smallest sector is the sector with the smallest relevant percentage.

If $I\% < BI\%$ then F3 is insurance, F4 = A%, and F5 = C%

If $BI\% < I\%$ then F3 is banking/investment, F4 = B% and F5 = D%

PRU 8 Ann 4R (see PRU 8.4.5R)



Footnote: The conditions are that the *EEA regulated entity* at the head of the *consolidation group*:
 (1) is a *parent undertaking* of a member of the *consolidation group* in the *overall financial sector*;
 (2) has a *participation* in a member of the *consolidation group* that is in the *overall financial sector*; or
 (3) has a *consolidation Article 12(1) relationship* with a member of the *consolidation group* that is in the *overall financial sector*.

Insert schedules into PRU as follows:

The Integrated Prudential Sourcebook

Schedule 1

Record Keeping Requirements

G

1 There are no record keeping requirements in *PRU 1* or *PRU 8*. This Schedule does not cover any other chapter of *PRU*.

The Integrated Prudential Sourcebook

Schedule 2

Notification requirements

G

- 1 There are no notification requirements in *PRU* 1 or *PRU* 8. This Schedule does not cover any other chapter of *PRU*.

The Integrated Prudential Sourcebook

Schedule 3

Fees and other required payments

G

- 1 There are no requirements for fees or other payments in *PRU 1* or *PRU 8*. This Schedule does not cover any other chapter of *PRU*.

The Integrated Prudential Sourcebook

Schedule 4

Powers Exercised

G

- 1 The following powers and related provision in the *Act* have been exercised by the *FSA* to make the *rules* in *PRU 1* and *PRU 8*:
 - (1) section 138 (General rule -making power)
 - (2) section 150(2) (Actions for damages)
 - (3) section 156 (General Supplementary powers).
- 2 The following power in the *Act* has been exercised by the *FSA* to give the *guidance* in *PRU 1* and *PRU 8*:

Section 157(1) (Guidance).
- 3 This Schedule does not cover any other chapter of *PRU*.

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Schedule 5

Rights of action for damages

G

- 1 The table below sets out the rules in *PRU* contravention of which by an *authorised person* may be actionable under section 150 of the *Act* (Actions for damages) by a person who suffers loss as a result of the contravention.
- 2 If a "Yes" appears in the column headed "For private person", the *rule* may be actionable by a *private person* under section 150 (or, in certain circumstances, his fiduciary or representative; see article 6(2) and (3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001 No 2256)). A "Yes" in the column headed "Removed" indicates that the *FSA* has removed the right of action under section 150(2) of the *Act*. If so, a reference to the *rule* in which it is removed is also given.
- 3 The column headed "For other person" indicates whether the *rule* may be actionable by a person other than a *private person* (or his fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of person by whom the *rule* may be actionable is given.
- 4 Table

Chapter/Appendix	Section/Annex	Rights of action under section 150			
		For private person	Removed	For other person	
All rules in <i>PRU</i>		No	Yes (<i>PRU</i> 1.8.1R)	No	

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Schedule 6

Rules that can be waived

G

- 1 The *rules* in *PRU 8* can be waived by the *FSA* under section 148 of the *Act* (Modification or waiver of rules). This Schedule does not cover any other chapter of *PRU*.

Annex H

Amendments to the Authorisation manual

In this Annex, underlining indicates new text.

Connected persons

3.9.22 G (1) ...

- (1A) The *Financial Groups Directive Regulations* make special provision where the *FSA* is exercising its functions under Part IV of the *Act* (Permission to carry on regulated activities) for the purposes of carrying on supplementary supervision. Broadly, where the *FSA*, in the course of carrying on supplementary supervision, is considering varying the *Part IV permission* of a *person* who is a member of a group which is a *financial conglomerate*, the consultation provisions in section 49(2) of the *Act* are disapplied. In their place, the regulations impose special obligations, linked to the *Financial Groups Directive*, to obtain the consent of the relevant *competent authorities*, to consult those authorities and to consult with the group itself.

Annex I

Amendments to the Supervision manual

In this Annex underlining indicates new text and striking through indicates deleted text. Where an entire section of text is being deleted or inserted, the place where the change will be made is indicated and the text is not struck through or underlined.

3.9.5 R Table Auditor's report

...

whether in the auditor's opinion:	
(14)	... if the <i>firm</i> prepares a consolidated reporting statement <u>supervision return</u> at its <i>accounting reference date</i> , that it has been prepared in accordance with the <i>rules</i> .

...

When will the FSA grant an application for variation of permission?

...

6.3.31 G In considering whether to grant a *firm's* application to vary its *Part IV permission*, the *FSA* will also have regard, under section 49(1) of the *Act* (Persons connected with an applicant), to any ~~person~~ person appearing to be, or likely to be, in a relationship with the *firm* which is relevant (see *AUTH 3.9.22G* to *AUTH 3.9.24G* (Connected persons)). The *Financial Groups Directive Regulations* make special consultation provisions where the *FSA* is exercising its functions under Part IV of the *Act* (Permission to carry on regulated activities) for the purposes of carrying on supplementary supervision – see *AUTH 3.9.22G(1A)*.

...

7.3: Criteria for varying a firm's permission

...

7.3.2 G The *FSA* may seek to vary a *firm's Part IV permission* on its own initiative in certain situations, including the following:

...

(4) If a *firm* is a member of a *financial conglomerate* and the *FSA* is implementing supplementary supervision under the *Financial Groups Directive* with respect to that *financial conglomerate* by imposing obligations on the *firm*. Further material on this can be found in *PRU 8.4* (Cross sector groups) and *SUP 16.7.73R* to *SUP*

16.7.74R (reporting requirements with respect to *financial conglomerates*).

...

8.9: Decision making

...

8.9.2 G If the FSA, in the course of carrying on supplementary supervision of a *financial conglomerate*, is considering exercising its powers under section 148 of the *Act* (Modification or waiver of rules), regulation 4 of the *Financial Groups Directive Regulations* contains special provisions. The FSA must, in broad terms, do two things. Where required by those regulations, it must obtain the consent of the relevant competent authorities of the group. And, where required by those Regulations, it must consult those competent authorities.

...

11.5: Form of notification by firms

...

11.5.4A G *Firms* are also reminded that a change in *control* may give rise to a notification as a *financial conglomerate* or a change in the supplementary supervision of a *financial conglomerate* (see PRU 8.4 (Cross sector groups) and PRU 8.5 (Third country groups)).

...

The FSA's timeframe for responding to a notification

...

11.7.13 G Before giving an approval notice or *warning notice*, the FSA ~~may be required to consult with~~ must comply with certain requirements as to consultation with competent authorities outside the *United Kingdom* (sections 183(2) and 188(2) of the *Act* and the *Financial Services and Markets Act 2000 (Consultation with Competent Authorities) Regulations 2001*). The *Financial Groups Directive Regulations* make special provision in relation to (the change in *control* over a UK authorised person (within the meaning of section 178(4) of the *Act*) which is a member of a *third country group*.

...

After SUP 15.8.7G insert the following new section SUP 15.9:

15.9 Notifications by members of financial conglomerates

15.9.1 R A *firm* that is a *regulated entity* must notify the FSA immediately it becomes aware that any *consolidation group* of which it is a member:

- (1) is a *financial conglomerate*; or
- (2) has ceased to be a *financial conglomerate*.

- 15.9.2 R (1) A *firm* that is a *regulated entity* must establish whether or not any *consolidation group* of which it is a member:
- (a) is a *financial conglomerate*; or
 - (b) has ceased to be a *financial conglomerate*;
- if:
- (c) the *firm* believes; or
 - (d) a reasonable *firm* that is complying with the requirements of the *regulatory system* would believe; that it is likely that (a) or (b) is true.
- (2) A *firm* does not need to determine whether (1)(a) is the case if the *consolidation group* is already being regulated as a *financial conglomerate*.
- (3) A *firm* does not need to determine whether (1)(b) is the case if notification has already been given as contemplated by SUP 15.9.4R
- 15.9.3 G A *firm* should consider the requirements in SUP 15.9.2R on a continuing basis, and in particular, when the *group* prepares its financial statements and on the occurrence of an event affecting the *consolidated group*. Such events include, but are not limited to, an acquisition, merger or sale.
- 15.9.4 R A *firm* does not have to give notice to the *FSA* under SUP 15.9.1R if it or another member of the *consolidation group* has already given notice of the relevant fact to:
- (1) the *FSA*; or
 - (2) (if another *competent authority* is *co-ordinator* of the *financial conglomerate*) that *competent authority*; or
 - (3) (in the case of a *financial conglomerate* that does not yet have a *co-ordinator*) the *competent authority* who would be *co-ordinator* under Article 10(2) of the *Financial Groups Directive* (Competent authority responsible for exercising supplementary supervision (the *co-ordinator*)).

...

Reports from groups

- 16.3.25 G If this chapter requires the submission of a report covering a *group*, a single report may be submitted, and so satisfy the requirements of all *firms* in the *group*. Such a report should contain the information required from all of them, meet all relevant due dates and indicate all the *firms* on whose behalf it is submitted; if necessary a separate covering sheet should list the *firms* on whose behalf a report is submitted. Nevertheless, the requirement to provide a report, and the responsibility for the report, remains with each *firm* in the *group*. However, reporting requirements that apply to a *firm*, by reason of the *firm* being a member of a *financial conglomerate*, are imposed on only one member of the *financial conglomerate* (see, for example, SUP 16.7.73R).

...

16.4.5 R Reporting requirement

(4) ...

(4A) A firm that is a regulated entity must include in its report to the FSA under (1) whether any consolidation group of which it is a member is a third-country banking and investment group.

(4B) A firm does not have to give notice to the FSA under (4A) if it, or another member of the third-country banking and investment group, has already given notice to the FSA of the relevant fact.

(5) ...

...

16.7.5 G Applicable rules and guidance on financial reports (see SUP 16.7.1G)

Firm category	Applicable rules and guidance
<i>Bank, other than an EEA bank with permission for cross border services only</i>	<i>SUP 16.7.7R - SUP 16.7.15R</i> <u><i>SUP 16.7.73R - SUP 16.7.74R</i></u>
<i>Building society</i>	<i>SUP 16.7.16R - SUP 16.7.19R</i> <u><i>SUP 16.7.73R - SUP 16.7.74R</i></u>
...	
<i>Securities and futures firm (Note 1)</i>	<i>SUP 16.7.22R - SUP 16.7.34G</i> <u><i>SUP 16.7.73R - SUP 16.7.74R</i></u>
<i>Investment management firm</i>	<i>SUP 16.7.35R - SUP 16.7.41R</i> <u><i>SUP 16.7.73R - SUP 16.7.74R</i></u>
<i>Personal investment firm</i>	<i>SUP 16.7.42G - SUP 16.7.53G</i> <u><i>SUP 16.7.73R - SUP 16.7.74R</i></u>
...	
<i>ELMI</i>	<i>SUP 16.7.64R - SUP 16.7.66R</i> <u><i>SUP 16.7.73R - SUP 16.7.74R</i></u>
...	

...

16.7.8 R Financial reports from a UK bank (see SUP 16.7.7R)

Content of Report	Form (Note 1)	Frequency	Due date
...			
Analysis of large exposures (Consolidated)	LE2 or LE3 (Note 2) (Note 7)	Quarterly	20 <i>business days</i> after quarter end (Note 6) (24 <i>business days</i> if LE3 is submitted electronically)
<u>Analysis of significant transactions (other than those resulting in large exposures) with the mixed-activity holding company and its subsidiaries</u>	<u>LE2 or LE3 (Note 8)</u>	<u>Quarterly</u>	<u>20 business days after quarter end (Note 6) (24 business days if LE3 is submitted electronically)</u>
...			
<p>... <u>Note 8 = A bank must add the required information to the relevant large exposures reporting form (LE2 or LE3). For the purposes of this reporting requirement, a transaction will be presumed to be significant if its amount exceeds 5% of the total amount of capital adequacy requirements at the level of the group.</u></p>			

...

16.7.25 R Financial reports required from a securities and futures firm which is a category A or B firm or a broad scope firm (see SUP 16.7.24R)

Report	Frequency	Due date
.....		
<u>Consolidated supervision return reporting statement</u> (Note 2)	Half-yearly	1 month after period end <u>3 months after end of the relevant six-month period</u>

Report	Frequency	Due date
...		
Large exposures quarterly reporting statement (Form LEM 1 or LEM 2) – consolidated (Notes 2 and 4)	Quarterly	1 month after quarter end
<u>(Only for CAD investment firms) Analysis of significant transactions (other than those resulting in large exposures) with the mixed-activity holding company and its subsidiaries (Note 5).</u>	<u>Quarterly</u>	<u>1 month after quarter end</u>
<u>If the firm's ultimate parent is a mixed-activity holding company, the annual accounts of the mixed-activity holding company (Note 2)</u>	<u>Annually</u>	<u>As soon as available after year end</u>
<p>....</p> <p>Note 2 = Only for category A and B firms which are subject to the consolidation rules set out in IPRU (INV) Chapter 14 10-200R-10-203R, and are not exempt from the consolidation rules under IPRU (INV) 10-200R(2) or IPRU (INV) 10-204R.</p>		
<p>...</p> <p><u>Note 5 = Securities and futures firms that are CAD investment firms must add the required information to the large exposures reporting form (QFS1). For the purposes of this reporting requirement, a transaction will be presumed to be significant if its amount exceeds 5% of the total amount of capital adequacy requirements at the level of the group.</u></p>		

...

- 16.7.27 R Financial reports from a securities and futures firm which is a category C or D firm or an arranger or venture capital firm (see SUP 16.7.26R)

Report	Frequency	Due date
...		

Report	Frequency	Due date
Consolidated <u>supervision return reporting statement</u> (Note 2)	Half yearly	1 month after period end <u>3 months after end of relevant six-month period</u>
...		
Large exposures quarterly reporting (Form LEM 1 or LEM 2) - consolidated (Notes 2 and 4)	Quarterly	1 month after quarter end
<u>(Only for CAD investment firms) Analysis of significant transactions (other than those resulting in large exposures) with the mixed-activity holding company and its subsidiaries</u> (Note 5)	<u>Quarterly</u>	<u>1 month after quarter end</u>
<u>If the firm's ultimate parent is a mixed-activity holding company, the annual accounts of the mixed-activity holding company</u> (Note 2)	<u>Annually</u>	<u>As soon as available after year end</u>
...		
<p>...</p> <p>Note 2 = Only for category C firms (as defined in the glossaries located in IPRU(INV) 10), which are subject to the consolidation rules set out in IPRU(INV) 10-200R—10-203R Chapter 14, and are not exempt from the consolidation rules under IPRU(INV) 10-200R(2) or IPRU(INV) 10-204R.</p> <p>...</p> <p><u>Note 5 = Securities and futures firms that are CAD investment firms must add the required information to their large exposures reporting. For the purposes of this reporting requirement, a transaction will be presumed to be significant if its amount exceeds 5% of the total amount of capital adequacy requirements at the level of the group.</u></p>		

...

- 16.7.31 R A securities and futures firm must submit the reports in SUP 16.7.25R and SUP 16.7.27R in accordance with, and in the same format as:
- (1) the forms contained in SUP 16 Ann 10R, and as required by section 6 of that annex; and
 - (2) the form contained in SUP 16 Ann 20R, and having regard to SUP 16 Ann 21G.

...

16.7.36 R Table Financial reports from an investment management firm (see SUP 16.7.35R)

Report	Frequency	Due date
Annual Financial Return (Note 1)	Annually	4 months after the <i>firm's accounting reference date</i>
<u>(Only for CAD investment firms) Analysis of significant transactions (other than those resulting in large exposures) with the mixed-activity holding company and its subsidiaries. (Note 6)</u>	Annually	<u>4 months after the firm's accounting reference date</u>
<u>Consolidated supervision return (only for firms subject to IPRU(INV) Chapter 14)</u>	Half-yearly	<u>4 months after end of relevant six-month period</u>
<u>If the firm's ultimate parent is a mixed-activity holding company, the annual accounts of the mixed-activity holding company.</u>	Annually	<u>As soon as available after year end</u>
...		
<p>...</p> <p><u>Note 6 = Investment management firms that are CAD investment firms must add the required information to their large exposure reporting in the Annual Financial Return. For the purposes of this reporting requirement, a transaction will be presumed to be significant if its amount exceeds 5% of the total amount of capital adequacy requirements at the level of the group.</u></p>		

...

16.7.38 R An investment management firm must submit the required reports in SUP 16.7.36R in accordance with, and in the same format as; :

- (1) the forms contained in SUP 16 Ann 5R, and according to the requirements contained in as required by section 4 of that annex; and
- (2) the forms contained in SUP 16 Ann 20R, and having regard to SUP 16 Ann 21G.

...

16.7.47 R Additional financial reports required from a Category A1, A2 or A3

firm (see SUP 16.7.46R)

Report	Frequency	Due date
...		
Consolidated <u>supervision financial resources</u> return (Note 1)	<u>Quarterly</u> <u>Half-yearly</u>	3 weeks after <u>quarter end</u> <u>4 months after end of relevant six-month period</u>
<u>If the firm's ultimate parent is a mixed-activity holding company, the annual accounts of the mixed-activity holding company</u>	<u>Annually</u>	<u>As soon as available after year end</u>
...		
Form 13I (Consolidated statement of large exposures) (Note 1)	Quarterly	3 weeks after quarter end
<u>(Only for CAD investment firms) Analysis of significant transactions (other than those resulting in large exposures) with the mixed-activity holding company and its subsidiaries (Note 3)</u>	<u>Quarterly</u>	<u>3 weeks after quarter end</u>
...		
<p>Note 1 = This report is only required from a <i>firm</i> if it is a member of a <i>group</i>, and it is subject to consolidated supervision as set out in <i>IPRU(INV) 13.7.1R to 13.7.2R</i> Chapter 14.</p> <p>...</p> <p>Note 3 = <u>Personal investment firms that are CAD investment firms must add the required information to the large exposure reporting in Form 13I. For the purposes of this reporting requirement, a transaction will be presumed to be significant if its amount exceeds 5% of the total amount of capital adequacy requirements at the level of the group.</u></p>		

...

- 16.7.51 R (1) A Category A1, A2 or A3 *firm* must submit the reports in SUP 16.7.45R and SUP 16.7.47R in accordance with, and in the same format as:
- (a) the forms contained in SUP 16 Ann 7R (sections 1, 3 and 6), and as required by section 5 of that annex; and
 - (b) the forms contained in SUP 16 Ann 20R, and having regard to SUP 16 Ann 21G.

...

- 16.7.52 G *Guidance* notes for the completion of reports for the purposes of consolidated supervision, and of the annual questionnaire required under SUP 16.7.48R can be found in SUP 16 Ann 8G.

...

- 16.7.66 R Financial reports from an ELM I (see SUP 16.7.65R)

Content of Report	Form (Note 1)	Frequency	Due Date
...			
Consolidated large exposures reporting statement	ELM-CA/LE	Half-yearly	20 <i>business days</i> after period end (22 <i>business days</i> if submitted electronically)
<u>Analysis of significant transactions (other than those resulting in large exposures) with the <i>mixed-activity holding company</i> and its <i>subsidiaries</i></u>	<u>ELM-CA/LE</u> (Note 2)	<u>Half-yearly</u>	<u>20 <i>business days</i> after period end (22 <i>business days</i> if submitted electronically)</u>
...			
<p>...</p> <p><u>Note 2 = <i>ELMIs</i> must add the required information to the large exposures reporting form (QFS1). For the purposes of this reporting requirement, a transaction will be presumed to be significant if its amount exceeds 5% of the total amount of capital adequacy requirements at the level of the <i>group</i>.</u></p>			

...

- 16.7.68R Table: Financial reports from a UCITS management company

Report	Frequency	Due date
--------	-----------	----------

...		
<u>Consolidated supervision return (Only for UCITS investment firms)</u>	<u>Half-yearly</u>	<u>4 months after end of relevant six-month period</u>
<u>If the firm's ultimate parent is a mixed-activity holding company, the annual accounts of the mixed- activity holding company (Only for UCITS investment firms)</u>	<u>Annually</u>	<u>As soon as available after year-end</u>
...		

- 16.7.69R A UCITS management company must submit the ~~required~~ reports in SUP 16.7.68R in accordance with, and in the same format as:
- (1) the forms contained in SUP 16 Ann 16R, and ~~according to the requirements contained in~~ as required by section 3 of that annex; and
 - (2) the form contained in SUP 16 Ann 20R, and having regard to SUP 16 Ann 21G.

...

After SUP 16.7.72R, insert the following new rules, SUP 16.7.73R and SUP 16.7.74R:

Financial conglomerates

- 16.7.73 R (1) A *firm* that is a member of a *financial conglomerate* must submit financial reports to the *FSA* in accordance with the table in SUP 16.7.74R if:
- (a) it is at the head of an *FSA regulated EEA financial conglomerate*; or
 - (b) its *Part IV permission* contains a relevant *requirement*.
- (2) In (1)(b), a relevant *requirement* is one which:
- (a) applies SUP 16.7.74R to the *firm*; or
 - (b) applies SUP 16.7.74R to the *firm* unless the *mixed financial holding company* of the *financial conglomerate* to which the *firm* belongs submits the report required under this *rule* (as if the *rule* applied to it).

- 16.7.74 R Table Financial reports from a member of a financial conglomerate (see SUP 16.7.73R)

Content of Report	Form (Note 1)	Frequency	Due Date
Calculation of supplementary capital adequacy requirements in accordance with one of the four technical calculation methods	Note 2	Note 5	Note 5
Identification of significant <i>risk concentration</i> levels	Note 3	Yearly	4 months after year end
Identification of significant <i>intra-group transactions</i>	Note 4	Yearly	4 months after year end
Report on compliance with <i>PRU</i> 8.4.35R where it applies	Note 6	Note 5	Note 5

Note 1 = When giving the report required, a *firm* must use the form indicated, if any.

Note 2 = If Part 1 of *PRU* 8 Annex 1 (method 1), Part 2 of *PRU* 8 Annex 1 (method 2), or Part 3 of *PRU* 8 Annex 1 (method 3) applies, there is no specific form. Adequate information must be provided, and each *financial conglomerate* for which the *FSA* is the *co-ordinator* must discuss with the *FSA* how to do this.

If Part 4 of *PRU* 8 Annex 1 applies (method 4):

- (1) a *banking conglomerate* must use form *SUP* 16 Ann 1R (BSD3);
- (2) a *building society conglomerate* must use form *SUP* 16 Ann 3R (MFS1 Tables D&F);
- (3) an *investment services conglomerate* must use form *SUP* 16 Ann 20R;
- (4) an *insurance conglomerate* must use the Parent Undertaking Reporting Format example in GN 10.1 of *IPRU(INS)*.

Note 3 = Rather than specifying a standard format for each *financial conglomerate* to use, each *financial conglomerate* for which the *FSA* is the *co-ordinator* must discuss with the *FSA* the form of the information to be reported. This should mean that usual information management systems of the *financial conglomerate* can be used to the extent possible to generate and analyse the information required.

When reviewing the *risk concentration* levels, the *FSA* will in particular monitor the possible risk of contagion in the *financial conglomerate*, the risk of a conflict of interests, the risk of circumvention of sectoral *rules*, and the level or volume of risks.

Note 4 = For the purposes of this reporting requirement, an *intra-group transaction* will be presumed to be significant if its amount exceeds 5% of the total amount of capital adequacy requirements at the level of the *financial conglomerate*.

Rather than specifying a standard format for each *financial conglomerate* to use,

each *financial conglomerate* for which the *FSA* is the *co-ordinator* will need to discuss with the *FSA* the form of the information to be reported. This should mean that usual information management systems of the *financial conglomerate* can be used to the extent possible to generate and analyse the information required.

When reviewing the *intra-group transactions*, the *FSA* will in particular monitor the possible risk of contagion in the *financial conglomerate*, the risk of a conflict of interests, the risk of circumvention of *sectoral rules*, and the level or volume of risks.

Note 5 = The frequency and due date will be as follows:

1. *banking conglomerate*: frequency is half-yearly with due date 20 *business days* after period end (24 *business days* if submitted electronically);
2. *building society conglomerate*: frequency is quarterly with due date seven *business days* after *month end* (largest societies) and ten *business days* after *month end* (other societies);
3. *investment services conglomerate*: frequency is half yearly with due date three *months* after period end;
4. *insurance conglomerate*: frequency is yearly with due date four *months* after period end for the capital adequacy return and three *months* after period end for the *intra-group transactions*.

Note 6 = Adequate information must be added as a separate item to the relevant form for sectoral reporting.

...

Ann 2G: Guidance notes on completion of banks' reporting forms (including validations)

In "Form BSD3 –Reporting instructions", "D400-D470 Deductions from capital", insert the following paragraph at the end of item D460:

Where the reporting institution is required to deduct the amount of material insurance holdings (see IPRU (BANK) Chapter CA, section 10.2), the deduction should be the higher of the book value and the regulatory capital requirement of the affiliate concerned, the latter pro rata to the interest held. The book value should already have been included in item A160, and deducted from capital in item D400; where the regulatory capital requirement is a higher figure, the difference over the book value should be included here.

...

Ann 3R: Building societies' reporting forms
Building society quarterly statement - QFS1; D Capital Available: Own Funds: Society and Group

Note (d) Capital instruments in other CFI's, deductions in respect of ~~life companies~~ material insurance holdings, mortgage indemnity insurance captives, securitisations etc. - [Chapter 1 (Solvency) of Volume 1 of the IPSB for building societies refers].

...

Ann 4G: Guidance notes on completion of building societies' reporting forms
Quarterly statement QSF1 – Guidance notes; Section D: Capital available: own funds

D3.1 Deductions not shown elsewhere

Deduct all holdings of capital instruments of other credit or financial institutions, CFIs. (See Annex of P/G for fuller definitions). This means holdings of share capital in a society's connected undertakings. For society columns it is any such holdings in CFIs; for Group columns only include holdings in such bodies that are not consolidated in Group figures.

Also include deductions (described in P/G) in respect of the following: ~~life and general insurance companies~~ material insurance holdings, mortgage indemnity insurance captives, securitisations, etc.

...

After SUP 16 Ann 19, insert the following new provisions, SUP 16 Ann 20R and SUP 16 Ann 21G:

SUP 16 ANN 20R: CONSOLIDATED SUPERVISION RETURN FOR INVESTMENT FIRMS

PART 1: GROUP FINANCIAL RESOURCES:

Name of regulated firm:

Name of ultimate EEA financial holding company for group (“parent”):

Group Tier 1:

ordinary share capital
 share premium
 audited consolidated reserves
 non-cumulative preference shares
 other reserves
 minority interests
 externally verified interim profits
 Less:
 intangible assets
 material unaudited consolidated losses since balance sheet date (for half-yearly return)

A1

Group Tier 2:

non-fixed-term cumulative preference shares
 non-fixed-term long term subordinated loans
 consolidated revaluation reserves
 minority interests
 fixed-term cumulative preference shares
 fixed-term long term subordinated loan
 minority interests

B1

Group Tier 3:

short term subordinated loan
 unaudited consolidated trading book profits
 Total Group Tier 3:
 Group Material Holdings in credit and financial institutions:

C

DI

investments in own shares

B2

*Group Material
Insurance Holdings:*

D2

Total Group Net Tier 1:

A2

Total Group Tier 2:
B=B1+B2

B

Group Financial Resources:

E

E = A2 + B1 + B2 + C – D1 – D2
B, B1, B2, and C are subject to eligibility limits as set out in the relevant chapter of IPRU(INV).

PART 2: GROUP FINANCIAL RESOURCES REQUIREMENT:

Name of regulated firm:

Name of ultimate EEA financial holding company for group (“parent”):

F	F1	F2
Name of <i>subsidiary</i> or <i>participation</i>	% ownership	Local regulator (or state if unregulated)

G	H
Financial Resources Requirement of F	State how Financial Resources Requirement has been calculated.

(G1)

--

Parent’s Financial Resources Requirement

(I)

--

Large Exposures Requirement on Group Basis

(J)

--

Total Group Financial Resources Requirement (=G1+I+J)

(K)

--

Total Group Financial Resources (=E)

--

Total Group Surplus / (Deficit) (=E-K)

(L)

SUP 16 ANN 21G: CONSOLIDATED SUPERVISION RETURN FOR INVESTMENT FIRMS

Notes to the completion of Part 1: Group Financial Resources

Ref	Notes
A1	The material unaudited consolidated losses since balance sheet date only need to be reported on in the half-yearly return.
A2	<p>The Group should calculate its financial resources based on the consolidated financial statements prepared at the level of the ultimate EEA financial holding company in the group. The financial statements should be prepared in accordance with the relevant accounting standards but investments in insurance companies should be de-consolidated.</p> <p>The Group Tier 1 capital should be calculated by taking the relevant capital items from the consolidated balance sheet. Deductions must be made in arriving at Tier 1 for intangible assets (including goodwill arising from consolidation), investments in own shares and for material unaudited losses since the balance sheet date. Unaudited losses should be regarded as material if they exceed 10% of Group Tier 1 before taking into account this deduction.</p>
B1	This is the sum of non-fixed-term (undated) cumulative preference shares, non-fixed-term (undated) long-term subordinated loans and revaluation reserves and other consolidated reserves.
B2	This is the sum of fixed-term cumulative preference shares and fixed-term long-term subordinated loans.
C	The total of short-term subordinated loans external to the group and unaudited consolidated profits arising from trading book activities should be shown here.
D1	The definition of material holdings in non-group credit institutions and investment firms should be derived on the basis of the prudential rules applied to the most significant sector in the group except that references to “own funds” should be replaced by “consolidated own funds”. For this purpose consolidated own funds is equal to A+B after the application of the eligibility limits as set out in the relevant chapter of IPRU(INV).
D2	Insurance members of the group should be de-consolidated and material insurance holdings should be deducted here. They normally represent the book value of the investment in insurance undertakings, reinsurance undertakings and insurance holding companies in which the group holds a participation, unless the group’s share of the undertaking’s notional or local requirement is higher, in which case, there is a

Ref	Notes
	deduction in full.
E	<p>The Group Financial Resources should be shown here. This represents the sum of eligible capital in A, B1, B2 and C, minus the deductions in D1 and D2. No other deductions should be made. Liquidity adjustments and other similar deductions that are made at the solo level should be included in the Group Financial Resources Requirement.</p> <p>The limits applied at the group level to the inclusion of items in the group financial resources should be the same as the limits applied at the level of the main firm in the group.</p>

Notes to the completion of PART 2: Group Financial Resources Requirement

Ref	Notes
F	<p>List the name of each <i>subsidiary</i> and <i>participation</i>.</p> <p>A <i>firm</i> may combine several entities together where these are not material in relation to the group. For example, entities where total assets are in aggregate less than 5% of the group's total assets. The <i>firm</i> should list the relevant entities in a note to the return and should be able to demonstrate the contribution of the individual entities to the group calculation.</p>
F1	<p>List the percentage interest in the <i>subsidiary</i> or <i>participation</i> held by the parent. If the shares are not held directly by the parent, but by another group company, enter the effective percentage interest of the parent in the company. Where the entity is a <i>subsidiary</i> of a <i>subsidiary</i> of the parent, indicate (S) after the effective percentage interest. Such an entity will be treated as a <i>subsidiary</i> of the parent and will be included in full in the calculations.</p>
F2	<p>Specify if the <i>subsidiary</i> or <i>participation</i> is regulated by the <i>FSA</i> or another regulator. If the entity is unregulated, state "unregulated".</p>
G	<p>The financial resources requirement of entity F should be shown here. The financial resources requirement for a participation must be pro-rated (i.e. it should be multiplied by F1).</p> <p>This should be equal to the solo financial resources requirement plus any deductions from own funds made in arriving at the solo financial resources.</p> <p>In the case of a firm regulated by the FSA under IPRU(INV) Chapter 5 rules (as an investment management firm) this should be equal to the financial resources requirement calculated in accordance with IPRU(INV) 5.2.3 plus the illiquid assets adjustment calculated in accordance with IPRU(INV) Table 5.2.2(1) part II paragraph 10, but less any qualifying property adjustment.</p> <p>For unregulated firms this should be equal to the proxy financial resources requirement, which should also include illiquid assets and other deductions (where appropriate).</p>
G1	<p>This is the sum of figures in column G.</p>
H	<p>Details of the method used to calculate G (the financial resources requirement) for each firm should be given here. For example for an</p>

<i>Ref</i>	<i>Notes</i>
	<p>FSA-regulated firm column H should contain the IPRU reference (eg IPRU(INV) Chapter 5). For an overseas regulated firm where the prudential calculation is recognised by FSA as being equivalent the applicable overseas regulator should be given.</p> <p>For proxy requirements for unregulated firms column H should state the regulatory rules that have been applied to calculate the proxy requirement.</p>
I	<p>The financial resources requirement of the parent should be shown here.</p> <p>This should be equal to the solo financial resources requirement (excluding any large exposures requirement and requirements in respect of intra-group balances) and any adjustments made to financial resources in accordance with Rule 14.4.3R.</p>
J	<p>The group large exposures requirement should be shown here. This will only be calculated if there are trading book activities within the group.</p>
K	<p>The Group Financial Resources Requirement should be shown here. It is equal to the sum of G1, I and J.</p>
L	<p>The overall group surplus or deficit is equal to the difference between the Total Group Financial Resources (E) and the Group Financial Resources Requirement (K).</p>

...

SUP Schedule 2 - Notification requirements:

...				
<i>SUP</i> 15.8.4R	Delegation by <i>UCITS</i> management company	The fact that a function of the <i>UCITS</i> management company has been delegated together with (a) the identity of the party to whom the function has been delegated and (b) the period during which the delegation will apply.	The delegation of a function by a <i>UCITS</i> management company.	As soon as reasonably practicable.
<u><i>SUP</i></u> 15.9.1R	<u>Being or ceasing to be a financial conglomerate</u>	<u>The fact of being or ceasing to be a financial conglomerate</u>	<u>Being or ceasing to be a financial conglomerate</u>	<u>immediately</u>
<u><i>SUP</i></u> 15.9.2R	<u>Reasonable likelihood of becoming or ceasing to be a financial conglomerate</u>	<u>Reasonable likelihood of becoming or ceasing to be a financial conglomerate</u>	<u>Reasonable likelihood of becoming or ceasing to be a financial conglomerate</u>	<u>immediately</u>
<i>SUP</i> 16.3.17 R	Reporting ? change of accounting reference date	The fact of a change in accounting reference date	A change in accounting reference date	If extending its accounting reference period, before the previous accounting reference date
				If shortening its accounting period, it must make

				the notification in (1) before the new <i>accounting</i> <i>reference</i> <i>date.</i>
...				

...

Annex J

Amendments to the Decision making manual

In this Annex, underlining indicates new text.

- 4.1.8 G Examples of matters decided by *executive procedures* (where the *FSA* decides or is required to use the statutory powers in question rather than to achieve the action required in other ways, for example through individual *guidance* or securing the agreement of a *firm* to take action on a voluntary basis) include:
- ...
- (4A) in relation to a *financial conglomerate*, using the *own-initiative power* to apply one of the methods for calculating capital adequacy in Annex 1 of the *Financial Groups Directive* (see *PRU 8.4.50R (Capital adequacy requirement: Use of Part IV permission to apply Annex 1 of the Financial Groups Directive)* or to impose a reporting requirement under *SUP 16 (Reporting requirements)*;
- ...

Annex K
Amendments to the Electronic money sourcebook

In this Annex underlining indicates new text and striking through indicates deleted text. Where an entire section of text is being deleted or inserted, the place where the change will be made is indicated and the text is not struck through or underlined.

Insert the following new entry to the table in ELM 1.5.2G:

Block	Module	Application
Block 2 (Business Standards)	The Integrated Prudential Sourcebook (<i>PRU</i>)	<i>PRU</i> 1.8 (Action for damages), <i>PRU</i> 8.1 (Group risk systems and controls requirement), <i>PRU</i> 8.4 (Cross sector groups), <i>PRU</i> 8.5 (Third country groups), <i>PRU</i> 8 Ann 1R (Capital adequacy calculations for financial conglomerates), <i>PRU</i> 8 Ann 2R (Prudential rules for third country groups), <i>PRU</i> 8 Ann 3G (Financial Conglomerates: Cooperative decision making by competent authorities and consultation) and <i>PRU</i> 8 Ann 4G (Classification of groups) apply to an <i>ELMI</i> .

...

ELM 2.4.2R Table: Calculation of initial capital and own funds

...

~~*material holdings in financial institutions or credit institutions*~~ the total amount of *material holdings* in certain persons (see *ELM* 2.4.17R)

...

ELM 2.4.17R Material holdings

- (1) The total amount of a firm's ~~material holdings~~ as referred to at stage F of the calculation in the table in *ELM* 2.4.2R is ~~in financial institutions or credit institutions~~ are the sum of:

- (a) the total value of all *ownership shares* and all ~~subordinated loan~~ capital coming within (6) owned by the *firm* (or in which it has a position) in any *relevant financial services company* or *financial institution* in which the *firm* owns more than 10% of the *ownership shares*; ~~and~~
- (b) the amount by which the total amount specified in (3) exceeds 10% of the *firm's own funds* (calculated before the deduction of *material holdings* at stage F of the calculation in *ELM 2.4.2 R*);₂
- (c) *ownership shares* in any:
- (i) *insurance undertaking*; or
- (ii) *insurance holding company*;
- if it fulfils one of the following conditions:
- (iii) it is a *subsidiary undertaking* of the *firm*; or
- (iv) the *firm* holds a *participation* in it; and
- (d) any item of capital of a type referred to in (6) in an *insurance undertaking* or *insurance holding company* coming within (1)(c).
- (2) ...
- (3) The amount referred to in (1)(b) is the sum of the total value of all the *ownership shares* and all ~~subordinated loan~~ capital coming within (6) owned by the *firm* (or in which it has a position) in *financial institutions* or ~~*credit institutions*~~ *relevant financial services companies* except for *financial institutions* or ~~*credit institutions*~~ *relevant financial services companies* that fall into (1)(a).
- (4) The *firm* must include *ownership shares* and ~~subordinated loan capital~~ any item of capital of the type referred to in (6); and *ownership shares*₂ and ~~subordinated loan capital~~
- (a) of which it is not the registered owner but which it owns beneficially;
or
- (b) that are or should be included as an asset in its accounting records.
- (5) The value of *ownership shares* and ~~subordinated loan~~ capital coming within (6) for the purposes of *ELM 2.4.17R* (1)(a) ~~and (3)~~ is the full balance sheet value.
- (6) An item falls into this paragraph if it is a subordinated debt or other item of capital that:

- (a) (in the case of an *insurance undertaking* or *insurance holding company*) falls into Article 16(3) of the *First Non-Life Directive* or, as applicable, Article 27(4) of the *Consolidated Life Directive*; or
- (b) (in the case of a *relevant financial services company* or *financial institution*) falls into Article 35 or Article 36(3) of the *Banking Consolidation Directive*.

...

After ELM 7.8.8G insert the following new provisions, ELM 7.8.9G and ELM 7.8.10G:

- 7.8.9 G If a *firm* is linked to other *financial services undertakings* by a *consolidation Article 12(1) relationship*, the *FSA* will determine how to apply the provisions of this chapter.
- 7.8.10 G If a *firm* is part of a *financial conglomerate*, the provisions of *PRU 8.4* apply. If a *firm* is part of a *third-country group*, the provisions of *PRU 8.5* apply.

Annex L
Amendments to the Glossary

PART 1 (NEW DEFINITIONS)

In this part of this Annex, all the text is new and is not underlined.

ancillary insurance services undertaking (in relation to any *undertaking* in a *consolidation group, sub-group* or other group of *persons*) an *undertaking* complying with the following conditions:

- (a) its principal activity consists of:
 - (i) owning or managing property; or
 - (ii) managing data-processing services; or
 - (iii) any other similar activity;
- (b) the activity in (a) is ancillary to the principal activity of one or more *insurance undertakings*;
- (c) those *insurance undertakings* are also members of that *consolidation group, sub-group* or other group of *persons*; and
- (d) (for the purpose of *PRU 8.4* (Cross sector groups), *PRU 8.5* (Third country groups), *PRU 8 Ann 1R* (Capital adequacy calculations for financial conglomerates) and *PRU 8 Ann 2R* (Prudential rules for third country groups) it is not an *ancillary banking services undertaking*.

ancillary investment services undertaking (in relation to any *undertaking* in a *consolidation group, sub-group* or other group of *persons*) an *undertaking* complying with the following conditions:

- (a) its principal activity consists in:
 - (i) owning or managing property; or
 - (ii) managing data-processing services; or
 - (iii) any other similar activity;
- (b) the activity in (a) is ancillary to the principal activity of one or more *investment firms*;
- (c) those *investment firms* are also members of that *consolidation group, sub-group* or other group of *persons*; and

	(d) (for the purpose of <i>PRU 8.4</i> (Cross sector groups), <i>PRU 8.5</i> (Third country groups), <i>PRU 8 Ann 1R</i> (Capital adequacy calculations for financial conglomerates) and <i>PRU 8 Ann 2R</i> (Prudential rules for third country groups) it is not an <i>ancillary banking services undertaking</i> .
<i>applicable sectoral consolidation rules</i>	(in respect of a <i>financial sector</i> and in accordance with paragraph 6.10 of <i>PRU 8 Ann 1R</i> (Applicable sectoral consolidation rules)) the <i>FSA's sectoral rules</i> about capital adequacy and solvency on a consolidated basis applicable to that <i>financial sector</i> under the table in paragraph 6.11 of <i>PRU 8 Ann 1R</i> .
<i>applicable sectoral rules</i>	(in respect of a <i>financial sector</i>) <i>applicable sectoral consolidation rules</i> for that <i>financial sector</i> and the <i>FSA's sectoral rules</i> about capital adequacy and solvency applicable to that <i>financial sector</i> under the table in paragraph 6.8 of <i>PRU 8 Ann 1R</i> ; which of those sets of <i>rules</i> apply for the purpose of a particular calculation depends on the nature of that calculation.
<i>asset management company</i>	(for the purpose of <i>ELM</i> and <i>PRU 8</i> (Group risk) and in accordance with Article 2(5) of the <i>Financial Groups Directive</i> (Definitions)) a management company within the meaning of Article 1a(2) of the <i>UCITS Directive</i> , as well as an <i>undertaking</i> the registered office of which is outside the <i>EEA</i> and which would require authorisation in accordance with Article 5(1) of the <i>UCITS Directive</i> if it had its registered office within the <i>EEA</i> .
<i>Bank Accounts Directive</i>	Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions.
<i>banking and investment group</i>	a group of <i>persons</i> (at least one of which is an <i>EEA regulated entity</i> that is a <i>credit institution</i> or an <i>investment firm</i>) who: <ul style="list-style-type: none"> (a) form a group in respect of which the consolidated capital adequacy requirements for the <i>banking sector</i> or the <i>investment services sector</i> under: <ul style="list-style-type: none"> (i) the <i>FSA's sectoral rules</i>; or (ii) the <i>sectoral rules</i> of another <i>competent authority</i>; apply; or (b) would form such a group if the scope of those <i>sectoral rules</i> were amended as described in paragraph 3.1 of <i>PRU 8 Ann 2R</i> (removing restrictions relating to place of incorporation or head office of members of those <i>financial sectors</i>).

<i>banking conglomerate</i>	a <i>financial conglomerate</i> identified as a banking conglomerate in the decision tree in paragraph 4.5 of <i>PRU 8 Ann 1R</i> (Decision tree for types of <i>financial conglomerate</i> and definition of <i>most important financial sector</i>).
<i>banking sector</i>	a sector composed of one or more of the following entities: <ul style="list-style-type: none"> (a) a <i>credit institution</i>; (b) a <i>financial institution</i>; and (c) an <i>ancillary banking services undertaking</i>.
<i>broker/manager</i>	a <i>firm</i> with <i>permission</i> for <i>dealing in investments as agent or managing investments</i> (including an <i>operator</i> of an <i>unregulated collective investment scheme</i>) but which: <ul style="list-style-type: none"> (a) does not have <i>permission</i> to <i>deal in investments as principal</i>; (b) is not a <i>UCITS management company</i>; (c) is not an <i>insurer</i>; and (d) is not a <i>bank</i>, a <i>building society</i> or an <i>ELMI</i>.
<i>building society conglomerate</i>	a <i>financial conglomerate</i> identified as a <i>building society conglomerate</i> in the decision tree in paragraph 4.5 of <i>PRU 8 Ann 1R</i> (Decision tree for types of <i>financial conglomerate</i> and definition of <i>most important financial sector</i>).
<i>coordinator</i>	(in relation to a <i>financial conglomerate</i>) the <i>competent authority</i> which has been appointed, in accordance with Article 10 of the <i>Financial Groups Directive</i> (Competent authority responsible for exercising supplementary supervision (the coordinator)), as the <i>competent authority</i> which is responsible for the co-ordination and exercise of supplementary supervision of that <i>financial conglomerate</i> .
<i>conglomerate capital resources</i>	(in relation to a <i>financial conglomerate</i> with respect to which <i>PRU 8.4.29R</i> (Application of methods 1, 2 or 3 from Annex I of the <i>Financial Groups Directive</i>) applies) capital resources as defined in whichever of paragraphs 1.1, 2.1 or 3.1 of <i>PRU 8 Ann 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>PRU 8.4.29R</i> (Application of methods 1, 2 or 3 from Annex I of the <i>Financial Groups Directive</i>) applies) the capital resources requirement defined in whichever of paragraphs 1.3, 2.4 or 3.3 of <i>PRU 8 Ann 1R</i> (Capital adequacy calculations for financial conglomerates) applies with respect to that <i>financial conglomerate</i> .

consolidation Article 12(1) relationship

a relationship between one *undertaking* (the first undertaking) and one or more other *undertakings* satisfying the conditions set out in Article 12(1) of the *Seventh Company Law Directive*, which in summary are as follows:

- (a) those *undertakings* are not connected, as described in article 1(1) or (2) of that Directive; and
- (b) one of the following conditions is satisfied:
 - (i) they are managed on a unified basis pursuant to a contract concluded with the first undertaking or provisions in the memorandum or articles of association of those *undertakings*; or
 - (ii) the administrative, management or supervisory bodies of those *undertakings* consist, for the major part, of the same *persons* in office during the financial year in respect of which it is being decided whether such a relationship exists.

consolidation group

the following:

- (a) a *conventional group*; or
- (b) *undertakings* linked by a *consolidation Article 12(1) relationship*.

If a *parent undertaking* or *subsidiary undertaking* in a *conventional group* (the first person) has a *consolidation Article 12(1) relationship* with another *person* (the second person), the second person (and any *subsidiary undertaking* of the second person) is also a member of the same *consolidation group*.

conventional group

(for the purposes of PRU 8 (Group Risk)) a group of *undertakings* that consists of a *parent undertaking* and the rest of its *sub-group*.

EEA banking and investment group

a *banking and investment group* that satisfies one or more of the following conditions:

- (a) it is headed by:
 - (i) an *investment firm* or *credit institution* that is authorised and incorporated in an *EEA State*; or
 - (ii) a *financial holding company* that has its head office in an *EEA State*; or
- (b) it has as a member an *investment firm* or *credit institution* that:

- (i) is authorised and incorporated in an *EEA State*; and
- (ii) is linked with another member that is in the *banking sector* or the *investment services sector* by a *consolidation Article 12(1) relationship*; or
- (c) it is otherwise required by *EEA prudential sectoral legislation* for the *banking sector* or the *investment services sector* (except Article 56a of the *Banking Consolidation Directive* (Third-country parent undertakings)) to be subject to consolidated supervision by a *competent authority*.

EEA financial conglomerate a *financial conglomerate* that is of a type that falls under Article 5(2) of the *Financial Groups Directive* (Scope of supplementary supervision of *regulated entities* referred to in Article 1 of that Directive) which in summary means a *financial conglomerate*:

- (a) that is headed by an *EEA regulated entity*; or
- (b) in which the *parent undertaking* of an *EEA regulated entity* is a *mixed financial holding company* which has its head office in the *EEA*; or
- (c) in which an *EEA regulated entity* is linked with a member of the *financial conglomerate* in the *overall financial sector* by a *consolidation Article 12(1) relationship*.

EEA prudential sectoral legislation

(in relation to a *financial sector*) requirements applicable to *persons* in that *financial sector* in accordance with *EEA* legislation about prudential supervision of *regulated entities* in that *financial sector* and so that:

- (a) (in relation to the *banking sector* and the *investment services sector*) in particular this includes the requirements laid down in the *Banking Consolidation Directive* and the *Capital Adequacy Directive*; and
- (b) (in relation to the *insurance sector*) in particular this includes requirements laid down in the *First Non-Life Directive*, the *Consolidated Life Directive* and the *Insurance Groups Directive*.

EEA regulated entity

a *regulated entity* that is an *EEA firm* or a *UK firm*.

exempt CAD firm

(in accordance with Article 2(2) of the *Capital Adequacy Directive* (Definitions)) a *firm* that satisfies the following conditions:

- (a) it is an *ISD investment firm*;
- (b) it is not an *insurer*, a *bank*, a *building society* or an *ELMI*;

	(c) its <i>permission</i> is subject to a <i>limitation or requirement</i> preventing it from holding <i>client money</i> or <i>clients' assets</i> and for that reason it may not at any time place itself in debit with its <i>clients</i> ; and
	(d) the only <i>core investment service</i> for which it has <i>permission</i> is receiving and transmitting on behalf of investors orders in relation to one or more of the instruments listed in Section B of the Annex to the <i>ISD</i> .
<i>financial conglomerate</i>	(in accordance with Article 2(14) of the <i>Financial Groups Directive</i> (Definitions)) a <i>consolidation group</i> that is identified as a <i>financial conglomerate</i> by the <i>financial conglomerate definition decision tree</i> .
<i>financial conglomerate definition decision tree</i>	the decision tree in <i>PRU 8 Ann 4R</i> .
<i>Financial Groups Directive</i>	Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate.
<i>Financial Groups Directive Regulations</i>	<i>[To be included in the Glossary when those Regulations are made]</i>
<i>financial sector</i>	one of the <i>banking sector</i> , the <i>insurance sector</i> or the <i>investment services sector</i> .
<i>FSA regulated EEA financial conglomerate</i>	a <i>financial conglomerate</i> (other than a <i>third-country financial conglomerate</i>) that satisfies one of the following conditions: <ul style="list-style-type: none"> (a) <i>PRU 8.4.26R</i> or <i>PRU 8.4.29R</i> (Capital adequacy calculations for <i>financial conglomerates</i>) applies with respect to it; or (b) a <i>firm</i> that is a member of that <i>financial conglomerate</i> is subject to obligations imposed through its <i>Part IV permission</i> to ensure that that <i>financial conglomerate</i> meets levels of capital adequacy based or stated to be based on Annex I of the <i>Financial Groups Directive</i>.
<i>insurance conglomerate</i>	a <i>financial conglomerate</i> identified as an insurance conglomerate in the decision tree in paragraph 4.5 of <i>PRU 8 Ann 1R</i> (Decision tree for types of <i>financial conglomerate</i> and definition of <i>most important financial sector</i>).
<i>Insurance Groups Directive</i>	Directive of the European Parliament and of the Council of 27 October 1998 on the supplementary supervision of insurance undertakings in an insurance group (1998/78/EC).

- insurance holding company* (1) a *parent undertaking*, other than an *insurance undertaking*, the main business of which is to acquire and hold participations in *subsidiary undertakings* and which fulfils the following conditions:
- (a) its *subsidiary undertakings* are either exclusively or mainly *insurance undertakings*;
 - (b) at least one of those *subsidiary undertakings* is a *UK insurer* or an *EEA firm* that is a *regulated insurance entity*; and
 - (c) it is not a *mixed financial holding company*.
- (2) For the purposes of:
- (a) the definition of the *insurance sector*; and
 - (b) *ELM*;
- paragraph (1)(b) of this definition does not apply.
- insurance sector* a sector composed of one or more of the following entities:
- (a) an *insurance undertaking*;
 - (b) an *insurance holding company*; and
 - (c) (in the circumstances described in *PRU 8.4.39R* (The financial sectors: Asset management companies)) an *asset management company*.
- intra-group transactions* (in accordance with Article 2(18) of the *Financial Groups Directive* (Definitions)) all transactions by which *regulated entities* within a *financial conglomerate* rely either directly or indirectly upon other *undertakings* within the same *financial conglomerate* or upon any *person* linked to the *undertakings* within that *financial conglomerate* by *close links*, for the fulfilment of an obligation whether or not contractual, and whether or not for payment.
- investment services conglomerate* a *financial conglomerate* identified as an investment services conglomerate in the decision tree in paragraph 4.5 of *PRU 8 Ann 1R* (Decision tree for types of *financial conglomerate* and definition of *most important financial sector*).
- investment services sector* a sector composed of one or more of the following entities:
- (a) an *investment firm*;
 - (b) a *financial institution*; and

- (c) (in the circumstances described in *PRU 8.4.39R* (The financial sectors: Asset management companies)) an *asset management company*.

main investment services undertaking

(for the purpose of *PRU 8* (Group Risk) and in relation to a *financial conglomerate*):

- (a) (if there is only one *investment firm* in that *financial conglomerate*) that *investment firm*; and
- (b) (if there is more than one *investment firm* in that *financial conglomerate*) the member of the *financial conglomerate* identified in the same way as the main firm for the purposes of *rule 14.4.2* of Chapter 14 of *IPRU(INV)* (Group Financial Resources), but so that the comparison required by that *rule* must be carried out with respect to all *investment firms* in the *financial conglomerate*.

matched principal broker

a *firm* with *permission to deal in investments as principal* other than:

- (a) a *bank*, a *building society* or an *ELMI*; or
- (b) a *UCITS management company*; or
- (c) an *insurer*; or
- (d) a *local*;

and which satisfies the following conditions:

- (e) it *deals* as principal only to fulfil customer orders;
- (f) it holds positions for its own account only as a result of a failure to match investors' orders precisely;
- (g) the total market value of the positions is no higher than 15% of the *firm's initial capital*; and
- (h) the positions are incidental and provisional in nature and strictly limited to the time required to carry out the transaction in question.

mixed-activity holding company

one of the following:

- (a) (in accordance with Article 1(22) of the *Banking Consolidation Directive* (Definitions)) a *parent undertaking*, other than a *financial holding company*, a *credit institution* or a *mixed financial holding company*, the *subsidiary undertakings* of which include at least one *credit institution*; or

	(b) (in accordance with Article 7(3) of the <i>Capital Adequacy Directive</i> (Supervision on a consolidated basis) and in relation to a <i>banking and investment group</i> without any <i>credit institutions</i> in it) a <i>parent undertaking</i> , other than a <i>financial holding company</i> , an <i>investment firm</i> or a <i>mixed financial holding company</i> , the <i>subsidiary undertakings</i> of which include at least one <i>investment firm</i> .
<i>mixed-activity insurance holding company</i>	(in accordance with Article 1(j) of the <i>Insurance Groups Directive</i> (Definitions)) a <i>parent undertaking</i> , other than an <i>insurance undertaking</i> , an <i>insurance holding company</i> or a <i>mixed financial holding company</i> , the <i>subsidiary undertakings</i> of which include at least one <i>insurance undertaking</i> .
<i>mixed financial holding company</i>	(in accordance with Article 2(15) of the <i>Financial Groups Directive</i> (Definitions)) a <i>parent undertaking</i> , other than a <i>regulated entity</i> , which together with its <i>subsidiary undertakings</i> , at least one of which is an <i>EEA regulated entity</i> , and other entities, constitutes a <i>financial conglomerate</i> .
<i>most important financial sector</i>	(in relation to a <i>financial sector</i> in a <i>consolidation group</i> or a <i>financial conglomerate</i> and in accordance with PRU 8.4 (Cross sector groups)) the <i>financial sector</i> with the largest average referred to in the box titled Threshold Test 2 in the <i>financial conglomerate definition decision tree</i> (10% ratio of balance sheet size and solvency requirements); and so that: <ul style="list-style-type: none"> (a) the <i>investment services sector</i> and the <i>banking sector</i> are treated as one for the purposes set out in PRU 8.4.7R (Definition of financial conglomerate: The financial sectors: General); and (b) the definition is altered as set out in paragraph 4.4 and the decision tree in paragraph 4.5 of PRU 8 Ann 1R (Types of financial conglomerate and definition of most important financial sector) for the purposes set out in paragraph 4.4 of PRU 8 Ann 1R.
<i>overall financial sector</i>	a sector composed of one or more the following types of entities: <ul style="list-style-type: none"> (a) members of each of the <i>financial sectors</i>; and (b) (except where PRU 8.4 (Cross sector groups) or PRU 8 Ann 1R (Capital adequacy calculations for financial conglomerates) provide otherwise) a <i>mixed financial holding company</i>.
<i>own account dealer</i>	a <i>firm</i> with <i>permission to deal in investments as principal</i> other than: <ul style="list-style-type: none"> (a) a <i>bank</i>, a <i>building society</i> or an <i>ELMI</i>; or

- (b) an *insurer*; or
- (c) a *UCITS management company*; or
- (d) a *matched principal broker*; or
- (e) an *ICVC*; or
- (f) a *local*.

participation

(for the purposes of *ELM* and *PRU* 8 (Group risk)):

- (a) a participating interest as defined in section 260 of the Companies Act 1985; or
- (b) the direct or indirect ownership of 20% or more of the voting rights or capital of an *undertaking*;

but excluding the interest of a *parent undertaking* in its *subsidiary undertaking*.

PRU

the Integrated Prudential Sourcebook.

regulated entity

one of the following:

- (a) a *credit institution*; or
- (b) a *regulated insurance entity*; or
- (c) an *investment firm*;

whether or not it is incorporated in, or has its head office in, an *EEA State*.

An *asset management company* is treated as a regulated entity for the purposes described in *PRU* 8.4.39R (The financial sectors: asset management companies).

regulated insurance entity

an insurance undertaking within the meaning of Article 4 of the *Consolidated Life Directive*, Article 6 of the *First Non-Life Directive* or Article 1(b) of the *Insurance Groups Directive*.

relevant competent authorities

(in relation to a *financial conglomerate*) those *competent authorities* which are, or which have been appointed as, relevant competent authorities in relation to that *financial conglomerate* under Article 2(17) of the *Financial Groups Directive* (Definitions).

risk concentration

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

sectoral rules

(in relation to a *financial sector*) rules and requirements relating to the prudential supervision of *regulated entities* applicable to *regulated entities* in that *financial sector* as follows:

- (a) (for the purposes of *PRU 8.4.12R* (Definition of financial conglomerate: Solvency requirement)) *EEA prudential sectoral legislation* for that *financial sector* together with as appropriate the rules and requirements in (c); or
- (b) (for the purpose of calculating *solo capital resources* and a *solo capital resources requirement*):
 - (i) (to the extent provided for in paragraph 6.5 of *PRU 8 Ann 1R*) rules and requirements that are referred to in paragraph 6.6 of *PRU 8 Ann 1R* (Solo capital resources requirement: Non-EEA firms subject to equivalent regimes); and
 - (ii) the rules and requirements in (c); or
- (c) (for all other purposes) rules and requirements:
 - (i) of the *FSA*; or
 - (ii) of or administered by another *competent authority*;

and so that:

- (d) (in relation to prudential rules about consolidated supervision for any *financial sector*) those requirements include ones relating to the form and extent of consolidation;
- (e) (in relation to any *financial sector*) those requirements include ones relating to the eligibility of different types of capital;
- (f) (in relation to any *financial sector*) those requirements include both ones applying on a solo basis and ones applying on a consolidated basis;

- (g) (in relation to the *insurance sector*) references in this definition to consolidated supervision are to supplementary supervision, similar expressions being interpreted accordingly; and
- (h) references to the *FSA's sectoral rules* are to *sectoral rules* in the form of *rules*.

smallest financial sector (in relation to a *financial sector* in a *consolidation group* or a *financial conglomerate* and in accordance with *PRU 8.4* (Cross sector groups)) the *financial sector* with the smallest average referred to in the box titled Threshold Test 2 in the *financial conglomerate definition decision tree* (10% ratio of balance sheet size and solvency requirements), the *banking sector* and *investment services sector* being treated as one *financial sector* in the circumstances set out in *PRU 8.4*.

solo capital resources (for the purposes of *PRU 8* (Group risk) and in relation to a member of a *financial conglomerate* in the *overall financial sector*) capital resources that are or would be eligible as capital under the *sectoral rules* that apply for the purpose of calculating its *solo capital resources requirement*. Paragraph 6.9 of *PRU 8 Ann 1R* (Solo capital resources requirement: the insurance sector) applies for the purpose of this definition in the same way as it does for the definition of *solo capital resources requirement*.

solo capital resources requirement (for the purpose of *PRU 8* (Group risk)) a capital resources requirement calculated on a solo basis as defined in paragraphs 6.2-6.9 of *PRU 8 Ann 1R* (Solo capital resources requirement: the insurance sector).

solvency deficit (in *PRU 8 Ann 1R* (Capital adequacy calculations with respect to financial conglomerates) and in respect of a member of the *overall financial sector*) the amount (if any) by which its *solo capital resources* fall short of its *solo capital resources requirement*.

third-country banking and investment group a *banking and investment group* that meets the following conditions:

- (a) it is headed by:
 - (i) a *credit institution*; or
 - (ii) an *asset management company*; or
 - (iii) an *investment firm*; or
 - (iv) a *financial holding company*;
 that has its head office outside the *EEA*; and

(b) it is not part of a wider *EEA banking and investment group*.

third-country competent authority

the authority of a country or territory which is not an *EEA State* that is empowered by law or regulation to supervise (whether on an individual or group-wide basis) *regulated entities*.

third-country financial conglomerate

a *financial conglomerate* that is of a type that falls under Article 5(3) of the *Financial Groups Directive*, which in summary is a *financial conglomerate* headed by a *regulated entity* or a *mixed financial holding company* that has its head office outside the *EEA*.

third-country group

a *third-country financial conglomerate* or a *third-country banking and investment group*.

PART 2 (AMENDED DEFINITIONS)

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

- ancillary banking services undertaking* (~~in ELM~~) (as defined in article 1.23 of the ~~Banking Coordination Consolidation Directive~~ (Definitions)) and in relation to an undertaking in a consolidation group, sub-group or another group of persons) an undertaking complying with the following conditions:
- (a) its ~~the~~ principal activity ~~of which~~ consists in:
 - (i) owning or managing property;
 - (ii) managing data-processing services; or
 - (iii) any other similar activity;
 - (b) the activity in (a) ~~which~~ is ancillary to the principal activity of one or more *credit institutions*; and
 - (c) those credit institutions are also members of that consolidation group, sub-group or group.
- arranger* (1) (For the purposes of PRU 8 (Group risk) a firm with permission for one or more of the following:
- (a) arranging (bringing about) deals in investments; or
 - (b) making arrangements with a view to transactions in investments;
- and which:
- (c) is not a bank, a building society or an ELMI;
 - (d) is not an insurer;
 - (e) is not a UCITS management company;
 - (f) is not a local; and
 - (g) does not have permission:
 - (i) to deal in investments as principal; or
 - (ii) for dealing in investments as agent; or
 - (iii) for managing investments.

- (2) (for all other purposes) a person who is arranging (bringing about) deals in investments, making arrangements with a view to transactions in investments, or agreeing to carry on any of those regulated activities.
- competent authority*
- (1) ...
- (2) ...
- (3) (for the purposes of PRU 8.1 (Group risk systems and controls requirement), PRU 8.4 (Cross sector groups), PRU 8.5 (Third country groups), PRU 8 Ann 1R (Capital adequacy calculations for financial conglomerates) and PRU 8 Ann 2R (Prudential rules for third country groups)) any national authority of an EEA State which is empowered by law or regulation to supervise regulated entities, whether on an individual or group-wide basis.
- financial holding company* ~~(in ELM)~~ a financial institution, that fulfils the following conditions:
- (a) ~~the~~ its subsidiary undertakings of which are either exclusively or mainly ~~relevant financial services companies credit institutions, investment firms or financial institutions;~~
- (b) ~~one of which~~ at least one of those subsidiary undertakings is a ~~relevant financial services company credit institution or an investment firm;~~ and
- (c) it is not a mixed financial holding company.
- financial institution*
- (1) (in accordance with paragraph 5(c) of Schedule 3 to the Act (EEA Passport Rights: EEA firm) and article 1(5) of the *Banking Consolidation Directive* (Definitions), but not for the purposes of ELM or PRU 8 (Group risk)), an *undertaking*, other than a *credit institution*, the principal activity of which is to acquire holdings or to carry on one or more of the *listed activities* listed in points 2 to 12 of Annex I to the *BCD*, which is a subsidiary of the kind mentioned in article 19 of the *BCD* and which fulfils the conditions in articles 18 and 19 of the *BCD*.
- (2) (for the purposes of ELM and PRU 8 (Group risk) and in accordance with Articles 1(5) (Definitions) and 2(2) (Scope) of the Banking Consolidation Directive);

- (a) an undertaking, other than a credit institution, the principal activity of which is to acquire holdings or to carry on one or more of the listed activities listed in points 2 to 12 of Annex I to the Banking Consolidation Directive; ~~(in ELM) an undertaking other than a credit institution, the principal activity of which is to acquire holdings or to carry on one or more of the activities listed in points 2 to 12 of Annex 1 of the Banking Consolidation Directive.~~
- (b) those institutions permanently excluded by paragraph 2(3) of the Banking Consolidation Directive (Scope), with the exception of the central banks of Member States, but so that, so far as this paragraph (b) applies for the purposes of ELM, it only applies for the purposes of chapter 7 (Consolidated financial supervision) of ELM; and
- (c) (for the purposes of ELM) an asset management company.

FSA consolidation rule

(in ELM) the following rules in IPRU:

- (a) 3.3.13R in chapter GN of IPRU(BANK) (as it applies on a consolidated ~~except as it applies to a bank purely on a sole basis);~~
- (b) IPRU(BSOC) 1.2.1R (as it applies on a consolidated ~~except as it applies to a building society purely on a sole basis); and~~
- (c) Chapter 14 of IPRU(INV) ~~5.7.1R;~~
- (d) IPRU(INV) 10.200R(1) to 10.204R;
- (e) IPRU(INV) 13.7.2AR and 13.2.7BR.

group

- (1) (except in relation to an ICVC and except for the purposes of PRU 8.1 (Group risk systems and controls requirement)) (as defined in section 421 of the Act (Group)) (in relation to a person ("A")) A and any person who is:
 ...
- (2) ...
- (3) (for the purposes of PRU 8.1 (Group risk systems and controls requirement) and in relation to a person "A")) A and any person:
 - (a) who falls into (1);

- (b) who is a member of the same *financial conglomerate* as A;
- (c) who has a *consolidation Article 12(1) relationship* with A;
- (d) who has a *consolidation Article 12(1) relationship* with any *person* in (3)(a);
- (e) who is a *subsidiary undertaking* of a person in (3)(c) or (3)(d); or
- (f) whose omission from an assessment of the risks to A of A's connection to any *person* coming within (3)(a)-(3)(e) or an assessment of the financial resources available to such *persons* would be misleading.

initial capital

- (1) (in *ELM*) items coming into stage A of the calculation in *ELM* 2.4.2R (Calculation of initial capital and own funds).
- (2) (for the purposes of the definition of *matched principal dealer*, in accordance with Article 2(24) of the *Capital Adequacy Directive* (Definitions) and with respect to a *firm*) capital that is recognised for the purpose of the *rules* about capital adequacy to which that *firm* is subject but excluding, in accordance with items (1) and (2) of Article 34(2) of the *Banking Consolidation Directive* (General principles), anything that does not fall within the following classes of capital:
 - (a) capital within the meaning of Article 22 of the *Bank Accounts Directive* (Liabilities: Item 9 – Subscribed capital), insofar as it has been paid up, plus share premium accounts but excluding cumulative preferential shares; or
 - (b) reserves within the meaning of Article 23 of the *Bank Accounts Directive* (Liabilities: Item 11 – Reserves) and profits and losses brought forward as a result of the application of the final profit or loss. Interim profits can only be included before a formal decision has been taken only if these profits have been verified by *persons* responsible for the auditing of the accounts and if the amount thereof has been evaluated in accordance with the principles set out in the *Bank Accounts Directive* and is net of any foreseeable charge or dividend.

In the case of a firm subject to the rules in chapter 10 of IPRU(INV), initial capital means initial capital as defined in the Glossary to that chapter.

parent undertaking

(in accordance with section 420 of the *Act* (Parent and subsidiary undertaking) and section 258 of the Companies Act 1985 (Parent and subsidiary undertakings))

(a) (in relation to whether an *undertaking*, other than an *incorporated friendly society*, is a parent undertaking and except for the purposes of PRU 8.4 (Cross sector groups), PRU 8.5 (Third country groups), PRU 8 Ann 1R (Capital adequacy calculations for financial conglomerates) and PRU 8 Ann 2R (Prudential rules for third country groups)) an *undertaking* which has the following relationship to another *undertaking* ("S"):

...

(b) (in relation to whether an *incorporated friendly society* is a parent undertaking and except for the purposes of PRU 8.4 (Cross sector groups), PRU 8.5 (Third country groups), PRU 8 Ann 1R (Capital adequacy calculations for financial conglomerates) and PRU 8 Ann 2R (Prudential rules for third country groups)) an *incorporated friendly society* which has the following relationship to a *body corporate* ("S"):

...

(c) (for the purposes of PRU 8.4 (Cross sector groups), PRU 8.5 (Third country groups), PRU 8 Ann 1R (Capital adequacy calculations for financial conglomerates) and PRU 8 Ann 2R (Prudential rules for third country groups) and in relation to whether an *undertaking* is a parent undertaking) an *undertaking* which has the following relationship to another *undertaking* ("S"):

(i) a relationship described in (a) other than (a)(vii); or

(ii) it effectively exercises a dominant influence over S

and so that (ii) applies also for the purpose of PRU 8.1 (Group risk systems and controls requirement).

sub-group

~~(in ELM)~~ (in relation to a *person*):

...

ADDENDUM

FINANCIAL CONGLOMERATES AND OTHER FINANCIAL GROUPS INSTRUMENT 2004

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

Annex G of this instrument is amended as follows to ensure that correct rule references of SUP 16.7.82R and SUP 16.7.83R are referred to in PRU 8.4.2G:

Purpose

8.4.2 G *PRU 8.4* implements the *Financial Groups Directive*. However, material on the following topics is to be found elsewhere in the *Handbook* as follows:

...

(3) material on reporting obligations can be found in ~~SUP 16.7.73R~~ SUP 16.7.82R and ~~SUP 16.7.74R~~ SUP 16.7.83R; and

...

...

Annex I of this instrument is amended as follows to ensure that the correct rule references of SUP 16.7.82R and SUP 16.7.83R are referred to in SUP 7 and SUP 16:

7.3.2 G The *FSA* may seek to vary a *firm's Part IV permission* on its own initiative in certain situations, including the following:

...

(4) If a *firm* is a member of *financial conglomerate* and the *FSA* is implementing supplementary supervision under the *Financial Groups Directive* with respect to that *financial conglomerate* by imposing obligations on the *firm*. Further material on this can be found in *PRU 8.4* (Cross sector groups) and ~~SUP 16.7.73R~~ SUP 16.7.82R and ~~SUP 16.7.74R~~ SUP 16.7.83R (reporting requirements with respect to *financial conglomerates*).

...

Reports from groups

16.3.25 G If this chapter requires the submission of a report covering a *group*, a single report may be submitted, and so satisfy the requirements of all *firms* in the *group*. Such a report should contain the information required from all of them, meet all relevant due dates and indicate all the *firms* on whose behalf

it is submitted; if necessary a separate covering sheet should list the *firms* on whose behalf a report is submitted. Nevertheless, the requirement to provide a report, and the responsibility for the report, remains with each *firm* in the *group*. However, reporting requirements that apply to a *firm*, by reason of the *firm* being a member of a *financial conglomerate*, are imposed on only one member of the *financial conglomerate* (see, for example, ~~SUP 16.7.73R~~ SUP 16.7.82R).

...

16.7.5 G Applicable rules and guidance on financial reports (see SUP 16.7.1G)

Firm category	Applicable rules and guidance
<i>Bank, other than an EEA bank with permission for cross border services only</i>	SUP 16.7.7R - SUP 16.7.15R SUP 16.7.73R - SUP 16.7.74R <u>SUP 16.7.82R - SUP 16.7.83R</u>
<i>Building society</i>	SUP 16.7.16R - SUP 16.7.19R SUP 16.7.73R - SUP 16.7.74R <u>SUP 16.7.82R - SUP 16.7.83R</u>
...	
<i>Securities and futures firm</i> (Note 1)	SUP 16.7.22R - SUP 16.7.34G SUP 16.7.73R - SUP 16.7.74R <u>SUP 16.7.82R - SUP 16.7.83R</u>
<i>Investment management firm</i>	SUP 16.7.35R - SUP 16.7.41R SUP 16.7.73R - SUP 16.7.74R <u>SUP 16.7.82R - SUP 16.7.83R</u>
<i>Personal investment firm</i>	SUP 16.7.42G - SUP 16.7.53G SUP 16.7.73R - SUP 16.7.74R <u>SUP 16.7.82R - SUP 16.7.83R</u>
...	
<i>ELMI</i>	SUP 16.7.64R - SUP 16.7.66R SUP 16.7.73R - SUP 16.7.74R <u>SUP 16.7.82R - SUP 16.7.83R</u>
...	

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After ~~SUP 16.7.72R~~ SUP 16.7.81G, insert the following new rules, ~~SUP 16.7.73R~~ and ~~16.7.74R~~ SUP 16.7.82R and SUP 16.7.83R:

Financial conglomerates

- 16.7.7382 R (1) A *firm* that is a member of a *financial conglomerate* must submit financial reports to the *FSA* in accordance with the table in SUP 16.7.7483R if:
- (a) it is at the head of an *FSA regulated EEA/EEA financial conglomerate*; or
 - (b) its *Part IV permission* contains a relevant *requirement*.
- (2) In (1)(b), a relevant *requirement* is one which:
- (a) applies SUP 16.7.7483R to the *firm*; or
 - (b) applies SUP 16.7.7483R to the *firm* unless the *mixed financial holding company* of the *financial conglomerate* to which the *firm* belongs submits the report required under this *rule* (as if the *rule* applied to it).
- 16.7.7483 R Table Financial reports from a member of a financial conglomerate (see SUP 16.7.7382R)

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