

Policy Statement | PS3/13

# Financial Conglomerates Directive Technical Review

May 2013



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY







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1. This Prudential Regulation Authority (PRA) policy statement publishes the final rules implementing the Financial Conglomerates Directive Technical Review (2011/89/EC) (FICOD 1) which amends the Financial Conglomerates Directive (2002/87/EC) and certain other Directives insofar as they apply to financial conglomerates. This statement is relevant to financial conglomerates and financial groups which carry out activities in both banking/investment and insurance sectors.

2. In CP12/40<sup>(1)</sup> the Financial Services Authority (FSA) consulted, on behalf of the PRA and the Financial Conduct Authority (FCA) and in conjunction with HM Treasury, on proposals for implementing FICOD 1. Consideration of the responses received has resulted in some adjustments to the instrument in the appendix, and a description of these is set out in this statement.

## Summary of proposals

3. FICOD 1 introduced technical amendments aimed at correcting unintended consequences and improving inefficiencies of the original directive. The FICOD 1 changes relate to:

- the application of conglomerate supervision to ensure that it supplements, but does not substitute, sectoral supervision when a group is headed by a financial or insurance holding company;
- the conglomerate capital calculation methodology;
- inclusion of asset management companies and alternative investment fund managers within the conglomerate identification process;
- conglomerate identification threshold triggers; and
- requirements for conglomerate stress testing.

## Consultation responses

4. In total there were three respondents. All expressed support for the proposed 'copy-out' approach which implements directive text into the handbook without supplementary provisions or guidance. However, respondents sought clarification of the proposed changes in certain areas. Our response to this is set out below.

5. One respondent noted that the introduction of the new threshold test 3A in the financial conglomerate decision tree (GENPRU 3 Annex 4) implies an automatic exemption from conglomerate status. As indicated in the consultation paper, an exemption under FICOD 1 Article 3(3A) is available only at the discretion of the co-ordinator, in consultation with other competent authorities, in the same way as is currently the case for an exemption under threshold test 3 (FICOD 1, Article 3(3)). Where the PRA or the FCA is the co-ordinator, it is intended that firms would be able to apply to the appropriate regulator

for a waiver or rule modification which would provide an exemption on the basis of FICOD 1 Articles 3(3) or 3(3A). The decision tree will therefore remain as currently in force.

6. To allay certain concerns raised about potential double counting and internal inconsistencies for insurance entities, the PRA confirms that sectoral requirements are intended to be specifically applied at the mixed financial holding company (MFHC) level to counter the situation where a holding company to which sectoral rules would have applied becomes an MFHC, potentially displacing those sectoral rules. However, where the application of requirements at the level of both the ultimate European Economic Area (EEA) MFHC and the ultimate EEA insurance holding company results in duplication, it is our intention to consider waiving requirements at the level of the MFHC. We have decided not to include MFHC in the definition of insurance parent undertaking and we have amended the handbook text to clarify the level at which INSPRU 6.1 and certain reporting and disclosure requirements in SUP 15.9 and IPRU(INS) 9.40 apply to conglomerates.

7. One respondent asked for clarification on conglomerate stress testing and queried future consultation on European Supervisory Authority (ESA) conglomerate stress-testing guidance. For financial conglomerates, the PRA's intention is to stress test each sector at the same time so that cross-sector considerations can more easily be taken into account. Such testing will be case specific, to be agreed between the conglomerate and its supervisor, but we do not envisage significant changes to existing arrangements. We will consult on any proposals for EU-wide stress testing which entail changes to our rulebook.

8. All respondents supported the proposed approach that the financial conglomerate, having consulted the PRA, should choose which capital calculation method it will apply. However, two specific issues were raised. First, the addition of MFHC to the definition of insurance parent undertaking appears to take away the apparent choice for MFHC conglomerates to choose their calculation method by applying the requirements of INSPRU 6.1 (which implements the deduction and aggregation method) unless those requirements are waived. Second, INSPRU 6.1.62R–64R continues to implement calculation method 3 for ancillary services undertakings although that method is no longer available under FICOD 1.

9. A firm which now becomes subject to sectoral reporting under INSPRU 6.1 in respect of an MFHC conglomerate but which wishes to elect to use method 1 (accounting consolidation) (as available to conglomerates under GENPRU 3.1) in calculating group capital resources rather

(1) [www.fsa.gov.uk/static/pubs/cp/cp12-40.pdf](http://www.fsa.gov.uk/static/pubs/cp/cp12-40.pdf).

than the default method 2 (deduction and aggregation) as applied by INSPRU 6.1 to insurance groups, may be permitted to do so to the extent that sectoral requirements are waived. A provision specifically dealing with this type of waiver has been added to INSPRU 6.1. The availability of method 1 under GENPRU 3.1 for insurance conglomerates is unchanged as is the scope of the application of sectoral rules in INSPRU 6.1 to insurance conglomerates in calculating conglomerate capital resources. With regard to the treatment of ancillary services undertaking, INSPRU 6.1.62R–64R (which apply for insurance groups the higher of book value and capital requirement deduction method which no longer applies to conglomerates) have been amended to exclude application to conglomerates.

10. One respondent queried the application of Part V of Chapter 9 of IPRU(INNS) to conglomerates. The PRA confirms that the intention is to provide flexibility for MFHC conglomerates to agree reporting arrangements (including requirements for auditor verification) with their supervisor.

The existing approach, whereby conglomerates using discrete calculation methods may agree reporting arrangements with their supervisor, has been extended to conglomerates using a combination method (with the mandatory use of the forms in Appendix 9.1 of IPRU(INNS)/Form 95 and related requirements for an auditor's report now being disapplied). The intention is to apply Part V of Chapter 9 of IPRU(INNS) (and the related requirement for an auditor's report that the capital adequacy calculation has been properly compiled) to MFHC conglomerates on a full sectoral basis only in the case where an insurance holding company becomes an MFHC and the sectoral reporting rules at that level would otherwise fall away. However, where adequate reporting at MFHC conglomerate level has been agreed with the firm's supervisor, it is intended that this supplementary sectoral requirement on an MFHC conglomerate should be waived in favour of applicable conglomerate reporting. We have amended the text to reflect that.

# Appendix

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Financial Conglomerates Directive Technical Review (PRA) Instrument 2013

**FINANCIAL CONGLOMERATES DIRECTIVE (HANDBOOK AMENDMENTS) INSTRUMENT 2013****Powers exercised**

- A. The Prudential Regulation 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 137E (The PRA's general rules); and
  - (2) section 137R (General supplementary powers).
- B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

**Commencement**

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

**Amendments to the PRA Handbook**

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

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

**Citation**

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

By order of the Board of the Prudential Regulation Authority  
29 May 2013

## Annex A

## Amendments to the Glossary of definitions

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

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

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

Amend the following definitions as shown.

<i>conglomerate capital resources</i>	(in relation to a <i>financial conglomerate</i> with respect to which <i>GENPRU</i> 3.1.29R (Application of <del>methods</del> <u>method 1, or 2 or 3</u> from Annex I of the <i>Financial Groups Directive</i> ) applies) capital resources as defined in whichever of paragraphs 1.1, <u>or 2.1 or 3.4</u> of <i>GENPRU</i> 3 Annex 1R (Capital adequacy calculations for financial conglomerates) applies with respect to that <i>financial conglomerate</i> .
<i>conglomerate capital resources</i>	(in relation to a <i>financial conglomerate</i> with respect to which

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

<i>parent financial holding company in a Member State</i>	(in accordance with Article 4(15) of the <i>Banking Consolidation Directive</i> (Definitions) and Article 3 of the <i>Capital Adequacy Directive</i> (Definitions)) a <i>financial holding company</i> which is not itself a <i>subsidiary undertaking</i> of an <i>institution</i> authorised in the same <i>EEA State</i> , or of a <i>financial holding company</i> or <u><i>mixed financial holding company</i></u> <del>set up</del> established in the same <i>EEA State</i> .
<i>parent institution in a Member State</i>	(in accordance with Article 4(14) of the <i>Banking Consolidation Directive</i> and Article 3 of the <i>Capital Adequacy Directive</i> (Definitions)) an <i>institution</i> which has an <i>institution</i> or a <i>financial institution</i> as a <i>subsidiary undertaking</i> or which holds a <i>participation</i> in such an institution, and which is not itself a <i>subsidiary undertaking</i> of another <i>institution</i> authorised in the same <i>EEA State</i> , or of a <i>financial holding company</i> or <u><i>mixed financial holding company</i></u> <del>set up</del> established in the same <i>EEA State</i> .
<i>regulated entity</i>	one of the following:  ...  An <i>asset management company</i> is treated as a regulated entity for the purposes described in <i>GENPRU</i> 3.1.39R (The financial sectors: <i>asset management companies</i> ).  <u>An <i>alternative investment fund manager</i> is treated as a regulated entity for the purposes described in <i>GENPRU</i> 3.1.39R (The financial sectors: <i>alternative investment fund managers</i>).</u>
<i>regulated related undertaking</i>	a <i>related undertaking</i> that is any of the following:  (a) a <i>regulated entity</i> ; or  (b) an <i>insurance undertaking</i> which is not a <i>regulated insurance entity</i> ; or  (c) an <i>asset management company</i> ; or  (d) a <i>financial institution</i> which is neither a <i>credit institution</i> nor an <i>investment firm</i> ; or  (e) a <i>financial holding company</i> ; or  (f) an <i>insurance holding company</i> ; <u>or</u>  (g) <u>a <i>mixed financial holding company</i>.</u>
<i>risk concentration</i>	(in accordance with Article 2(19) of the <i>Financial Groups Directive</i> (Definitions)) all <i>risk</i> exposures with a loss potential <del>borne by entities within a <i>financial conglomerate</i>, which are</del> <u>is</u> large enough to threaten the solvency or the financial position in general of the <i>regulated entities</i> in the <i>financial conglomerate</i> ; <u>whether</u> such exposures <del>may be</del> <u>are</u> caused by counterparty risk, <del>credit risk,</del> investment risk, insurance risk, market risk, other risks, or a combination or interaction of these risks.

*UK regulated EEA financial conglomerate*

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

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

## Annex B

## Amendments to the General Prudential sourcebook (GENPRU)

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

- 3.1.1 R ...
- (3) ~~GENPRU 3.1.25R (Capital adequacy requirements: high level requirement), GENPRU 3.1.26R (Capital adequacy requirements: application of Method 4 from Annex I of the Financial Groups Directive), GENPRU 3.1.29R (Capital adequacy requirements: application of Methods 1, 2 or 3 from Annex I of the Financial Groups Directive) and GENPRU 3.1.35R (Risk concentration and intra group transactions: the main rule) do not apply with respect to a *third-country financial conglomerate*.~~
- ...
- Introduction: identifying a financial conglomerate
- 3.1.3 G ...
- (10) If a *mixed financial holding company* is subject to equivalent provisions under *BIPRU 8* (Group risk consolidation) and under *GENPRU 3* (Cross sector groups) and the *appropriate regulator* is the *coordinator*, the *appropriate regulator* may, on application by a *firm* and after consulting other *competent authorities* responsible for the supervision of subsidiaries, disapply such provisions of *BIPRU 8* with regard to the *mixed financial holding company* and apply only the relevant provisions of *GENPRU 3* to the *mixed financial holding company*.
- ...
- Definition of financial conglomerate: discretionary changes to the definition
- 3.1.13 G Articles 3(3) to 3(6), Article 5(4) and Article 6(5) of the *Financial Groups Directive* allow *competent authorities*, on a case by case basis, to:
- (1) change the definition of *financial conglomerate* and the obligations applying with respect to a *financial conglomerate* (which would include, where the *appropriate regulator* would be the *coordinator* under *GENPRU 3.1.3G(6)*, permitting *firms* to apply, on an annual basis and subject to publication and notification to the *relevant competent authorities*, for a group of which it is a member not to be regarded as a *financial conglomerate* on the basis of Article 3(3) of the *Financial Groups Directive* (for a group that, in terms of the tests in *GENPRU 3 Annex 4R*, does not meet Threshold Test 2 but meets Threshold Test 3) or Article 3(3a) of the *Financial Groups Directive* (for a group that, in terms of the tests in *GENPRU 3 Annex 4R*, meets Threshold Test 2 but not Threshold Test 3);
- ...
- ...
- 3.1.17 G Annex I of the *Financial Groups Directive* lays down ~~four~~ three methods for calculating capital adequacy at the level of a *financial conglomerate*. Those ~~four~~ three methods are implemented as follows:

- ...
- (3) ~~Method 3 calculates capital adequacy using book values and the deduction of capital requirements. It is implemented by GENPRU 3.1.29R to GENPRU 3.1.31R and Part 3 of GENPRU 3 Annex 1R. [deleted]~~
- (4) ~~Method 4 Method 3 consists of a combination of Methods 1, 2 and 3 1 and 2 from Annex I of the *Financial Groups Directive*, or a combination of two of these Methods. It is implemented by GENPRU 3.1.26R to GENPRU 3.1.28R, GENPRU 3.1.30R and Part 4 of GENPRU 3 Annex 1 and would be implemented by means of a *requirement*.~~
- 3.1.18 G ~~Part 4 of GENPRU 3 Annex 1R (Use of Method 4 from Annex I of the *Financial Groups Directive*) applies the *appropriate regulator's sectoral rules* with respect to the *financial conglomerate* as a whole, with some adjustments. Where Part 4 of GENPRU 3 Annex 1R applies the *appropriate regulator's sectoral rules* for:~~
- (1) ~~the *insurance sector*, that involves a combination of Methods 2 and 3; and~~
- (2) ~~the *banking sector* and the *investment services sector*, that involves a combination of Methods 1 and 3. [deleted]~~
- ...
- 3.1.20 G (1) ~~In the following cases, the *appropriate regulator* (acting as *coordinator*) may choose which of the four methods for calculating capital adequacy laid down in Annex I of the *Financial Groups Directive* should apply:~~
- (a) ~~where a *financial conglomerate* is headed by a *regulated entity* that has been authorised by the *appropriate regulator*; or~~
- (b) ~~the only *relevant competent authority* for the *financial conglomerate* is the *appropriate regulator*. [deleted]~~
- (2) ~~GENPRU 3.1.28R automatically applies Method 4 from Annex I of the *Financial Groups Directive* in these circumstances except in the cases set out in GENPRU 3.1.28R(1)(e) and GENPRU 3.1.28R(1)(f). The process in GENPRU 3.1.22G does not apply. [deleted]~~
- 3.1.21 G ~~Where GENPRU 3.1.20G does not apply, the The Annex I method to be applied is may be decided by the *coordinator* after consultation with the *relevant competent authorities* and the *financial conglomerate* itself. Where the *appropriate regulator* acts as *coordinator*, the *financial conglomerate* itself may choose which of Method 1 or Method 2 from Annex I it will apply, unless the *firm* is subject to a *requirement* obliging the *firm* to apply a particular method.~~
- 3.1.22 G ~~The method of calculating capital adequacy chosen in respect of a *financial conglomerate* as described in GENPRU 3.1.21G will be applied with respect to that *financial conglomerate* by varying the *Part 4A permission* of a *firm* in that *financial conglomerate* to include a *requirement*. That *requirement* will have the effect of obliging the *firm* to ensure that the *financial conglomerate* has capital resources of the type and amount needed to comply with whichever of the methods in GENPRU 3 Annex 1R is to be applied with respect to that *financial conglomerate*. The powers in the *Act* relating to *waivers* and varying a *firm's Part 4A permission* can be used to implement one of the methods from Annex I of the *Financial Groups Directive* in a way that is different from that set out in GENPRU 3.1 and GENPRU 3 Annex 1R if that is necessary to reflect the consultations referred to in GENPRU 3.1.21G. [deleted]~~

3.1.23 G ~~If there is more than one firm in a financial conglomerate with a Part 4A permission, the appropriate regulator would not normally expect to apply the requirement described in GENPRU 3.1.22G to all of them. Normally it will only be necessary to apply it to one. [deleted]~~

3.1.24 G ~~The appropriate regulator expects that in all or most cases falling into GENPRU 3.1.21G, the rules in Part 4 of GENPRU 3 Annex 1R will be applied. [deleted]~~

...

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

3.1.26 G ~~If this rule applies under GENPRU 3.1.27R to a firm with respect to a financial conglomerate of which it is a member, the firm must at all times have capital resources of an amount and type:~~

- ~~(1) that ensure that the financial conglomerate has capital resources of an amount and type that comply with the rules applicable with respect to that financial conglomerate under Part 4 of GENPRU 3 Annex 1R (as modified by that annex); and~~
- ~~(2) that as a result ensure that the firm complies with these rules (as so modified) with respect to that financial conglomerate. [deleted]~~

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

- ~~(1) the condition in GENPRU 3.1.28R is satisfied; or~~
- ~~(2) this rule is applied to the firm with respect to that financial conglomerate as described in GENPRU 3.1.30R. [deleted]~~

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

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

- ~~(a) notification has been made in accordance with regulation 2 of the Financial Groups Directive Regulations that the financial conglomerate is a financial conglomerate and that the appropriate regulator is coordinator of that financial conglomerate;~~
- ~~(b) the financial conglomerate is not part of a wider UK regulated EEA financial conglomerate;~~
- ~~(c) the financial conglomerate is not an UK regulated EEA financial conglomerate under another rule or under paragraph (b) of the definition of UK regulated EEA financial conglomerate (application of supplementary supervision through a firm's Part 4A permission);~~
- ~~(d) one of the following conditions is satisfied:~~
  - ~~(i) the financial conglomerate is headed by a regulated entity~~

that is a *UK domestic firm*; or

- (ii) ~~the only relevant competent authority for that financial conglomerate is the appropriate regulator;~~
  - (e) ~~this rule is not disapplied under paragraph 5.7 of GENPRU 3 Annex 1R (No capital ties); and~~
  - (f) ~~the financial conglomerate meets the condition set out in the box titled Threshold Test 2 (10% average of balance sheet and solvency requirements) in the financial conglomerate definition decision tree. [deleted]~~
- (2) ~~Once GENPRU 3.1.26R applies to a firm with respect to a financial conglomerate of which it is a member under GENPRU 3.1.27R(1), (1)(f) ceases to apply with respect to that financial conglomerate. Therefore the fact that the financial conglomerate subsequently ceases to meet the condition in (1)(f) does not mean that the condition in this rule is not satisfied. [deleted]~~

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

- 3.1.29 R ~~If~~ with respect to a firm and a financial conglomerate of which it is a member, this rule is applied applies under GENPRU 3.1.29AR to the firm with respect to that financial conglomerate as described in GENPRU 3.1.30R, the firm must at all times have capital resources of an amount and type that ensures that the conglomerate capital resources of that financial conglomerate at all times equal or exceed its conglomerate capital resources requirement.
- 3.1.29A R GENPRU 3.1.29R applies to a firm with respect to the financial conglomerate of which it is a member if notification has been made in accordance with regulation 2 of the Financial Groups Directive Regulations that the financial conglomerate is a financial conglomerate and that the appropriate regulator is coordinator of that financial conglomerate.

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

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

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

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

...

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

- 3.1.39 R (1) In accordance with ~~Article~~ Articles 30 and 30a of the *Financial Groups Directive* (Asset management companies and Alternative investment fund managers), this rule deals with the inclusion of an *asset management company* or an *alternative investment fund manager* that is a member of a *financial conglomerate* in the scope of regulation of *financial conglomerates*. ~~This rule does not apply to the definition of financial conglomerate.~~

- (2) An *asset management company* or an *alternative investment fund manager* is in the overall financial sector and is a *regulated entity* for the purpose of:

- (a) ~~GENPRU 3.1.26R~~ 3.1.29R to GENPRU 3.1.36R;

...

- (3) In the case of a *financial conglomerate* for which the *appropriate regulator* is the *coordinator*, all *asset management companies* and all alternative investment fund managers must be allocated to one *financial sector* to which they belong for the purposes in (2), being either the *investment services sector* or the *insurance sector*. But if that choice has not been made in accordance with (4) and notified to the *appropriate regulator* in accordance with (4)(d), an *asset management company* or an *alternative investment fund manager* must be allocated to the ~~investment services sector~~ smallest financial sector.

- (4) The choice in (3):

- (a) ....

- (b) applies to all *asset management companies* and all alternative investment fund managers that are members of the *financial conglomerate* from time to time;

...

...

...

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

...

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

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

Applicable sectoral rules	4.1	The <del>rules</del> that apply with respect to a particular <del>financial conglomerate</del> under GENPRU 3.1.26R 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 [deleted]

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

6 Table

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

8 Table: PART 5: Principles applicable to all methods

...		
Application of sectoral rules: Banking sector and investment services sector	5.6	<p>The following adjustments apply to the <i>applicable sectoral rules</i> for the <i>banking sector</i> and the <i>investment services sector</i> as they are applied by the <i>rules</i> in this annex.</p> <p>(1) References in those <i>rules</i> to <i>non-EEA sub-groups</i> do not apply.</p> <p>(2) (For the purposes of <del>Parts 1 to 3</del> <u>and 2</u>), where those <i>rules</i> require a group to be treated as if it were a single <i>undertaking</i>, those <i>rules</i> apply to the <i>banking sector</i> and <i>investment services sector</i> taken together.</p> <p>(3) Any <i>investment firm consolidation waivers</i> granted to members of the <i>financial conglomerate</i> do not apply.</p> <p>(4) (For the purposes of <del>Parts 1 to 4</del> <u>Part 3</u>), without prejudice to the application of requirements in <i>BIPRU 8</i> preventing the use of an <i>advanced prudential calculation approach</i> on a consolidated basis, any <i>advanced prudential calculation approach permission</i> that applies for the purpose of <i>BIPRU 8</i> does not apply.</p> <p>(5) (For the purposes of <del>Parts 1 to 4</del> <u>Part 3</u>), <i>BIPRU 8.5.9R</i> and <i>BIPRU 8.5.10R</i> do not apply.</p> <p>(6) (For the purposes of <del>Parts 1 to 4</del> <u>Part 3</u>), where the <i>financial conglomerate</i> does not include a <i>credit institution</i>, the method in <i>GENPRU 2 Annex 4R</i> must be used for calculating the capital resources and <i>BIPRU 8.6.8R</i> does not apply.</p>
No capital ties	5.7	<p>(1) This <i>rule</i> deals with a <i>financial conglomerate</i> in which some of the members are not linked by capital ties at the time of the notification referred to in <i>GENPRU 3.1.28R(1)</i> (Capital adequacy requirements: <del>Compulsory application of Method 4 from</del> <u>Application of Annex I of the Financial Groups Directive</u>).</p> <p>(2) If:</p> <p>(a) <i>GENPRU 3.1.26R</i> (Capital adequacy requirements: <del>Application of Method 4 from</del> <u>Application of Annex I of the Financial Groups</u></p>

		<p>Directive) would otherwise apply with respect to a <i>financial conglomerate</i> under <i>GENPRU</i> 3.1.28R; and</p> <p>(b) all members of that <i>financial conglomerate</i> are linked directly or indirectly with each other by capital ties except for members that collectively are of negligible interest with respect to the objectives of supplementary supervision of <i>regulated entities</i> in a <i>financial conglomerate</i> (the "peripheral members");</p> <p>...</p>
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9 Table: PART 6: Definitions used in this Annex

Defining the financial sectors	6.1	<p>For the purposes of Parts <del>1 to 3</del> <u>1 and 2</u> of this annex (<del>but, not for the purposes of the definition of <i>most important financial sector</i></del>):</p> <p>(1) an <i>asset management company</i> is allocated in accordance with <i>GENPRU</i> 3.1.39R; <del>and</del></p> <p>(2) <u>an <i>alternative investment fund manager</i> is allocated in accordance with <i>GENPRU</i> 3.1.39R; and</u></p> <p><u>(3) a <i>mixed financial holding company</i> must be treated as being a member of the <i>most important financial sector</i>.</u></p>
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...

## Annex C

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

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

#### 1 Application

...

#### 1.3 Applications for advanced approaches and waivers

...

##### Article 129

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

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

...

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

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

...

#### 3 Standardised credit risk

...

#### 3.2 The central principles of the standardised approach to credit risk

...

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

...

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

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

...

...

...

#### 4.2 The IRB approach: High level material

...

General approach to granting an IRB permission

...

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

...

...

Combined use of methodologies: Basic provisions

4.2.26 R ...

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

...

...

## 6 Operational risk

...

### 6.5 Operational risk: Advanced measurement approaches

...

Use of an advanced approach on a groupwide basis

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

...

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

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

...

...

## 8 Group risk consolidation

...

### 8.2 Scope and basic consolidation requirements for UK consolidation groups

Main consolidation rule for UK consolidation groups

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

...

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

*holding company in a Member State.*

...

#### Definition of UK consolidated group

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

(1) ...

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

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

...

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

#### Main consolidation rule for non-EEA sub-groups

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

...

...

### 8.5 Basis of consolidation

#### Undertakings to be included in consolidation

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

...

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

...

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

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

...

## 9 Securitisation

...

### 9.15 Requirements for investors

...

Retention of net economic interest

...

- 9.15.7 R Subject to *BIPRU* 9.15.8R, where an *EEA* parent ~~credit institution~~ credit institution, or an ~~EEA financial holding company~~ parent financial holding company or an EEA parent mixed financial holding company, or one of its *subsidiaries*, as an *originator* or a *sponsor*, *securitises exposures* from several *credit institutions*, *investment firms* or other *institutions* which are included within the scope of supervision on a consolidated basis, the requirement to retain a net economic interest referred to in *BIPRU* 9.15.3R may be satisfied on the basis of the consolidated situation of the related *EEA* parent ~~credit institution~~ credit institution, or ~~EEA financial holding company~~ parent financial holding company or EEA parent mixed financial holding company.

[Note: *BCD*, Article 122a, paragraph 2.]

- 9.15.8 R *BIPRU* 9.15.7R only applies where the *credit institutions*, *investment firms* or *institutions* which created the *securitised exposures* have committed themselves to adhere to the requirements in *BIPRU* 9.3.15R to *BIPRU* 9.3.17R and deliver, in a timely manner, to the *originator* or *sponsor* and to the *EEA* parent credit institution or an ~~EEA financial holding company~~ parent financial holding company or an EEA parent mixed financial holding company the information needed to satisfy *BIPRU* 9.3.18R to *BIPRU* 9.3.20R.

[Note: *BCD*, Article 122a, paragraph 2.]

...

## 10 Large exposures requirements

...

### 10.8A Intra group exposures: core UK group

...

Definition of core UK group

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

- (1) ...
- (2) it is an *institution*, *financial holding company*, *financial institution*, *asset management company*, ~~or ancillary services undertaking or mixed financial holding company~~;
- (3) (in relation to a *subsidiary undertaking*) 100% of the voting rights attaching to the *shares* in its capital is held by the *firm*, ~~or a financial~~

*holding company or mixed financial holding company (or a subsidiary undertaking of the financial holding company or mixed financial holding company), whether individually or jointly, and that firm or financial holding company or mixed financial holding company (or its subsidiary undertaking) must have the right to appoint or remove a majority of the members of the board of directors, committee of management or other governing body of the undertaking;*

...

...

## 11 Disclosure (Pillar 3)

...

### 11.2 Basis of disclosures

...

Firms controlled by an EEA parent financial holding company

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

[Note: BCD, Article 72(2)]

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

...

### 11.4 Technical criteria on disclosure: General criteria

...

Disclosures: Significant subsidiaries

- 11.4.5 R *A firm which is a significant subsidiary of:*

- (1) *an EEA parent institution; or*
- (2) *an EEA parent financial holding company; or*
- (3) *an EEA parent mixed financial holding company;*

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

[Note: BCD Annex XII Part 1 point 5]

## Annex D

## Amendments to the Prudential sourcebook for Insurers (INSPRU)

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

## 6.1 Application

- 6.1.1 R *INSPRU* 6.1 applies to an *insurer* that is either:
- (1) a *participating insurance undertaking*; or
  - (2) a member of an *insurance group* or an *MFHC conglomerate* which is not a *participating insurance undertaking* and which is not:
- ...

...

- 6.1.3 R *INSPRU* 6.1 applies to a *firm*:
- (1) on a solo basis, as an adjusted solo calculation, where that *firm* is a *participating insurance undertaking*; and
  - (2) on a group basis where that *firm* is a member of an *insurance group* or *MFHC conglomerate*.
- ...

...

### Purpose

- 6.1.5 G The purpose of this section is to implement the *Insurance Groups Directive* on supplementary supervision of *firms* in an *insurance group*, as amended by the *Financial Groups Directive*, ~~and the *Reinsurance Directive* and *FICOD 1*. The *Financial Groups Directive* (by amending the *Insurance Directives* and the *Insurance Groups Directive*) introduces specific requirements for the treatment of *related undertakings* of an *insurance parent undertaking* or a *participating insurance undertaking* that are *credit institutions*, *investment firms* or *financial institutions*. The *Reinsurance Directive* (by amending the *Insurance Directives* and the *Insurance Groups Directive*) introduces supplementary supervision for *firms* that are *reinsurance undertakings* in an *insurance group*.~~

- 6.1.5A G Notwithstanding the provisions of this Chapter, where a *firm* is subject to provisions under this Chapter in respect of an *undertaking* in *INSPRU* 6.1.17R(1)(ba) or (bb) and the *PRA* is the *coordinator*, the *PRA* may, on application by the *firm* and after consulting other *relevant competent authorities*, disapply such provisions of this Chapter with regard to that *undertaking* which are considered by the *PRA* as equivalent to those applying to the *firm* under *GENPRU* 3.1.

- 6.1.6 G *INSPRU* 6.1 sets out the *sectoral rules* for *insurers* for:
- (1) *firms* that are *participating insurance undertakings* carrying out an adjusted solo calculation as contemplated by *GENPRU* 2.1.13R(2);
  - (2) *insurance groups*; ~~and~~

(3) insurance conglomerates; and

(4) MFHC conglomerates.

...

Scope - undertakings whose group capital is to be calculated and maintained

6.1.17 R The *undertakings* referred to in *INSPRU* 6.1.8R, *INSPRU* 6.1.9R, *INSPRU* 6.1.10R and *INSPRU* 6.1.15R are:

(1) for any *firm* that is not within (2), each of the following:

(a) its *ultimate insurance parent undertaking*;

(b) its *ultimate EEA insurance parent undertaking* (if different to (a));  
~~and~~

(ba) the ultimate mixed financial holding company at the head of a MFHC conglomerate of which the firm is a member;

(bb) the ultimate EEA mixed financial holding company at the head of a MFHC conglomerate of which the firm is a member (if different from (ba)); and

(c) the *firm* itself, if it is a *participating insurance undertaking*; and

...

...

6.1.19 G If an application is made for a waiver contemplated by Article 3(3) of the Insurance Groups Directive, it is the policy of the PRA to consider the effect, in the circumstances described in *INSPRU* 6.1.18G, of granting a *waiver* allowing the exclusion of a *related undertaking* from the calculation of *group capital resources* and the *group capital resources requirement* required by *INSPRU* 6.1.8R.

...

Optional alternative method of calculation for firms subject to supplementary supervision by another EEA competent authority

6.1.23 R If the *competent authority* in an *EEA State* other than the *United Kingdom* has agreed to be the *competent authority* responsible for exercising supplementary supervision of an *insurance group* or an MFHC conglomerate of which a *firm* is a member under Article 4(2) of the *Insurance Groups Directive*, the *firm* may prepare the calculations required under *INSPRU* 6.1.8R in relation to the *ultimate EEA insurance parent undertaking* or ultimate EEA mixed financial holding company in accordance with the requirements of supplementary supervision in that *EEA State*.

...

Non-EEA ultimate insurance parent undertakings or non-EEA ultimate mixed financial holding companies

6.1.25 R Where the *ultimate insurance parent undertaking* or ultimate mixed financial holding company of a *firm* has its head office in a non-*EEA State*, the *firm* may:

- (1) calculate the *group capital resources* and the *group capital resources requirement* of its *ultimate insurance parent undertaking* or *ultimate mixed financial holding company* in accordance with accounting practice applicable for the purposes of the regulation of *insurance undertakings* in the state or territory of the head office of the *ultimate insurance parent undertaking* or *ultimate mixed financial holding company* adapted as necessary to apply the general principles set out in Annex I (1) paragraphs B, C and D of the *Insurance Groups Directive*; and

...

...

6.1.27 R *INSPRU* 6.1.15R does not apply:

- (1) in respect of the *group capital resources* of a ~~firm's~~ *firm's ultimate insurance parent undertaking* if that *ultimate insurance parent undertaking* has its head office in a non-*EEA State*; or
- (2) in respect of the *group capital resources* of the *ultimate mixed financial holding company* at the head of the *MFHC conglomerate* of which the *firm* is a member if that *ultimate mixed financial holding company* has its head office in a non-*EEA State*.

Proportional holdings

...

6.1.29 R In *INSPRU* 6.1.28R, the relevant proportion is either:

- (1) the proportion of the total number of issued *shares* in the *regulated related undertaking* held, directly or indirectly, by the *undertaking* in *INSPRU* 6.1.17R; or
- (2) where a *consolidation Article 12(1) relationship* exists between *related undertakings* within the *insurance group* or *MFHC conglomerate*, such proportion as the *PRA* determines in accordance with Article 28(5) of the *Financial Groups Directive* and Regulation 15 of the *Financial Groups Directive Regulations*.

...

Calculation of the GCR

...

6.1.34 R For the purposes of *INSPRU* 6.1, an *individual capital resources requirement* is:

...

- (7) in respect of an *insurance holding company* or *mixed financial holding company*, zero;

...

...

Calculation of GCR

...

6.1.38 R For the purposes of *INSPRU* 6.1.37R, the *sectoral rules* applicable to:

...

(2) an *insurance holding company* not within (1) or a *mixed financial holding company*, are the *sectoral rules* that would apply to it if, in connection with its activities, it were treated as an *insurer*;

...

6.1.39 R Where a *financial institution*, that is not a *regulated entity*, has invested in *tier one capital* or *tier two capital* issued by a *parent undertaking* that is:

(1) an *insurance holding company*; or

(1A) a *mixed financial holding company*; or

...

...

6.1.42 G For the purposes of *INSPRU* 6.1.41R, in respect of an *insurance undertaking* that is a member of an *insurance group* or *MFHC conglomerate*, the assets of a *long-term insurance fund* are restricted assets within the meaning of *INSPRU* 6.1.41R. Any excess of assets over liabilities in the *long-term insurance fund* may only be included in the calculation of the *group capital resources* up to the amount of the *undertaking's individual capital resources requirement* which relates to the *long-term insurance business* in respect of which that *long-term insurance fund* is held.

...

Calculation of GCR - Limits on the use of different forms of capital

6.1.44 G As the various components of capital differ in the degree of protection that they offer the *insurance group* or *MFHC conglomerate*, restrictions are placed on the extent to which certain types of capital are eligible for inclusion in the *group capital resources* of the *undertaking* in *INSPRU* 6.1.17R. These restrictions are set out in *INSPRU* 6.1.45R.

...

Calculation of GCR - Deductions under requirement deduction method from group capital resources

6.1.62 R For the purposes of *INSPRU* 6.1.43R, a *firm* must deduct from the group capital resources before deduction (calculated at stage C in the table in *INSPRU* 6.1.43R) of an *undertaking* in *INSPRU* 6.1.17R(1) (a)(b) or (c) or (2), the sum of the value of the direct or indirect investments by the *undertaking* in *INSPRU* 6.1.17R(1)(a)(b) or (c) or (2) in each of its *related undertakings* which is an *ancillary services undertaking*, calculated in accordance with *INSPRU* 6.1.63R.

6.1.63 R The value of an investment in an *undertaking* referred to in *INSPRU* 6.1.62R is the higher of the book value of the direct or indirect investment by the *undertaking* in *INSPRU* 6.1.17R(1)(a)(b) or (c) or (2) and the notional capital resources requirement of that *undertaking*.

...

- 6.1.64A R For the purposes of *INSPRU* 6.1.43R, in calculating the *group capital resources* of an *undertaking* in *INSPRU* 6.1.17R(1)(ba) or (bb) or in applying the provisions of *INSPRU* 6.1 for the purposes of calculating the *conglomerate capital resources* of a *financial conglomerate* under the provisions of *GENPRU* 3.1, a *firm* must, in accordance with *GENPRU* 3.1.30R but subject to *GENPRU* 3.1.31R, apply Method 2 (Deduction and Aggregation Method) or Method 1 (Accounting Consolidation Method) as set out in *GENPRU* 3 Annex 1 to reflect direct or indirect investments by the *undertaking* in *INSPRU* 6.1.17R(1)(ba) or (bb) or by members of the *financial conglomerate* in each *related undertaking* which is an *ancillary services undertaking*.

Calculation of GCR - Assets in excess of market risk and counterparty exposure limits

...

- 6.1.78 R If B is itself either a *participating insurance undertaking* or an *insurance parent undertaking* or *mixed financial holding company*, the *admissible assets* of B for the purposes of *INSPRU* 6.1.74R(1) must be calculated as in *INSPRU* 6.1.75R but as if B were A.

## Annex E

## Amendments to the Interim Prudential sourcebook for Insurers (IPRU(INS))

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

- 9.42E R (1) Rules 9.40(1), 9.40(1A), 9.40(3), 9.40(4), 9.41 and 9.42 of IPRU(INS) also apply to an insurer subject to INSPRU 6.1 in respect of the ultimate mixed financial holding and ultimate EEA mixed financial holding company (if different) of a MFHC conglomerate of which the firm is a member, with references therein to “insurance group” being read as “MFHC conglomerate” and to “ultimate insurance parent undertaking” and “ultimate EEA parent undertaking” being read as “ultimate mixed financial holding company” and “ultimate EEA mixed financial holding company” respectively.
- (2) Where the PRA is the coordinator, no report is required under (1) to the extent determined by the PRA, on application by the insurer and after consulting other relevant competent authorities, on the basis that, in the opinion of the PRA, equivalent reporting requirements with regard to the relevant mixed financial holding company apply to the insurer as a member of a financial conglomerate.

## Guidance

9.43

...

- (3) Where several insurers to which rule 9.40 applies have the same ultimate insurance parent undertaking, ~~or ultimate EEA insurance parent undertaking,~~ ultimate mixed financial holding company, ultimate EEA mixed financial holding company or ~~both~~ any combination of those parent undertakings, rule 9.40 applies to all of them. In these circumstances one insurer may submit the reports in rule 9.40 on behalf of the other insurers in the ~~insurance group~~ relevant group as set out in rule 9.40(4). This should consist of one package of the relevant information with confirmation that the insurer submitting the information has made it available to the boards of directors of the other insurers in the ~~insurance group~~ relevant group. The purpose of this requirement is to ensure that all the insurers in the ~~insurance group~~ relevant group are aware of the relevance of the group information to themselves.

...

## Annex F

## Amendments to the Supervision manual (SUP)

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

## 15.9 Notifications by members of financial conglomerates

...

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

...

## 16.12 Integrated Regulatory Reporting

...

Financial Conglomerates

...

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

Content of Report	Form (Note 1)	Frequency	Due Date
Calculation of supplementary capital adequacy requirements in accordance with one of the <del>four</del> <u>three</u> technical calculation methods	Note 2	Note 5 <u>Yearly</u>	Note 5
...			
Note 2	If Part 1 of GENPRU 3 Annex 1R (method 1), or Part 2 of GENPRU 3 Annex 1R (method 2), or Part 3 of GENPRU 3 Annex 1R (method 3) applies, there is no specific form. Adequate information must be provided, <u>specifying the calculation method used</u>		

	and each <i>financial conglomerate</i> for which the <i>appropriate regulator</i> is the <i>co-ordinator</i> must discuss with the <i>appropriate regulator</i> <del>how to do this</del> <u>the form which this reporting will take and the extent to which verification by an auditor will be required.</u>
	If Part 4 of <i>GENPRU</i> 3 Annex 1R applies (method 4): (1) a <i>banking and investment services conglomerate</i> must use FSA003; and
	(2) an <i>insurance conglomerate</i> must use: (a) (where <i>SUP</i> 16.12.32R(1)(a) applies), Forms 1, 2 and 3 in Appendix 9.1 of <i>IPRU(INS)</i> prepared in accordance with <i>IPRU(INS)</i> 9.35(1); or (b) (in any other case), the Insurance Group Capital Adequacy Reporting Form (Form 95) in Appendix 9.9 of <i>IPRU(INS)</i>
	For the purposes of (b) the above, where relevant to the agreed reporting arrangements, rules 9.40(1), 9.40(1A), 9.40(3) and 9.40(4) of <i>IPRU(INS)</i> apply as they would if the <i>insurance conglomerate</i> <u><i>financial conglomerate</i></u> were an <i>insurance group</i> .
...	
Note 5	The frequency and due date will be as follows: (1) <i>banking and investment services conglomerate</i> : frequency is <del>half</del> -yearly with due date 45 <i>business days</i> after period end; (2) <i>insurance conglomerate</i> : frequency is yearly with due date four months after period end for the capital adequacy return and three months after period end for the report on compliance with <i>GENPRU</i> 3.1.35R where it applies.
...	