

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:

(1) It is:

- (i) 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*.
- (ii) [deleted]
- (iii) [deleted]

(2) [deleted]

(3) [Deleted]

(4) [Deleted]

(5) [Deleted]

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 *FCA*; or
- (2) the *firm* is included in the supervision on a consolidated basis of the group of which it is a member by the *FCA* under **■** MIFIDPRU 2.5 (prudential consolidation); or
- (3) the *firm* is subject, along with a *MIFIDPRU investment firm*, to the *group capital test* in **■** MIFIDPRU 2.6 (the group capital test).

14.1.3 **G** (1) [Deleted]

(2) [Deleted]

(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

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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 dealing solely as a result of its activity of operating a *collective investment scheme*
- (3) [Deleted]
- (4) the *firm* notifies the *FCA* 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 *FCA* 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 *FCA* in writing that it intends to rely on this rule.

14.1.5

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

- (1) submit to *FCA* 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

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- (1) [Deleted]
- (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 *FCA* 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 *FCA* 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.