

## Chapter 12

# Group risk systems and controls requirements



## 12.1 Application

**12.1.1** **R** Subject to ■ SYSC 12.1.2 R to ■ SYSC 12.1.4 R, this section applies to each of the following which is a member of a *group*:

- (1) a *firm* that falls into any one or more of the following categories:
  - (a) an *investment firm* that is not a *designated investment firm*;
  - (b) [deleted]
  - (c) an *insurer*;
  - (ca) a *UK ISPV*;
  - (d) [deleted]
  - (e) a *UK parent entity* of an *investment firm group* that is subject to prudential consolidation under *MIFIDPRU 2.5* or to the *group capital test* under ■ MIFIDPRU 2.6; and
  - (f) a *firm* subject to the *rules* in *IPRU(INV) Chapter 14*.
- (2) a *UCITS firm*, but only if its *group* contains a *firm* falling into (1); and
- (3) the *Society*.

**12.1.2** **R** Except as set out in ■ SYSC 12.1.4 R, this section applies with respect to different types of *group* as follows:

- (1) ■ SYSC 12.1.8 R and ■ SYSC 12.1.10 R apply with respect to all *groups*, including *financial conglomerates* and *groups* dealt with in ■ SYSC 12.1.13 R to ■ SYSC 12.1.15 R;
- (2) the additional requirements set out in ■ SYSC 12.1.11 R and ■ SYSC 12.1.12 R only apply with respect to a *financial conglomerate* of which notification has been made that it has been identified as a *financial conglomerate* as contemplated by regulation 2 of the *Financial Groups Directive Regulations*; and
- (3) the additional requirements set out in ■ SYSC 12.1.13 R to ■ SYSC 12.1.15 R only apply with respect to *groups* of the kind dealt with by whichever of those *rules* apply.

**12.1.3** **R** This section does not apply to an *ICVC*.

**12.1.4** **R**

- (1) This *rule* applies in respect of the following *rules*:
  - (a) ■ SYSC 12.1.8R (2);
  - (b) ■ SYSC 12.1.10R (1), so far as it relates to ■ SYSC 12.1.8R (2);
  - (c) ■ SYSC 12.1.10R (2); and
  - (d) ■ SYSC 12.1.11 R to ■ SYSC 12.1.15 R.
- (2) The *rules* referred to in (1):
  - (a) only apply with respect to a *financial conglomerate* if it is a *financial conglomerate* of which notification has been made that it has been identified as a *financial conglomerate* as contemplated by regulation 2 of the *Financial Groups Directive Regulations*;
  - (b) [deleted]
  - (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*.

**12.1.5** **G** For the purpose of this section, 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**

**12.1.6** **G** The purpose of this chapter is to set out how the systems and control requirements imposed by *SYSC* (Senior Management Arrangements, Systems and Controls) apply where a *firm* is part of a *group*. 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.

**12.1.7** **G** [deleted]

**General rules**

**12.1.8** **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.

**12.1.9** G For the purposes of ■ SYSC 12.1.8 R, 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 and of the risks that the *group* bears.

**12.1.10** R The internal control mechanisms referred to in ■ SYSC 12.1.8 R 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, systems and controls 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*.

**12.1.10A** G ■ SYSC 1.1A.2 G sets out the general principle that the FCA will apply provisions to the extent of its powers and regulatory responsibilities. ■ SYSC 12.1.10 R will, therefore, have limited application to a *Solvency II firm*.

**Financial conglomerates**

**12.1.11** R Where this section applies with respect to a *financial conglomerate*, the risk management processes referred to in ■ SYSC 12.1.8R (2) or, for a *Solvency II firm*, the risk management system referred to in the PRA Rulebook: Solvency II firms: Conditions Governing Business, rule 3, 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;
- (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*; and
- (5) arrangements in place to contribute to and develop, if required, adequate recovery and resolution arrangements and plans; a *firm* must update these arrangements regularly.

[Note: article 9(2) of the *Financial Groups Directive*]

**12.1.12** **R** Where this section applies with respect to a *financial conglomerate*, the internal control mechanisms referred to in **SYSC 12.1.8R (2)** or, for a *Solvency II firm*, the internal control system referred to in the PRA Rulebook: Solvency II firms: Conditions Governing Business, rule 3, 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*.

**CRR firms and non-CRR firms that are parent financial holding companies in the United Kingdom or UK parent financial holding companies**

**12.1.13** **R** If this *rule* applies under **SYSC 12.1.14 R** to a *firm*, the *firm* must:

- (1) comply with **SYSC 12.1.8R (2)** in relation to any *UK consolidation group* of which it is a member, as well as in relation to its *group*; and
- (2) ensure that the risk management processes and internal control mechanisms at the level of any *consolidation group* of which it is a member comply with the obligations set out in the following provisions on a consolidated (or sub-consolidated) basis:
  - (a) **SYSC 4.1.1 R** and **SYSC 4.1.2 R**;
  - (b) **SYSC 4.1.7 R**;
  - (bA) **SYSC 4.3A**;
  - (c) **SYSC 5.1.7 R**;

- (d) ■ SYSC 7;
  - (dA) the *dual-regulated firms Remuneration Code*, if applicable;
  - (e) [deleted]
  - (f) [deleted];
  - (g) [deleted];
  - (h) [deleted];
- [Note: article 109(2) of CRD]
- (3) ensure that compliance with the obligations in (2) enables the consolidation group to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.
- [Note: article 109(2) of CRD]

**12.1.14** ■ SYSC 12.1.13 R applies to a *firm* that is:

- (1) [deleted]
- (2) a *CRR firm*; or
- (3) an *anon-CRR firm* that is a *parent financial holding company in the United Kingdom* or a *UK parent financial holding company*.

**12.1.15** ■ In the case of a *firm* that:

- (1) is a *CRR firm*; and
- (2) has a *mixed-activity holding company as a parent undertaking*;

the risk management processes and internal control mechanisms referred to in ■ SYSC 12.1.8 R 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*.

**12.1.15A** ■ [deleted]

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

**12.1.18** ■ Assessment of the adequacy of a *group's* systems and controls required by this section will form part of the *FCA's* risk management process.

- 12.1.19** **G** The nature and extent of the systems and controls necessary under ■ SYSC 12.1.8R (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*.
- 12.1.20** **G** In some cases the management of the systems and controls used to address the risks described in ■ SYSC 12.1.8R (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 ■ SYSC 12.1.8R (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.
- 12.1.21** **G** ■ SYSC 12.1.8R (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 ■ SYSC 12.1.8R (2) and the *rules* in this section 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 *FCA* can take supervisory action against any *firm* in a *group* whose systems and controls do not meet the standards in this section. Thus responsibility for compliance with the *rules* for *group* systems and controls is a joint one.
- 12.1.22** **G** If both a *firm* and its *parent undertaking* are subject to ■ SYSC 12.1.8R (2), the *FCA* 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.

