Chapter 3

Cross sector groups
3.1 Application

(1) Unless otherwise stated, GENPRU 3.1 applies to every firm that is a member of a financial conglomerate other than:

(a) [deleted]
(b) [deleted]
(c) [deleted]
(d) an ICVC;
(e) a bank;
(f) a designated investment firm; and
(g) an insurer.

(1A) GENPRU 3.1 (except GENPRU 3.1.5R to GENPRU 3.1.12G) applies to each of the following firms that is a member of a financial conglomerate:

(a) a bank;
(b) a designated investment firm; and
(c) an insurer that is a “UK Solvency II firm” as defined in the PRA Rulebook: Glossary.

(2) GENPRU 3.1 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) GENPRU 3.1.25 R (Capital adequacy requirements: high level requirement), and GENPRU 3.1.35 R (Risk concentration and intra group transactions: the main rule) do not apply with respect to a third-country financial conglomerate.

Purpose

GENPRU 3.1 implements requirements that correspond to 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 GENPRU 3.2;

(2) SUP 15.9 contains notification rules for members of financial conglomerates;
(3) material on reporting obligations can be found in §§ SUP 16.12.32 R and SUP 16.12.33 R; and

(4) material on systems and controls in financial conglomerates can be found in § SYSC 12.

Introduction: identifying a financial conglomerate

3.1.3 (1) In general the process in (2) to (8) applies for identifying financial conglomerates.

(2) The relevant competent authority that has 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 authority.

(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 § GENPRU 3.1.

(9) § GENPRU 3 Annex 3 is a questionnaire (together with its explanatory notes) that the FCA asks groups that may be financial conglomerates to fill out in order to decide whether or not they are.

(10) If a mixed financial holding company is subject to equivalent provisions under the UK prudential sectoral legislation in relation to
the banking and investment services sector and under GENPRU 3 (Cross sector groups) and the FCA is the coordinator, the FCA may, on application by a firm and after consulting the other competent authority responsible for the supervision of subsidiaries, disapply such provisions of the UK prudential sectoral legislation in relation to the banking and investment services sector with regard to the mixed financial holding company and apply only the relevant provisions of GENPRU 3 to the mixed financial holding company.

3.1.3A If a mixed financial holding company is subject to equivalent provisions under this Chapter and under UK prudential sectoral legislation in relation to the insurance sector as and the FCA is the coordinator, the FCA may, on application by the firm, disapply such provisions of the UK prudential sectoral legislation with regard to that undertaking which are considered by the FCA as equivalent to those applying to the firm under GENPRU 3.1.

[Note: article 120(2) of CRD]

Introduction: The role of other competent authorities

3.1.4 A lead supervisor (called the coordinator) is appointed for each financial conglomerate. The definition of coordinator in the Financial Groups Directive Regulations describes the criteria for deciding which competent authority is appointed as coordinator.

[Note: Article 10 and 11 of the Financial Groups Directive]

Definition of financial conglomerate: basic definition

3.1.5 A financial conglomerate means a consolidation group that is identified as a financial conglomerate in accordance with the decision tree in GENPRU 3 Annex 4.

Definition of financial conglomerate: sub-groups

3.1.6 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

3.1.7 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.
(1) This rule applies for the purpose of the definition of financial conglomerate and the financial conglomerate definition decision tree.

(1A) In determining the investment services sector for the purpose of identifying a financial conglomerate in the boxes entitled Threshold Test 1, Threshold Test 2 and Threshold Test 3 in the financial conglomerate definition decision tree, any investment firm that does not fall within the definition of article 4(1)(2) of the UK CRR is excluded.

(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

Once a financial conglomerate has become a financial conglomerate and subject to supervision in accordance with this chapter, 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.

The alteration in GENPRU 3.1.9 R 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 GENPRU 3.1.9 R; and

(2) covers the three years following that date.

Definition of financial conglomerate: balance sheet totals

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**

3.1.12 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**

3.1.13 Regulation 16 to 20, 21 and 24 of the *financial groups directive regulations* 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 *competent authority*, for a group of which it is a member not to be regarded as a *financial conglomerate* on the basis of regulation 16 of the *financial groups directive regulations* (for a group that, in terms of the tests in GENPRU 3 Annex 4, does not meet Threshold Test 2 but meets Threshold Test 3) or regulation 17 of the *financial groups directive regulations* (for a group that, in terms of the tests in GENPRU 3 Annex 4, meets Threshold Test 2 but not Threshold Test 3);

2. apply the scheme in the *financial groups directive regulations* to *UK 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**

3.1.14 The capital adequacy provisions of GENPRU 3.1 are designed to be applied to *EEA-based financial conglomerates*.

3.1.15 GENPRU 3.1.25 R is a high level capital adequacy *rule*. It applies whether or not the *FCA* is the *coordinator* of the *financial conglomerate* concerned.

3.1.16 GENPRU 3.1.29 R to GENPRU 3.1.31 R and GENPRU 3 Annex 1 apply the detailed capital adequacy requirements that correspond with the *Financial Groups Directive*. They only deal with a *financial conglomerate* for which the *FCA* 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.
Annex I of the Financial Groups Directive laid down three methods for calculating capital adequacy at the level of a financial conglomerate. Those three methods are implemented as follows:

1. Method 1 calculates capital adequacy using accounting consolidation. It is implemented by GENPRU 3.1.29 R to GENPRU 3.1.31 R and Part 1 of GENPRU 3 Annex 1.

2. Method 2 calculates capital adequacy using a deduction and aggregation approach. It is implemented by GENPRU 3.1.29 R to GENPRU 3.1.31 R and Part 2 of GENPRU 3 Annex 1.

3. [deleted]

4. Method 3 consists of a combination of Methods 1 and 2 and would be implemented by means of a requirement.

Paragraph 5.7 of GENPRU 3 Annex 1 (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 FCA, after consultation with the other competent authority and in accordance with this chapter, 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.

The method to be applied may be decided by the coordinator after consultation with the other competent authority and the financial conglomerate itself. Where the FCA acts as coordinator, the financial conglomerate itself may choose which of Method 1 or Method 2 it will apply, unless the firm is subject to a requirement obliging the firm to apply a particular method.

Capital adequacy requirements: high level requirement

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 regulation 2 of the Financial Groups Directive Regulations.

3.1.26  
(deleted)

3.1.27  
(deleted)

3.1.28  
(1) [deleted]

(2) [deleted]

Capital adequacy requirements: application of Method 1 or 2

3.1.29  
If, with respect to a firm and a financial conglomerate of which it is a member, this rule applies under GENPRU 3.1.29A R to the firm with respect to that financial conglomerate as described in GENPRU 3.1.30 R, 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  
GENPRU 3.1.29 R 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 FCA is coordinator of that financial conglomerate.

Capital adequacy requirements: use of requirement to apply Method 1 or 2 for calculating capital adequacy

3.1.30  
If GENPRU 3.1.29 R (application of Method 1 or 2) 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) 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 1 the firm has indicated to the FCA it will apply, unless the firm is subject to a requirement obliging the firm to apply a specific part of GENPRU 3 Annex 1, in which case GENPRU 3.1.31 R will apply; and

(2) the firm must indicate to the FCA in advance which Part of GENPRU 3 Annex 1 the firm intends to apply.
If GENPRU 3.1.29 R (application of Method 1 or 2) 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 1, 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 1 is specified in the requirement.

Risk concentration and intra-group transactions: introduction

GENPRU 3.1.35 R implements requirements that correspond to Article 7(4) and Article 8(4) of the Financial Groups Directive 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.

The FCA may, on a case by case basis, require the application at the level of the financial conglomerate of the provisions of the sectoral rules on risk concentrations and intra-group transactions.

[Note: Article 7(3), Article 8(3) and Annex II of the Financial Groups Directive]

Risk concentration and intra-group transactions: application

GENPRU 3.1.35 R applies to a firm with respect to a financial conglomerate of which it is a member if the financial conglomerate is headed by a mixed financial holding company.

Risk concentration and intra-group transactions: the main rule

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 GENPRU 3.1.34 R are complied with with respect to that financial sector as a whole, including the mixed financial holding company. The sectoral rules for these purposes are those identified in the table in GENPRU 3.1.36 R.

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

This table belongs to GENPRU 3.1.35 R

<table>
<thead>
<tr>
<th>The most important financial sector</th>
<th>Applicable sectoral rules</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk concentration</td>
<td>Intra-group transactions</td>
</tr>
<tr>
<td>Banking and investment services sector</td>
<td>the UK CRR</td>
</tr>
<tr>
<td>Insurance sector</td>
<td>Part Four of the UK CRR</td>
</tr>
<tr>
<td>PRA Rulebook: Solvency II Firms Group Supervision 16.1</td>
<td>PRA Rulebook: Solvency II Firms: Groups: 16.2</td>
</tr>
</tbody>
</table>
### The most important financial sector: Applicable sectoral rules

<table>
<thead>
<tr>
<th>Note</th>
<th>Risk concentration</th>
<th>Intra-group transactions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Any waiver, approval or permission granted to a member of the <em>financial conglomerate</em>, on a solo (or individual for the purposes of the <em>UK CRR</em> or consolidated basis, shall not apply in respect of the <em>financial conglomerate</em> for the purposes of GENPRU 3.1.36 R. For this purpose, “permission” refers to a consent, approval or agreement conferred on the appropriate regulator as competent authority under the <em>UK CRR</em>.</td>
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### 3.1.37 [deleted]

### 3.1.38 R

1. [deleted]
2. [deleted]
3. [deleted]
4. [deleted]

### 3.1.39 R

1. **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*.

   **[Note: Articles 30 and 30a of the *Financial Groups Directive*]**

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 3.1.29 R to GENPRU 3.1.36 R;

   b. GENPRU 3 Annex 1 (Capital adequacy calculations for financial conglomerates) and GENPRU 3 Annex 2 (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 *FCA* 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 FCA in accordance with (4)(d), an asset management company or an alternative investment fund manager must be allocated to the smallest financial sector.

(4) The choice in (3):
   (a) must be made by the undertaking in the financial conglomerate that is:
      (i) the parent undertaking at the head of the group or,
      (ii) in the absence of a parent undertaking, the regulated entity with the largest balance sheet total in the most important financial sector;
   (b) applies to all asset management companies and all alternative investment fund managers that are members of the financial conglomerate from time to time;
   (c) cannot be changed; and
   (d) must be notified to the FCA as soon as reasonably practicable after the notification in (4)(a).

   [Note: Article 4(2) of the Financial Groups Directive]

(5) This rule applies even if:
   (a) a UCITS management company is an IFPRU investment firm; or
   (b) an asset management company or alternative investment fund manager is an investment firm.
3.2 Third-country groups

Application

3.2.1 GENPRU 3.2 applies to every firm that is a member of a third-country group.
But it does not apply to:

1. [deleted]
2. [deleted]
3. [deleted]
4. an ICVC; or
5. a bank; or
6. a designated investment firm; or
7. an insurer.

3.2.1A GENPRU 3.2.9R (Supervision by analogy: rules for third-country banking and investment groups) applies in relation to the following:

1. a CAD investment firm; and
2. an investment firm that falls within the definition of “investment firm” in article 4(1)(2) of the UK CRR.

Purpose

3.2.2 GENPRU 3.2 implements requirements that correspond in part to article 18 of the Financial Groups Directive, article 127 of the CRD and (in relation to BIPRU firms) article 143 of the BCD.

Equivalence

3.2.3 The first question that must be asked about a third-country group is whether the UK regulated entities in that third-country group are subject to supervision by a third-country competent authority, which is equivalent to that provided for in GENPRU 3 (in the case of a financial conglomerate) or the UK prudential sectoral legislation for the banking sector or the investment services sector (in the case of a banking and investment group).
Other methods: General

3.2.4 If the supervision of a third-country group by a third-country competent authority does not meet the equivalence test referred to in § GENPRU 3.2.3 G, the methods set out in the UK provisions which implemented the CRD and UK CRR will apply or the FCA may apply other methods that ensure appropriate supervision of the UK regulated entities in that third-country group in accordance with the aims of supplementary supervision in § GENPRU 3 or consolidated supervision under the applicable UK prudential sectoral legislation.

Supervision by analogy: introduction

3.2.5 If the supervision of a third-country group by a third-country competent authority does not meet the equivalence test referred to in § GENPRU 3.2.3 G, the FCA may, rather than take the measures described in § GENPRU 3.2.4 G, apply, by analogy, the provisions concerning supplementary supervision in § GENPRU 3 or, as applicable, consolidated supervision under the applicable UK prudential sectoral legislation, to the UK regulated entities in the banking sector, investment services sector and (in the case of a financial conglomerate) insurance sector.

3.2.6 The FCA believes that it will only be right to adopt the option in § GENPRU 3.2.5 G in response to very unusual group structures.

3.2.7 § GENPRU 3.2.8 R and § GENPRU 3.2.9 R and § GENPRU 3 Annex 2 set out rules to deal with the situation covered in § GENPRU 3.2.5 G. Those rules do not apply automatically. Instead, they can only be applied with respect to a particular third-country group through the Part 4A permission of a in that third-country group.

Supervision by analogy: rules for third-country conglomerates

3.2.8 If the Part 4A 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 § GENPRU 3 Annex 2, as adjusted by Part 3 of that annex.

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

3.2.9 If the Part 4A 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 § GENPRU 3 Annex 2, as adjusted by Part 3 of that annex.
Capital adequacy calculations for financial conglomerates (GENPRU 3.1.29R)

1 Table: PART 1: Method 1 (Accounting Consolidation Method)

<table>
<thead>
<tr>
<th>Capital resources</th>
<th>1.1</th>
<th>The conglomerate capital resources of a financial conglomerate calculated in accordance with this Part are the capital of that financial conglomerate, calculated on an accounting consolidation basis, that qualifies under paragraph 1.2.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1.2</td>
<td>The elements of capital that qualify for the purposes of paragraph 1.1 are those that qualify in accordance with the applicable sectoral rules, in accordance with the following:</td>
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<tr>
<td></td>
<td></td>
<td>(1) the conglomerate capital resources requirement is divided up in accordance with the contribution of each financial sector to it; and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(2) the portion of the conglomerate capital resources requirement attributable to a particular financial sector must be met by capital resources that are eligible in accordance with the applicable sectoral rules for that financial sector.</td>
</tr>
</tbody>
</table>

| Capital resources requirement | 1.3 | The conglomerate capital resources requirement of a financial conglomerate calculated in accordance with this Part is equal to the sum of the capital adequacy and solvency requirements for each financial sector calculated in accordance with the applicable sectoral rules for that financial sector. |
| Consolidation | 1.4 | The information required for the purpose of establishing whether or not a firm is complying with GENPRU 3.1.29 R (insofar as the definitions in this Part are applied for the purpose of that rule) must be based on the consolidated accounts of the financial conglomerate, together with such other sources of information as appropriate. |
|                   | 1.5 | The applicable sectoral rules that are applied under this Part are the applicable sectoral consolidation rules. Other applicable sectoral rules must be applied if required. |

2 Table: PART 2: Method 2 (Deduction and aggregation Method)

| Capital resources | 2.1 | The conglomerate capital resources of a financial conglomerate 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 overall financial sector: |
|                   |     | (1) (for the person at the head of the financial conglomerate) its solo capital resources; |
|                   |     | (2) (for any other member): |
|                   |     | (a) its solo capital resources; less |
|                   |     | (b) the book value of the financial conglomerate’s investment in that member, to the extent not already deducted in the calculation of the solo capital resources for: |
|                   |     | (i) the person at the head of the financial conglomerate; or |
(ii) any other member.

2.2 The deduction in paragraph 2.1(2) must be carried out separately for each type of capital represented by the financial conglomerate’s investment in the member concerned.

2.3 The elements of capital that qualify for the purposes of paragraph 2.1 are those that qualify in accordance with the applicable sectoral rules. In particular, the portion of the conglomerate capital resources requirement attributable to a particular member of a financial sector must be met by capital resources that would be eligible under the sectoral rules that apply to the calculation of its solo capital resources.

Capital resources requirement 2.4 The conglomerate capital resources requirement of a financial conglomerate calculated in accordance with this Part is equal to the sum of the solo capital resources requirement for each member of the financial conglomerate that is in the overall financial sector.

Partial inclusion 2.5 The capital resources and capital resources requirements of a member of the financial conglomerate in the overall financial sector must be included proportionally. If however the member is a subsidiary undertaking and it has a solvency deficit, they must be included in full.

Accounts 2.6 The information required for the purpose of establishing whether or not a firm is complying with GENPRU 3.1.29 R (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 financial conglomerate, together with such other sources of information as appropriate.

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6 Table

Types of financial conglomerate 4.3 (1) This paragraph sets out how to determine the category of financial conglomerate.

(2) If there is a UK regulated entity at the head of the financial conglomerate, then:

(a) if that entity is in the banking sector or the investment services sector, the financial conglomerate is a banking and investment services conglomerate; or

(b) if that entity is in the insurance sector, the financial conglomerate is an insurance conglomerate.

(3) If (2) does not apply and the most important financial sector is the banking and investment services sector, it is a banking and investment services conglomerate.

(4) If (2) and (3) does not apply, it is an insurance conglomerate.

7 Table
A mixed financial holding company

4.4 A mixed financial holding company must be treated in the same way as:

(1) a financial holding company (if Part One, Title II, Chapter 2 of the UK CRR and the PRA Rulebook: Groups Part) are applied; or

(2) an insurance holding company (if the rules in PRA Rulebook: Solvency II Firms: Group Supervision are applied).

8 Table: PART 5: Principles applicable to all methods

Transfer-ability of capital

5.1 Capital may not be included in

(1) a firm's conglomerate capital resources under GENPRU 3.1.29 R

if the effectiveness of the transferability and availability of the capital across the different members of the financial conglomerate is insufficient, given the objectives of the capital adequacy rules for financial conglomerates.

[Note: third unnumbered sub-paragraph of paragraph 2(ii) of Annex I of the Financial Groups Directive (Technical principles)]

Double counting

5.2 Capital must not be included in a firm's conglomerate capital resources under GENPRU 3.1.29 R

if:

(1) it would involve double counting or multiple use of the same capital; or

(2) it results from any inappropriate intra-group creation of capital.

Cross sectoral capital

5.3 (1) The solvency requirements for each different financial sector represented in a financial conglomerate required by GENPRU 3.1.29 R must be covered by own funds elements in accordance with the corresponding applicable sectoral rules.

(2) If there is a deficit of own funds at the financial conglomerate 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 GENPRU 3.1.29 R.

[Note: second sub-paragraph of paragraph 2(ii) of Section I of Annex I of the Financial Groups Directive]

Application of sectoral rules: General

5.4 The following adjustments apply to the applicable sectoral rules as they are applied by the rules in this annex.

(1) [deleted]

(2) If any of those rules would otherwise not apply to a situation in which they are applied by GENPRU 3 Annex 1, those rules nevertheless still apply (and in particular, any of those rules that would otherwise have the effect of disapplying consolidated supervision do not apply).

(3) (If it would not otherwise have been included) an ancillary insurance services undertaking is included in the insurance sector.

(4) The scope of those rules is amended so as to remove restrictions relating to where members of the financial conglomerate are incorporated or have their head office, so that the scope covers every member of the financial conglomerate that would have been included in the scope of
### Application of sectoral rules: Insurance sector

5.5

### Application of sectoral rules: Banking sector and investment services sector

5.6

those *rules* if those members had their head offices in the *UK*.

(5) (For the purposes of Parts 1 and 2) those *rules* must be adjusted, if necessary, when calculating the capital resources, capital resources requirements or solvency requirements for a particular *financial sector* to exclude those for a member of another *financial sector*.

(6) Any *waiver*, approval or permission granted to a member of the *financial conglomerate* under those *rules* does not apply for the purposes of this annex.

[deleted]

In relation to a *BIPRU firm* that is a member of a *financial conglomerate* where there are no *credit institutions* or *investment firms*, the following adjustments apply to the *applicable sectoral rules* for the *banking sector* and the *investment services sector* as they are applied by the *rules* in this annex.

(1) References in those *rules* to *non-UK sub-groups* – if applicable – do not apply.

[deleted]

(3) Any *investment firm consolidation waivers* granted to members of the *financial conglomerate* do not apply.

(4) (For the purposes of Parts 1 and 2), without prejudice to the application of requirements in *BIPRU 8* preventing the use of an *advanced prudential calculation approach* on a consolidated basis, any *advanced prudential calculation approach permission* that applies for the purpose of *BIPRU 8* does not apply.

(5) (For the purposes of Parts 1 and 2), *BIPRU 8.5.9 R* and *BIPRU 8.5.10 R* do not apply.

(6) (For the purposes of Part 3), where the *financial conglomerate* does not include a *credit institution*, the method in *GENPRU 2 Annex 4* must be used for calculating the capital resources and *BIPRU 8.6.8 R* does not apply.
(Other than as above) the UK CRR and the provisions which implemented the CRD apply for the banking sector and the investment services sector.

(1) This rule deals with a financial conglomerate in which some of the members are not linked by capital ties at the time of the notification referred to in GENPRU 3.1.29A R (Capital adequacy requirements: Application of Method 1 or 2).

(2) If:

   (b) GENPRU 3.1.29 R (Capital adequacy requirements: Application of Method 1 or 2) 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 whichever of Part 1 or Part 2 of GENPRU 3 Annex 1 the firm has, under GENPRU 3.1.30 R, indicated to the FCA it will apply or, if applicable, in the requirement referred to in GENPRU 3.1.31 R; and

   (d) GENPRU 3.1.29 R applies 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.

[deleted]

9 Table: PART 6: Definitions used in this Annex

| Defining the financial sectors | 6.1 | For the purposes of Parts 1 and 2 of this annex:
| Solo capital resources requirement: Banking sector and investment service sector | 6.2 | (1) an asset management company is allocated in accordance with GENPRU 3.1.39 R; an alternative investment fund manager is allocated in accordance with GENPRU 3.1.39 R; and

   (3) a mixed financial holding company must be treated as being a member of the most important financial sector.

(2) The solo capital resources requirement of a building society is its own funds requirements.

(3) The solo capital resources requirement of an electronic money institution is the capital resources requirement that applies to it under the Electronic Money Regulations.

(4) If there is a credit institution in the financial conglomerate, the solo capital resources requirement for any undertaking in the banking sector or the investment services sector is, subject to (2) and (3), calculated in accordance with the UK CRR for calculating the own funds requirements of a bank.

(5) If:

   (a) the financial conglomerate does not include a credit institution;

   (b) there is at least one investment firm in the financial conglomerate; and

   (c) all the investment firms in the financial conglomerate...
conglomerate are limited licence firms or limited activity firms;

the solo capital resources requirement for any undertaking  in the banking sector or the investment services sector is calculated in accordance with the UK CRR for calculating the own funds requirements of:

(i) (if there is a limited activity firm in the financial conglomerate), an IFPRU limited activity firm; or

(ii) (in any other case), an IFPRU limited licence firm.

(6) If:

(a) the financial conglomerate does not include a credit institution; and

(b) (5) does not apply;

the solo capital resources requirement for any undertaking in the banking sector or the investment services sector is calculated in accordance with the UK CRR for calculating the own funds requirements of a full-scope IFPRU investment firm.

(7) In relation to a BIPRU firm that is a member of a financial conglomerate where there are no credit institutions or investment firms, any capital resources requirements calculated under a BIPRU TP may be used for the purposes of the solo capital resources requirement in this rule in the same way that the capital resources requirements can be used under BIPRU 8.

<table>
<thead>
<tr>
<th>Solo capital resources requirement: application of rules</th>
<th>6.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solo capital resources requirement: Insurance sector</td>
<td>6.4</td>
</tr>
</tbody>
</table>

Any exemption that would otherwise apply under any rules applied by paragraph 6.2 do not apply for the purposes of this Annex.

(1) The solo capital resources requirement of an undertaking in the insurance sector must be calculated in accordance with this rule. The solo capital resources requirement of an undertaking in the insurance sector is:

(a) in respect of a UK Solvency II firm, the SCR;

(b) [deleted]

(c) in respect of a third country insurance undertaking or third country reinsurance undertaking to which the PRA Rulebook: Solvency II Firms: Group Supervision, 10.4(2) applies, the equivalent of the SCR as calculated in accordance with the applicable requirements in that third country; and

(d) in respect of any undertaking which is not within (a) to (c), the capital resources requirement calculated according to the rules for the calculation of the solo capital resources requirement applicable to that undertaking for the purposes of the calculation referred to in the PRA Rulebook: Solvency II Firms: Group Supervision and Chapter 1 of Title II of the delegated acts, or if no rules are applicable for that calculation under Group Supervision and Chapter 1 of Title II of the delegated acts, in accordance with the SCR Rules.
For the purpose of this Part as it applies in relation to GENPRU 3.1, the following expressions bear the same meaning as defined in the PRA Rulebook: Glossary:

(i) “UK Solvency II firm”;
(ii) [deleted]
(iii) “delegated acts”;
(iv) “third country insurance undertaking”;
(v) “third country reinsurance undertaking”; and
(vi) “SCR Rules”.

Solo capital resources requirement: EEA firms in the banking sector or investment services sector 6.5 [deleted]

Solo capital resources requirement: non-UK firms subject to equivalent regimes in the banking sector or investment services sector 6.6

The solo capital resources requirement for a recognised third country credit institution or a recognised third country investment firm is the amount of capital resources that it is obliged to hold under the sectoral rules for its financial sector that apply to it in the state or territory in which it has its head office provided that:

(1) there is no reason for the firm applying the rules in this annex to believe that the use of those sectoral rules would produce a lower figure than would be produced under paragraph 6.2; and

(2) paragraph 6.3 applies to the entity and those sectoral rules.

Solo capital resources requirement: mixed financial holding company 6.7

The solo capital resources requirement of a mixed financial holding company is a notional capital requirement. It is the capital adequacy requirement that applies to regulated entities in the most important financial sector under the table in paragraph 6.10.

Reference to “rules” 6.7A

A reference to “rules” in this annex includes any onshored regulations that are relevant to the purpose of which “rules” as used refers to.

10 Table

Solo capital resources requirement: the insurance sector 6.8

References to capital requirements in the provisions of GENPRU 3 Annex 1 defining solo capital resources requirement must be interpreted in accordance with paragraph 5.4.

Applicable sectoral consolidation rules 6.9

The applicable sectoral consolidation rules for a financial sector are the sectoral rules about capital adequacy and solvency on a consolidated basis that are applied in the table in paragraph 6.10.

11 Table: Paragraph 6.10: Application of sectoral consolidation rules

<table>
<thead>
<tr>
<th>Financial sector</th>
<th>Sectoral rules</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Banking sector</strong></td>
<td>Part One, Title II, Chapter 2 of the UK CRR and IFPRU 8.1.</td>
</tr>
<tr>
<td><strong>Insurance sector</strong></td>
<td>PRA Rulebook: Solvency II Firms: Group Supervision.</td>
</tr>
<tr>
<td><strong>Investment services sector</strong></td>
<td>(in relation to an IFPRU investment firm which is a member of a financial conglomerate for which the PRA is the coordinator) Part One, Title II, Chapter 2 of the UK CRR and the PRA Rulebook;</td>
</tr>
<tr>
<td></td>
<td>(in relation to a designated investment firm or an IFPRU investment firm which is a member of a financial conglomerate</td>
</tr>
</tbody>
</table>
### Financial sector Sectoral rules

<table>
<thead>
<tr>
<th>Financial sector</th>
<th>Sectoral rules</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>for which the FCA is the coordinator) Part One, Title II, Chapter 2 of the UK CRR and IFPRU 8.1;</td>
</tr>
<tr>
<td></td>
<td>(in relation to a BIPRU firm that is a member of a financial conglomerate where there are no credit institutions or investment firms for which the FCA is the coordinator) BIPRU 8 and BIPRU TP.</td>
</tr>
</tbody>
</table>

12 Table:

| Part 5 | 1 | This Part 6 is subject to Part 5 of this Annex. |
Prudential rules for third country groups (GENPRU 3.2.8R to GENPRU 3.2.9R)

1 Table: PART 1: Third-country financial conglomerates

1.1 This Part of this annex sets out the rules with which a firm must comply under GENPRU 3.2.8 R with respect to a financial conglomerate of which it is a member.

1.2 A firm must comply, with respect to the financial conglomerate referred to in paragraph 1.1, with GENPRU 3.1.29 R as applied under paragraph 1.3.

1.3 For the purposes of paragraph 1.2:

(1) [deleted]

(2) 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 1 is specified in the requirement referred to in GENPRU 3.2.8 R; and

(3) the rules so applied (including those in GENPRU 3 Annex 1) are adjusted in accordance with paragraph 3.1.

1.4 If 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) with respect to the financial conglomerate referred to in paragraph 1.1 the firm must also comply with GENPRU 3.1.35 R (as adjusted in accordance with paragraph 3.1) with respect to that financial conglomerate.

1.5 A firm must comply with the following with respect to the financial conglomerate referred to in paragraph 1.1:

(1) SYSC 12 (as it applies to financial conglomerates and as adjusted under paragraph 3.1); and

(2) GENPRU 3.1.25 R.

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

2.1 This Part of this annex sets out the rules with which a firm must comply under GENPRU 3.2.9 R with respect to a third-country banking and investment group of which it is a member.

2.2 A firm must comply with one of the sets of rules specified in paragraph 2.3 as adjusted under paragraph 3.1 with respect to the third-country banking and investment group referred to in paragraph 2.1.

2.3 The rules referred to in paragraph 2.2 are:

(1) the applicable sectoral consolidation rules in paragraph 6.10 of GENPRU 3 Annex 1.

2.4 The set of rules from paragraph 2.3 that apply with respect to a particular third-country banking and investment group (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 sectoral rules applied by Part 2 of this annex cover all prudential rules applying on a consolidated basis including those relating to large exposures.

2.6 A firm must comply with SYSC 12 (as it applies to banking and investment groups and as adjusted under paragraph 3.1) with respect to the third-country banking and investment group 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 rules referred in Part 1 or Part 2 of this annex, as the case may be, are amended:

(1) so as to remove any provisions disapplying those rules for third-country groups;
(2) so as to remove all limitations relating to where a member of the third-country group is incorporated or has its head office; and
(3) so that the scope covers every member of the third-country group that would have been included in the scope of those rules if those members had their head offices in, and were incorporated in, the UK.

4 Table: PART 4: Definition used in this Annex

4.1 This Part sets out the definition which a firm must apply for the purposes of this annex as it applies in relation to GENPRU 3.2.

4.2 A reference to “rules” in this annex includes any onshored regulations that are relevant to the purpose of which “rules” as used refers to.
Guidance Notes for Classification of Groups

Classification of Groups (GENPRU 3.1.3 G) - This annex consists only of one or more forms. Forms are to be found through the following address. [genpru_ch3_annex3G.pdf]

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 FCA 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 FCA 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 can be found on the FCA’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 – Annex 1 to the Capital Requirements Directive 2013/36/ EU
   • insurance activities are listed in - schedule 1 to, and contracts of insurance defined in article 3(1) of, the Regulated Activities Order .
   • 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 and should be treated for these purposes as being outside the financial 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 FCA 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 FCA 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 of the FCA that would apply to the type of entity. However, you can use EEA rules or local rules in the circumstances set out in Part 6 of GENPRU 3 Annex 1. 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 FCA. 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 FCA 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 total amount of capital required.

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.

Article I.

Article II. Threshold tests

Test F2

\[
\text{B/S of banking/investment + insurance sector} = \text{result \%}
\]

\[
\text{B/S total}
\]

Test F3/F4/F5

\[
\text{B/S of insurance sector}
\]

\[
\text{B/S of banking/investment sector + insurance sector} = \text{A\%}
\]

\[
\text{B/S of banking/investment sector}
\]

\[
\text{B/S of banking/investment sector + insurance sector} = \text{B\%}
\]

Solvency requirement of insurance sector

\[
\text{Solvency requirement of banking/investment sector +insurance sector} = \text{C\%}
\]

Solvency requirement of banking/investment sector

\[
\text{Solvency requirement of banking/investment sector +insurance sector} = \text{D\%}
\]

The relevant percentage for the insurance sector is:

\[
\frac{(\text{A\%} + \text{C\%})}{2} = \text{I \%}
\]

The relevant percentage for the banking/investment sector is:

\[
\frac{(\text{B\%} + \text{D\%})}{2} = \text{BI \%}
\]

The smallest sector is the sector with the smallest relevant percentage.
Article III. If $I\% < B1\%$ then $F3$ is insurance, $F4 = A\%$, and $F5 = C\%$

Article IV. If $B1\% < I\%$ then $F3$ is banking/investment, $F4 = B\%$ and $F5 = D\%$
Footnote: The conditions are that the UK 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.