

## Chapter 3

# Cross sector groups



3.1 Application

3.1.1

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- (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

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- GENPRU 3.1 implemented requirements in 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.

### 3.1.2A

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■ GENPRU 3.1 has been amended to reflect the introduction of a new prudential regime for *MiFID* investment firms (*MIFIDPRU*). This new regime streamlines and simplifies the prudential requirements for *MIFIDPRU investment firms*. It refocuses prudential requirements and expectations away from the risks a *firm* faces to also consider, and look to mitigate, the potential for harm these *firms* can pose to consumers and markets. If a *financial conglomerate* for which the *FCA* is the *coordinator* considers the amendments to ■ GENPRU 3.1 do not appropriately reflect the risks and potential harms to which its activities give rise, it should contact the *FCA* to discuss how the *rules* could be modified to do so.

### Introduction: identifying a financial conglomerate

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- (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*.

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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* 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

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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

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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

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

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

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

(1A) [deleted]

(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

**3.1.9** **R** 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.

**3.1.10** **R** 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.

		<b>Definition of financial conglomerate: balance sheet totals</b>
3.1.11	R	The calculations referred to in the <i>financial conglomerate definition decision tree</i> regarding the balance sheet must be made on the basis of the aggregated balance sheet total of the members of the <i>consolidation group</i> , according to their annual accounts. For the purposes of this calculation, <i>undertakings</i> in which a <i>participation</i> 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 <i>consolidation group</i> . However, where consolidated accounts are available, they must be used instead of aggregated accounts.
		<b>Definition of financial conglomerate: solvency requirement</b>
3.1.12	R	The solvency and capital adequacy requirements referred to in the <i>financial conglomerate definition decision tree</i> must be calculated in accordance with the provisions of the relevant <i>sectoral rules</i> .
		<b>Definition of financial conglomerate: discretionary changes to the definition</b>
3.1.13	G	<p>Regulation 16 to 20, 21 and 24 of the <i>financial groups directive regulations</i> allow <i>competent authorities</i>, on a case by case basis, to:</p> <ul style="list-style-type: none"><li>(1) change the definition of <i>financial conglomerate</i> and the obligations applying with respect to a <i>financial conglomerate</i> (which would include, where the <i>appropriate regulator</i> would be the <i>coordinator</i> under ■ GENPRU 3.1.3G (6), permitting <i>firms</i> to apply, on an annual basis and subject to publication and notification to the <i>competent authority</i>, for a group of which it is a member not to be regarded as a <i>financial conglomerate</i> on the basis of regulation 16 of the <i>financial groups directive regulations</i> (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 <i>financial groups directive regulations</i> (for a group that, in terms of the tests in ■ GENPRU 3 Annex 4, meets Threshold Test 2 but not Threshold Test 3);</li><li>(2) apply the scheme in the <i>financial groups directive regulations</i> to <i>UK regulated entities</i> in specified kinds of group structures that do not come within the definition of <i>financial conglomerate</i>; and</li><li>(3) exclude a particular entity in the scope of capital adequacy requirements that apply with respect to a <i>financial conglomerate</i>.</li></ul>
		<b>Capital adequacy requirements: introduction</b>
3.1.14	G	The capital adequacy provisions of ■ GENPRU 3.1 are designed to be applied to <i>financial conglomerates</i> .
3.1.15	G	■ GENPRU 3.1.25 R is a high level capital adequacy <i>rule</i> . It applies whether or not the <i>FCA</i> is the <i>coordinator</i> of the <i>financial conglomerate</i> concerned.
3.1.16	G	■ 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 <i>Financial Groups Directive</i> . They only deal with a <i>financial conglomerate</i> for which the

		<i>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.</i>
3.1.17	G	<p>Annex I of the <i>Financial Groups Directive</i> laid down three methods for calculating capital adequacy at the level of a <i>financial conglomerate</i>. Those three methods are as follows:</p> <ol style="list-style-type: none"> <li>(1) Method 1 calculates capital adequacy using accounting consolidation. It is set out in ■ GENPRU 3.1.29 R to ■ GENPRU 3.1.31 R and Part 1 of ■ GENPRU 3 Annex 1.</li> <li>(2) Method 2 calculates capital adequacy using a deduction and aggregation approach. It is set out in ■ GENPRU 3.1.29 R to ■ GENPRU 3.1.31 R and Part 2 of ■ GENPRU 3 Annex 1.</li> <li>(3) [deleted]</li> <li>(4) Method 3 consists of a combination of Methods 1 and 2 and would be implemented by means of a <i>requirement</i>.</li> </ol>
3.1.18	G	[deleted]
3.1.19	G	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 <i>financial conglomerate</i> . In particular, the <i>FCA</i> , after consultation with the other <i>competent authority</i> 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.
3.1.20	G	<ol style="list-style-type: none"> <li>(1) [deleted]</li> <li>(2) [deleted]</li> </ol>
3.1.21	G	The method to be applied may be decided by the <i>coordinator</i> after consultation with the other <i>competent authority</i> and the <i>financial conglomerate</i> itself. Where the <i>FCA</i> acts as <i>coordinator</i> , the <i>financial conglomerate</i> itself may choose which of Method 1 or Method 2 it will apply, unless the <i>firm</i> is subject to a <i>requirement</i> obliging the <i>firm</i> to apply a particular method.
3.1.22	G	[deleted]
3.1.23	G	[deleted]
3.1.24	G	[deleted]



		<b>Capital adequacy requirements: high level requirement</b>
3.1.25	R	<p>(1) A <i>firm</i> that is a member of a <i>financial conglomerate</i> must at all times have capital resources of such an amount and type that results in the capital resources of the <i>financial conglomerate</i> taken as a whole being adequate.</p> <p>(2) This <i>rule</i> does not apply with respect to any <i>financial conglomerate</i> until notification has been made that it has been identified as a <i>financial conglomerate</i> as contemplated by regulation 2 of the <i>Financial Groups Directive Regulations</i>.</p>
3.1.26	R	[deleted]
3.1.27	R	[deleted]
3.1.28	R	<p>(1) [deleted]</p> <p>(2) [deleted]</p>
		<b>Capital adequacy requirements: application of Method 1 or 2</b>
3.1.29	R	If, with respect to a <i>firm</i> and a <i>financial conglomerate</i> of which it is a member, this <i>rule</i> applies under ■ GENPRU 3.1.29A R to the <i>firm</i> with respect to that <i>financial conglomerate</i> as described in ■ GENPRU 3.1.30 R, the <i>firm</i> must at all times have capital resources of an amount and type that ensures that the <i>conglomerate capital resources</i> of that <i>financial conglomerate</i> at all times equal or exceed its <i>conglomerate capital resources requirement</i> .
3.1.29A	R	■ GENPRU 3.1.29 R applies to a <i>firm</i> with respect to the <i>financial conglomerate</i> of which it is a member if notification has been made in accordance with regulation 2 of the <i>Financial Groups Directive Regulations</i> that the <i>financial conglomerate</i> is a <i>financial conglomerate</i> and that the <i>FCA</i> is coordinator of that <i>financial conglomerate</i> .
		<b>Capital adequacy requirements: use of requirement to apply Method 1 or 2 for calculating capital adequacy</b>
3.1.30	R	<p>If ■ GENPRU 3.1.29 R (application of Method 1 or 2) applies to a <i>firm</i> with respect to the <i>financial conglomerate</i> of which it is a member, then with respect to the <i>firm</i> and the <i>financial conglomerate</i>:</p> <p>(1) the definitions of <i>conglomerate capital resources</i> and <i>conglomerate capital resources requirement</i> that apply for the purposes of that <i>rule</i> are the ones from whichever of Part 1 or Part 2 of ■ GENPRU 3 Annex 1 the <i>firm</i> has indicated to the <i>FCA</i> it will apply, unless the <i>firm</i> is subject to a <i>requirement</i> obliging the <i>firm</i> to apply a specific part of ■ GENPRU 3 Annex 1, in which case ■ GENPRU 3.1.31 R will apply; and</p> <p>(2) the <i>firm</i> must indicate to the <i>FCA</i> in advance which Part of ■ GENPRU 3 Annex 1 the <i>firm</i> intends to apply.</p>



3.1.31 **R** 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**

3.1.32 **G** ■ 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*.

3.1.33 **G** 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**

3.1.34 **R** ■ 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**

3.1.35 **R** Subject to ■ GENPRU 3.1.35AR, 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.

3.1.35A **R** A *mixed financial holding company* must comply with the *sectoral rules* in the table in ■ GENPRU 3.1.36R for the *investment services sector* where:  
  
the *FCA* is the *coordinator* of the *financial conglomerate*; and  
  
the *banking and investment services sector* is the *most important financial sector*.

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

3.1.36 **R** Table: application of sectoral rules  
This table belongs to ■ GENPRU 3.1.35 R

The most important financial sector	Applicable sectoral rules	
	Risk concentration	Intra-group transactions
<i>Banking and investment services sector</i>	Part Four of the UK CRR <i>Banking sector</i> MIFIDPRU 5 the <i>investment services sector</i>	The UK CRR and the PRA Rulebook  SYSC 12.1.12R
<i>Insurance sector</i>	PRA Rulebook: Solvency II Firms Group Supervision 16.1	PRA Rulebook: Solvency II Firms: Groups: 16.2
Note	Any <i>waiver</i> , approval or permission granted to a member of the <i>financial conglomerate</i> , on an individual or consolidated basis, shall not apply in respect of the <i>financial conglomerate</i> for the purposes of GENPRU 3.1.36 R. For this purpose, "permission" refers to a consent, approval or agreement conferred on the <i>appropriate regulator</i> as <i>competent authority</i> .	

3.1.37 R [deleted]

- 3.1.38 R
- (1) [deleted]
  - (2) [deleted]
  - (3) [deleted]
  - (4) [deleted]

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

- 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) Save in the circumstances in (5), 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, for the purposes in (2), be allocated to either the *MIFIDPRU 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 *MIFIDPRU investment services 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 *undertaking* that is deemed to be the *parent undertaking* in accordance with the rules in ■ MIFIDPRU 2.4;
  - (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.

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

- (5) Where a *UCITS management company* or an *asset management company* is an *investment firm* it must be allocated to the *MIFIDPRU investment services sector*.
  - (a) [deleted]
  - (b) [deleted]