

Chapter 3

Cross sector groups

Capital adequacy calculations for financial conglomerates (GENPRU 3.1.26R and GENPRU 3.1.29R)

1 Table: PART 1: Method of Annex I of the Financial Groups Directive (Accounting Consolidation Method)

Capital resources	1.1	The <i>conglomerate capital resources</i> of a <i>financial conglomerate</i> calculated in accordance with this Part are the capital of that <i>financial conglomerate</i> , calculated on an accounting consolidation basis, that qualifies under paragraph 1.2.
	1.2	The elements of capital that qualify for the purposes of paragraph 1.1 are those that qualify in accordance with the <i>applicable sectoral rules</i> , in accordance with the following: <ol style="list-style-type: none"> (1) the <i>conglomerate capital resources requirement</i> is divided up in accordance with the contribution of each <i>financial sector</i> to it; and (2) the portion of the <i>conglomerate capital resources requirement</i> attributable to a particular <i>financial sector</i> must be met by capital resources that are eligible in accordance with the <i>applicable sectoral rules</i> for that <i>financial sector</i>.
Capital resources requirement	1.3	The <i>conglomerate capital resources requirement</i> of a <i>financial conglomerate</i> calculated in accordance with this Part is equal to the sum of the capital adequacy and solvency requirements for each <i>financial sector</i> calculated in accordance with the <i>applicable sectoral rules</i> for that <i>financial sector</i> .
Consolidation	1.4	The information required for the purpose of establishing whether or not a <i>firm</i> is complying with GENPRU 3.1.29 R (insofar as the definitions in this Part are applied for the purpose of that <i>rule</i>) must be based on the consolidated accounts of the <i>financial conglomerate</i> , together with such other sources of information as appropriate.
	1.5	The <i>applicable sectoral rules</i> that are applied under this Part are the <i>applicable sectoral consolidation rules</i> . Other <i>applicable sectoral rules</i> must be applied if required.

2 Table: PART 2: Method 2 of Annex I of the Financial Groups Directive (Deduction and aggregation Method)

Capital resources	2.1	The <i>conglomerate capital resources</i> of a <i>financial conglomerate</i> 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 <i>overall financial sector</i> : <ol style="list-style-type: none"> (1) (for the <i>person</i> at the head of the <i>financial conglomerate</i>) its <i>solo capital resources</i>; (2) (for any other member): <ol style="list-style-type: none"> (a) its <i>solo capital resources</i>; less
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		(b) the book value of the <i>financial conglomerate's</i> investment in that member, to the extent not already deducted in the calculation of the <i>solo capital resources</i> for:
		(i) the <i>person</i> at the head of the <i>financial conglomerate</i> ; 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 <i>financial conglomerate's</i> 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 <i>applicable sectoral rules</i> . In particular, the portion of the <i>conglomerate capital resources requirement</i> attributable to a particular member of a <i>financial sector</i> must be met by capital resources that would be eligible under the <i>sectoral rules</i> that apply to the calculation of its <i>solo capital resources</i> .
Capital resources requirement	2.4	The <i>conglomerate capital resources requirement</i> of a <i>financial conglomerate</i> calculated in accordance with this Part is equal to the sum of the <i>solo capital resources requirement</i> for each member of the <i>financial conglomerate</i> that is in the <i>overall financial sector</i> .
Partial inclusion	2.5	The capital resources and capital resources requirements of a member of the <i>financial conglomerate</i> in the <i>overall financial sector</i> must be included proportionally. If however the member is a <i>subsidiary undertaking</i> and it has a <i>solvency deficit</i> , they must be included in full.
Accounts	2.6	The information required for the purpose of establishing whether or not a <i>firm</i> is complying with GENPRU 3.1.29 R (insofar as the definitions in this Part are applied for the purpose of that <i>rule</i>) must be based on the individual accounts of members of the <i>financial conglomerate</i> , 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 <i>financial conglomerate</i> . (2) If there is an <i>EEA regulated entity</i> at the head of the <i>financial conglomerate</i> , then: (a) if that entity is in the <i>banking sector</i> or the <i>investment services sector</i> , the <i>financial conglomerate</i> is a <i>banking and investment services conglomerate</i> ; or (b) if that entity is in the <i>insurance sector</i> , the <i>financial conglomerate</i> is an <i>insurance conglomerate</i> . (3) If (2) does not apply and the <i>most important financial sector</i> is the <i>banking and investment services sector</i> , it is a <i>banking and investment services conglomerate</i> . (4) If (2) and (3) does not apply, it is an <i>insurance conglomerate</i> .
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7 Table

A mixed financial holding company	4.4	<p>A <i>mixed financial holding company</i> must be treated in the same way as:</p> <p>(1) a <i>financial holding company</i> (if Part One, Title II, Chapter 2 of the <i>EU CRR</i> and the <i>PRA Rulebook : Groups Part</i>) are applied; or</p> <p>(2) an <i>insurance holding company</i> (if the <i>rules</i> in <i>PRA Rulebook: Solvency II Firms: Group Supervision</i> are applied).</p>
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8 Table: PART 5: Principles applicable to all methods

Transfer-ability of capital	5.1	<p>Capital may not be included in</p> <p>(1) a <i>firm's conglomerate capital resources</i> under GENPRU 3.1.29 R</p> <p>if the effectiveness of the transferability and availability of the capital across the different members of the <i>financial conglomerate</i> is insufficient, given the objectives (as referred to in the third unnumbered sub-paragraph of paragraph 2(ii) of Annex I of the <i>Financial Groups Directive</i> (Technical principles)) of the capital adequacy rules for <i>financial conglomerates</i>.</p>
Double counting	5.2	<p>Capital must not be included in a <i>firm's conglomerate capital resources</i> under GENPRU 3.1.29 R</p> <p>if:</p> <p>(1) it would involve double counting or multiple use of the same capital; or</p> <p>(2) it results from any inappropriate intra-group creation of capital.</p>
Cross sectoral capital	5.3	<p>In accordance with the second sub-paragraph of paragraph 2(ii) of Section I of Annex I of the <i>Financial Groups Directive</i> (Other technical principles and insofar as not already required in Parts 1-2):</p> <p>(1) the solvency requirements for each different <i>financial sector</i> represented in a <i>financial conglomerate</i> required by GENPRU 3.1.29 R must be covered by own funds elements in accordance with the corresponding <i>applicable sectoral rules</i>; and</p> <p>(2) if there is a deficit of own funds at the <i>financial conglomerate</i> 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.</p>
Application of sectoral rules: General	5.4	<p>The following adjustments apply to the <i>applicable sectoral rules</i> as they are applied by the <i>rules</i> in this annex.</p> <p>(1) [deleted]</p> <p>(2) If any of those <i>rules</i> would otherwise not apply to a situation in which they are applied by GENPRU 3 Annex 1, those <i>rules</i> nevertheless still apply (and in particular, any of those <i>rules</i> that would otherwise have the effect of disapplying consolidated supervision do not apply).</p> <p>(3) (If it would not otherwise have been included) an <i>ancillary insurance services undertaking</i> is included in the <i>insurance sector</i>.</p> <p>(4) The scope of those <i>rules</i> is amended so as to remove restrictions relating to where members of the <i>financial conglomerate</i> are incorporated or have their head office, so</p>

		<p>that the scope covers every member of the <i>financial conglomerate</i> that would have been included in the scope of those <i>rules</i> if those members had their head offices in an <i>EEA State</i>.</p> <p>(5) (For the purposes of Parts 1 and 2) those <i>rules</i> must be adjusted, if necessary, when calculating the capital resources, capital resources requirements or solvency requirements for a particular <i>financial sector</i> to exclude those for a member of another <i>financial sector</i>.</p> <p>(6) Any <i>waiver</i>, approval or permission granted to a member of the <i>financial conglomerate</i> under those <i>rules</i> does not apply for the purposes of this annex.</p>
Application of sectoral rules: Insurance sector	5.5	[deleted]
Application of sectoral rules: Banking sector and investment services sector	5.6	<p>In relation to a <i>BIPRU firm</i> that is a member of a <i>financial conglomerate</i> where there are no <i>credit institutions</i> or <i>investment firms</i>, the following adjustments apply to the <i>applicable sectoral rules</i> for the <i>banking sector</i> and the <i>investment services sector</i> as they are applied by the <i>rules</i> in this annex.</p> <p>(1) References in those <i>rules</i> to <i>non-EEA sub-groups</i> do not apply.</p> <p>[deleted]</p> <p>(3) Any <i>investment firm consolidation waivers</i> granted to members of the <i>financial conglomerate</i> do not apply.</p> <p>(4) (For the purposes of Parts 1 and 2), without prejudice to the application of requirements in BIPRU 8 preventing the use of an <i>advanced prudential calculation approach</i> on a consolidated basis, any <i>advanced prudential calculation approach permission</i> that applies for the purpose of BIPRU 8 does not apply.</p> <p>(5) (For the purposes of Parts 1 and 2), BIPRU 8.5.9 R and BIPRU 8.5.10 R do not apply.</p> <p>(6) (For the purposes of Part 3), where the <i>financial conglomerate</i> does not include a <i>credit institution</i>, the method in GENPRU 2 Annex 4 must be used for calculating the capital resources and BIPRU 8.6.8 R does not apply.</p> <p>(Other than as above) the <i>CRD</i> and <i>EU CRR</i> apply for the <i>banking sector</i> and the <i>investment services sector</i>.</p>
No capital ties	5.7	<p>(1) This <i>rule</i> deals with a <i>financial conglomerate</i> in which some of the members are not linked by capital ties at the time of the notification referred to in GENPRU 3.1.29A R (Capital adequacy requirements: Application of Method 1 or 2 from Annex I of the Financial Groups Directive).</p> <p>[deleted]</p> <p>[deleted]</p> <p>(4) If:</p> <p>[deleted]</p> <p>(b) GENPRU 3.1.29 R (Capital adequacy requirements: Application of Method 1 or 2 from Annex I of the Financial Groups Directive) applies with respect to a <i>financial conglomerate</i> falling into (1);</p> <p>then:</p>

(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 .

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9 Table: PART 6: Definitions used in this Annex

Defining the financial sectors	6.1	<p>For the purposes of Parts 1 and 2 of this annex:</p> <p>(1) an <i>asset management company</i> is allocated in accordance with GENPRU 3.1.39 R; an <i>alternative investment fund manager</i> is allocated in accordance with GENPRU 3.1.39 R; and</p> <p>(3) a <i>mixed financial holding company</i> must be treated as being a member of the <i>most important financial sector</i>.</p>
Solo capital resources requirement: Banking sector and investment service sector	6.2	<p>(1) The <i>solo capital resources requirement</i> of an <i>undertaking</i> in the <i>banking sector</i> or the <i>investment services sector</i> must be calculated in accordance with this <i>rule</i>, subject to paragraphs 6.5 and 6.6.</p> <p>(2) The <i>solo capital resources requirement</i> of a <i>building society</i> is its <i>own funds requirements</i>.</p> <p>(3) The <i>solo capital resources requirement</i> of an <i>electronic money institution</i> is the capital resources requirement that applies to it under the <i>Electronic Money Regulations</i>.</p> <p>(4) If there is a <i>credit institution</i> in the <i>financial conglomerate</i>, the <i>solo capital resources requirement</i> for any <i>undertaking</i> in the <i>banking sector</i> or the <i>investment services sector</i> is, subject to (2) and (3), calculated in accordance with the <i>EU CRR</i> for calculating the <i>own funds requirements</i> of a <i>bank</i>.</p> <p>(5) If:</p> <p>(a) the <i>financial conglomerate</i> does not include a <i>credit institution</i>;</p> <p>(b) there is at least one <i>investment firm</i> in the <i>financial conglomerate</i>; and (c) all the <i>investment firms</i> in the <i>financial conglomerate</i> are <i>limited licence firms</i> or <i>limited activity firms</i>;</p> <p>the <i>solo capital resources requirement</i> for any <i>undertaking</i> in the <i>banking sector</i> or the <i>investment services sector</i> is calculated in accordance with the <i>EU CRR</i> for calculating the <i>own funds requirements</i> of:</p> <p>(i) (if there is a <i>limited activity firm</i> in the <i>financial conglomerate</i>), an <i>IFPRU limited activity firm</i>; or</p> <p>(ii) (in any other case), an <i>IFPRU limited licence firm</i>.</p> <p>(6) If:</p> <p>(a) the <i>financial conglomerate</i> does not include a <i>credit institution</i>; and</p> <p>(b) (5) does not apply;</p> <p>the <i>solo capital resources requirement</i> for any <i>undertaking</i> in the <i>banking sector</i> or the <i>investment services sector</i> is calculated in accordance with the <i>EU CRR</i> for calculating</p>

		<p>the own funds requirements of a full-scope IFPRU investment firm.</p> <p>(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.</p>
Solo capital resources requirement: application of rules	6.3	Any exemption that would otherwise apply under any rules applied by paragraph 6.2 do not apply for the purposes of this Annex.
Solo capital resources requirement: Insurance sector	6.4	<p>(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:</p> <p>(a) in respect of a UK Solvency II firm, the SCR;</p> <p>(b) in respect of a Solvency II undertaking other than a UK Solvency II firm, the equivalent SCR as calculated in accordance with the Solvency II EEA implementing measures in the EEA State in which it has received authorisation in accordance with article 14 of the Solvency II Directive;</p> <p>(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</p> <p>(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.</p> <p>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:</p> <p>(i) "UK Solvency II firm";</p> <p>(ii) "Solvency II undertaking";</p> <p>(iii) "delegated acts";</p> <p>(iv) "third country insurance undertaking";</p> <p>(v) "third country reinsurance undertaking"; and</p> <p>(vi) "SCR Rules".</p>
Solo capital resources requirement: EEA firms in the banking sector or investment services sector	6.5	The solo capital resources requirement for an EEA regulated entity (other than a bank, building society, designated investment firm, IFPRU investment firm, BIPRU firm, an insurer or an EEA insurer) that is subject to the solo capital adequacy sectoral rules for its financial sector of the competent authority that authorised it is equal to the amount of capital it is obliged to hold under those sectoral rules provided that the following conditions are satisfied:

		<p>(1) (for the purposes of the <i>banking sector</i> and the <i>investment services sector</i>) those <i>sectoral rules</i> must correspond to the <i>FCA's sectoral rules</i> identified in paragraph 6.2 as applying to that <i>financial sector</i>;</p> <p>(2) the entity must be subject to those <i>sectoral rules</i> in (1); and</p> <p>(3) paragraph 6.3 applies to the entity and those <i>sectoral rules</i>.</p>
Solo capital resources requirement: non-EEA firms subject to equivalent regimes in the banking sector or investment services sector	6.6	<p>The <i>solo capital resources requirement</i> for a <i>recognised third country credit institution</i> or a <i>recognised third country investment firm</i> is the amount of capital resources that it is obliged to hold under the <i>sectoral rules</i> for its <i>financial sector</i> that apply to it in the state or territory in which it has its head office provided that:</p> <p>(1) there is no reason for the <i>firm</i> applying the <i>rules</i> in this annex to believe that the use of those <i>sectoral rules</i> would produce a lower figure than would be produced under paragraph 6.2; and</p> <p>(2) paragraph 6.3 applies to the entity and those <i>sectoral rules</i>.</p>
Solo capital resources requirement: mixed financial holding company	6.7	<p>The <i>solo capital resources requirement</i> of a <i>mixed financial holding company</i> is a notional capital requirement. It is the capital adequacy requirement that applies to <i>regulated entities</i> in the <i>most important financial sector</i> under the table in paragraph 6.10.</p>
Reference to "rules"	6.7A	<p>A reference to "<i>rules</i>" in this annex includes any directly applicable Community regulation that is relevant to the purpose of which "<i>rules</i>" as used refers to.</p>

10 Table

Solo capital resources requirement: the insurance sector	6.8	<p>References to capital requirements in the provisions of GENPRU 3 Annex 1 defining <i>solo capital resources requirement</i> must be interpreted in accordance with paragraph 5.4.</p>
Applicable sectoral consolidation rules	6.9	<p>The <i>applicable sectoral consolidation rules</i> for a <i>financial sector</i> are the <i>sectoral rules</i> about capital adequacy and solvency on a consolidated basis that are applied in the table in paragraph 6.10.</p>

11 Table: Paragraph 6.10: Application of sectoral consolidation rules

Financial sector	Sectoral rules
<i>Banking sector</i>	Part One, Title II, Chapter 2 of the <i>EU CRR</i> and <i>IFPRU 8.1</i> .
<i>Insurance sector</i>	PRA Rulebook: Solvency II Firms: Group Supervision.
<i>Investment services sector</i>	<p>(in relation to an <i>IFPRU investment firm</i> which is a member of a <i>financial conglomerate</i> for which the <i>PRA</i> is the <i>coordinator</i>) Part One, Title II, Chapter 2 of the <i>EU CRR</i> and the <i>PRA Rulebook</i>;</p> <p>(in relation to a <i>designated investment firm</i> or an <i>IFPRU investment firm</i> which is a member of a <i>financial conglomerate</i> for which the <i>FCA</i> is the <i>coordinator</i>) Part One, Title II, Chapter 2 of the <i>EU CRR</i> and <i>IFPRU 8.1</i>;</p> <p>(in relation to a <i>BIPRU firm</i> that is a member of a <i>financial conglomerate</i> where there are no <i>credit institutions</i> or <i>investment firms</i> for which the <i>FCA</i> is the <i>coordinator</i>) <i>BIPRU 8</i> and <i>BIPRU TP</i></p>

12 Table:

Part 5	1	This Part 6 is subject to Part 5 of this Annex.
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