

Chapter 14

Chapter 14 Consolidated Supervision for Investment Businesses

14.2 SCOPE OF CONSOLIDATION

- 14.2.1** **R** For the purposes of the rules in this chapter, a *firm's* group means the *firm* and:
- (1) any *UK parent institution* in the group which is a *financial holding company*, a *credit institution*, or an *investment firm*;
 - (2) any *credit institution*, *investment firm* or *financial institution* which is a *subsidiary* either of the *firm* or of the *firm's UK parent institution* as defined in (1); and
 - (3) any *credit institution*, *investment firm* or *financial institution* in which the *firm* or one of the entities in (1) or (2) holds a *participation*.
- 14.2.2** **R** If a group exists under rule 14.2.1, the *firm* must also include in the scope of consolidation any *ancillary services undertaking* and *asset management company* in the group.
- 14.2.3** **G** Rule 14.1.1 states what type of *firm* may be subject to consolidated supervision (trigger firm). Rule 14.2.1 states what type of relationship triggers the existence of a group for consolidated supervision purposes. Rules 14.2.1 and 14.2.2 specify what entities should be included in the scope of consolidated supervision.
- 14.2.4** **G**
- (1) A *firm's parent* is a *financial holding company* if it is either a *financial institution* or a *securities and futures firm* that is subject to the financial rules in Chapter 3 and that is a *broad scope firm* (but not a *venture capital firm*) and if its *subsidiary undertakings* carry out mainly *listed activities*, activities of a *credit institution* or activities undertaken by a Chapter 3 *broad scope firm*. For this purpose the *FCA* interprets the phrases 'mainly' or 'main business' to mean where the balance of business is over 40% of the relevant group or sub-group's balance sheet (measured on the basis of total assets) or profit and loss statement (measured on the basis of gross income). In addition, if the *firm's parent* has significant holdings in *insurance undertakings* or *reinsurance undertakings*, it is a *mixed financial holding company*, and the *firm* is subject to the rules in GENPRU 3.1 instead of the rules in this chapter. This is because a *parent* cannot be a *financial holding company* and a *mixed financial holding company* at the same time. GENPRU 3.1 sets out what constitutes significant insurance holdings (broadly more than 10% of the financial sector activities of the group). A *firm's parent* is a *financial holding company* and not regarded as a *mixed financial holding company* unless:

- (a) the parent has been notified by its *coordinator* that the *group* it heads is a financial conglomerate; and
 - (b) it has not been notified that the *coordinator* and the relevant competent authorities have agreed not to treat the group as a *financial conglomerate* in accordance with regulation 16 of the *financial groups directive regulations*.
- (2) A *firm* with an ultimate non-UK parent may also be subject to the provisions in ■ GENPRU 3.2.
- (3) In the case where undertakings are linked by a *consolidation article 12(1) relationship*, the FCA will determine how consolidation is to be carried out.

Exclusions

14.2.5 **R** A *firm* may, having first notified the FCA in writing, exclude from its group the following:

- (1) any entity the total assets of which are less than the smaller of the following two amounts:
 - (a) 10 million euros; or
 - (b) 1% of the total assets of the group's parent or the undertaking that holds the *participation*;
 provided that the total assets of such entities do not collectively *breach* these limits.
- (2) any entity the inclusion of which within the group would be misleading or inappropriate for the purposes of consolidated supervision.

14.2.6 **G**

- (1) The FCA may require a *firm* to provide information about the position in the group of any undertaking excluded from the consolidation under rule 14.2.5.
- (2) An exclusion under rule 14.2.5(2) would normally be appropriate when an entity would be excluded from the scope of consolidation under the relevant UK generally accepted accounting principles.