

## 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.