Chapter 11

Controllers and close links
11.1 Application

Application to firms

This chapter applies to every firm except:

1. an ICVC;
2. an incoming EEA firm;
3. an incoming Treaty firm;
4. [deleted]
5. a sole trader;
6. a UCITS qualifier;
7. a UK ISPV;

a firm which only has permission for administering a benchmark,
as set out in the table in SUP 11.1.2 R.

Applicable sections (see SUP 11.1.1 R)

<table>
<thead>
<tr>
<th>Category of firm</th>
<th>Applicable sections</th>
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<tbody>
<tr>
<td>(1) A UK domestic firm other than a building society, a non-directive friendly society, a non-directive firm or (in the case of an FCA-authorised person) a firm with only a limited permission</td>
<td>All except SUP 11.3, SUP 11.4.2A R and SUP 11.4.4 R</td>
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</table>
| (1A) A building society | (a) In the case of an exempt change in control (see Note), SUP 11.1, SUP 11.2 and SUP 11.9  
(b) In any other case, all except SUP 11.3 and SUP 11.4.4 R |
| (2) A non-directive friendly society | SUP 11.1, SUP 11.2, and SUP 11.9 |
| (2A) A non-directive firm | All except SUP 11.3, SUP 11.4.2 R, and SUP 11.4.4 R |
| (2B) (In the case of an FCA-authorised person) a firm with only a limited permission | All except SUP 11.3, SUP 11.4.2 R, and SUP 11.4.4 R |
### Category of firm

<table>
<thead>
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<th>Applicable sections</th>
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<td>(3) An overseas firm</td>
<td>All except SUP 11.3, SUP 11.4.2 R, SUP 11.4.2A R, , SUP 11.4.9 G, SUP 11.5.8 G to SUP 11.5.10 G, SUP 11.6.2 R, SUP 11.6.3 R, , SUP 11.7</td>
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**Note**

In row (1A), a change in control is exempt if the controller or proposed controller is exempt from any obligation to notify the appropriate regulator under Part XII of the Act (Control Over Authorised Persons) because of The Financial Services and Markets Act 2000 (Controllers) (Exemption) Order 2009 (SI 2009/774). (See SUP 11.3.2A G).

### Application to controllers

**11.1.4**

- SUP 11.1, SUP 11.2.1 G, SUP 11.3 and SUP 11.7 apply to a controller or a proposed controller of a UK domestic firm not listed in SUP 11.1.1 R (1) to SUP 11.1.1R(8).
11.2 Purpose

11.2.1 Part XII of the Act (Control Over Authorised Persons) places an obligation on the controllers and proposed controllers of those UK domestic firms not listed in SUP 11.1 R (1) to SUP 11.1 R (8) to notify the appropriate regulator of changes in control, including acquiring, increasing or reducing control or ceasing to have control over a firm. Furthermore, those persons are required to obtain the appropriate regulator’s approval before becoming a controller or increasing their control over a firm. SUP 11.3 is intended to assist those persons in complying with their obligations under Part XII of the Act.

11.2.2 The rules in SUP 11.4 to SUP 11.6 are aimed at ensuring that the appropriate regulator receives the information that it needs to fulfil its responsibility to monitor and, in some cases, give prior approval to firms’ controllers.

11.2.3 As the approval of the appropriate regulator is not required under the Act for a new controller of an overseas firm, the notification rules on such firms are less prescriptive than they are for UK domestic firms. Nevertheless, the appropriate regulator still needs to monitor such an overseas firm’s continuing satisfaction of the threshold conditions, which normally includes consideration of a firm’s connection with any person, including its controllers and parent undertakings (see the threshold conditions set out in paragraphs 3B, 4F and 5F of Schedule 6 to the Act). The appropriate regulator therefore needs to be notified of controllers and parent undertakings of overseas firms.

11.2.4 As part of the appropriate regulator’s function of monitoring a firm’s continuing satisfaction of the threshold conditions, the appropriate regulator needs to consider the impact of any significant change in the circumstances of one or more of its controllers, for example, in their financial standing and, in respect of corporate controllers, in their governing bodies. Consequently, the appropriate regulator needs to know if there are any such changes. SUP 11.8 therefore requires a firm to tell the appropriate regulator if it becomes aware of particular matters relating to a controller.

11.2.5 Similarly, the appropriate regulator needs to monitor a firm’s continuing satisfaction of the threshold conditions set out in paragraphs 3B, 4F and 5F of Schedule 6 to the Act (as applicable) (in relation to threshold conditions...
for which the FCA is responsible, see COND 2.3), which requires that a firm’s close links are not likely to prevent the appropriate regulator’s effective supervision of that firm. Accordingly the appropriate regulator needs to be notified of any changes in a firm’s close links. This requirement is contained in SUP 11.9.

11.2.6 Every firm, other than a firm listed in SUP 11.1.1 R (1) to SUP 11.1.1R(8) or a firm excluded from the operation of SUP 16.4 or SUP 16.5 by SUP 16.1.3 R, is required to submit an annual report on its controllers and close links as set out in SUP 16.4 and SUP 16.5.

11.2.7 The requirements in SUP 11 implement certain provisions relating to changes in control and close links required under the Single Market Directives.

11.2.8 An event described in SUP 11.4.2R, SUP 11.4.2A R and SUP 11.4.4R is referred to in this chapter as a “change in control”.
11.3 Requirements on controllers or proposed controllers under the Act

11.3.1 The notification requirements are set out in sections 178, 179, 191D and 191E of the Act and holdings which may be disregarded are set out in section 184 of the Act. A summary of the notification requirements described in this section is given in SUP 11 Annex 1.

11.3.1A For the purposes of Part XII (Control over authorised persons) of the Act, and in particular, calculations relating to the holding of shares and/or voting power, the definitions of “shares” and “voting power” are set out in section 191G of the Act.

11.3.1B SUP 11 Annex 6G provides guidance on when one person’s holding of shares or voting power must be aggregated with that of another person for the purpose of determining whether an acquisition or increase of control will take place as contemplated by section 181 or 182 of the Act such that notice must be given to the appropriate regulator in accordance with section 178 of the Act before making the acquisition or increase. This will be:

(1) where those persons are acting in concert, as contemplated by section 178(2) (Obligation to notify appropriate regulator: acquisitions of control) of the Act; or

(2) in the case of voting power only, if any of the circumstances described in section 422(5) (Controller) of the Act apply.

Requirement to notify a proposed change in control

11.3.2 Sections 178(1) and 191D(1) of the Act require a person (whether or not he is an authorised person) to notify the appropriate regulator in writing if he decides to acquire, increase or reduce control or to cease to have control over a UK domestic firm. Failure to notify is an offence under section 191F of the Act (Offences under this Part).

11.3.2A The Treasury have made the following exemptions from the obligations under section 178 of the Act:

(1) controllers and potential controllers of non-directive friendly societies are exempt from the obligation to notify a change in control (The Financial Services and Markets Act 2000 (Controllers) Exemption) Order 2009 (SI 2009/774));
controllers and potential controllers of building societies are exempt from the obligation to notify a change in control unless the change involves the acquisition of a holding of a specified percentage of a building society’s capital or the increase or reduction by a specified percentage of a holding of a building society’s capital (The Financial Services and Markets Act 2000 (Controllers) (Exemption) Order 2009 (SI 2009/774)). The “capital” of a building society for these purposes consists of:

(a) any shares of a class defined as deferred shares for the purposes of section 119 of the Building Societies Act 1986 which have been issued by the society (in practice, likely to be permanent interest bearing shares (PIBS)); and

(b) the general reserves of that building society:

potential controllers of non-directive firms (other than, in the case of an FCA-authorised person, firms with only a limited permission) (“A”) are exempt from the obligation to notify a change in control unless the change results in the potential controller holding:

(a) 20% or more of the shares in A or in a parent undertaking of A (“P”);

(b) 20% or more of the voting power in A or P; or

(c) shares or voting power in A or P as a result of which the controller is able to exercise significant influence over the management of A;

or where the change in control over A would lead to the controller ceasing to fall into any of the cases (a), (b) or (c) above (The Financial Services and Markets Act 2000 (Controllers) (Exemption) Order 2009 (SI 2009/774)).

(4) (in the case of a change in control over an FCA-authorised person) potential controllers of firms with only a limited permission) (“A”) are exempt from the obligation to notify a change in control, unless the change would result in the potential controller holding:

(a) 33% or more of the shares in A or in a parent undertaking of A (“P”); or

(b) 33% or more of the voting power in A or P; or

(c) shares or voting power in A or P as a result of which the controller is able to exercise significant influence over the management of A;

or where the change in control over A would lead to the controller ceasing to fall into any of the cases (a), (b) or (c) above (The Financial Services and Markets Act 2000 (Controllers) (Exemption) Order 2009 (SI 2009/774)).

Approval required before acquiring or increasing control

If a person decides to acquire control or increase control over a UK domestic firm in a way described in SUP 11.4.2 or acquire control in a way described in SUP 11.4.2AR (1), he must obtain the appropriate regulator’s approval.
before doing so. Making an acquisition before the appropriate regulator has approved of it is an offence under section 191F of the Act (Offences under this Part).

11.3.5  

The appropriate regulator’s approval is not required before a controller reduces control or ceases to have control over a UK domestic firm.

Pre-notification and approval for fund managers

11.3.5A

The appropriate regulator recognises that firms acting as investment managers may have difficulties in complying with the prior notification requirements in sections 178 and 191D of the Act as a result of acquiring or disposing of listed shares in the course of that fund management activity. To ameliorate these difficulties, the appropriate regulator may accept pre-notification of proposed changes in control, made in accordance with SUP D, and may grant approval of such changes for a period lasting up to a year.

11.3.5B

The appropriate regulator may treat as notice given in accordance with sections 178 and 191D of the Act a written notification from a firm which contains the following statements:

(1) that the firm proposes to acquire and/or dispose of control, on one or more occasions, of any UK domestic firm whose shares or those of its ultimate parent undertaking are, at the time of the acquisition or disposal of control, listed, or which are traded or admitted to trading on a MTF or a market operated by a ROIE;

(2) that any such acquisitions and/or disposals of control will occur only in the course of the firm’s business as an investment manager;

(3) that the level of control the firm so acquires in the pre-approval period will at all times remain less than 20%; and

(4) that the firm will not exercise any influence over the UK domestic firm in which the shares are held, other than by exercising its voting rights as a shareholder or by exercising influence intended to promote generally accepted principles of good corporate governance.

11.3.5C

Where the appropriate regulator approves changes in control proposed in a notice given under SUP 11.3.5B D:

(1) the controller remains subject to the requirement to notify the appropriate regulator when a change in control actually occurs; and

(2) the notification of change in control should be made no later than five business days after the end of each month and set out all changes in the controller’s control position for each UK domestic firm for the month in question.

At that stage, the appropriate regulator may seek from the controller further information.
Forms of notifications when acquiring or increasing control

A section 178 notice given to the appropriate regulator by a person who is acquiring control or increasing his control over a UK domestic firm, in a way described in SUP 11.4.2 R (1) to (4), or acquiring control in a way described in SUP 11.4.2A R, must contain the information and be accompanied by such documents as are required by the controllers form approved by the appropriate regulator for the relevant application.

The controllers forms approved by the appropriate regulator may be found at the appropriate regulator’s website www.fca.org.uk/firms/change-control

(1) A person who has submitted a section 178 notice under SUP 11.3.7 D must notify the appropriate regulator immediately if he becomes aware, or has information that reasonably suggests, that he has or may have provided the appropriate regulator with information which was or may have been false, misleading, incomplete or inaccurate, or has or may have changed, in a material particular. The notification must include:

(a) details of the information which is or may be false, misleading, incomplete or inaccurate, or has or may have changed;

(b) an explanation why such information was or may have been provided; and

(c) the correct information.

(2) If the information in (1) (c) cannot be submitted with the section 178 notice (because it is not immediately available), it must instead be submitted as soon as possible afterwards.

(3) The requirement in (1) ceases if the change in control occurs or will not take place.

The appropriate regulator will inform a section 178 notice giver as soon as reasonably practicable if it considers the section 178 notice to be incomplete.
The appropriate regulator has power, under section 179(3) of the Act (Requirements for section 178 notices), to vary or waive these requirements in relation to a section 178 notice in particular cases if it considers it appropriate to do so.

Where a controller or proposed controller which is an authorised person is required to submit less information under SUP 11.3.7 D than other persons, the appropriate regulator may ask for confirmation of details already held by it or any additional information required under SUP 11.5.1R.

Pursuant to section 188 of the Act (Assessment: consultation with EC competent authorities), the appropriate regulator is obliged to consult any appropriate Home State regulator before making a determination under section 185 of the Act (Assessment: general).

Notification when reducing control

A notice given to the appropriate regulator by a person who is reducing or ceasing to have control over a UK domestic firm, as set out in SUP 11.4.2R or SUP 11.4.2A R must:

1. be in writing; and
2. provide details of the extent of control (if any) which the controller will have following the change in control.

Joint notifications

Notifications to the appropriate regulator by proposed controllers and controllers under Part XII of the Act may be made on a joint basis outlined in SUP 11.5.8 G to SUP 11.5.10 G.
11.4 Requirements on firms

11.4.1 [deleted]

11.4.2 [red] A UK domestic firm, other than a non-directive firm, must notify the appropriate regulator of any of the following events concerning the firm:

1. a person acquiring control;
2. an existing controller increasing control;
3. an existing controller reducing control;
4. an existing controller ceasing to have control.

11.4.2A [red] A non-directive firm (including, in the case of an FCA-authorised person, a firm with only a limited permission) must notify the appropriate regulator of any of the following events concerning the firm:

1. a person becoming controller of the firm; or
2. an existing controller ceasing to be controller of the firm.

11.4.3 [deleted]

11.4.4 [red] An overseas firm must notify the appropriate regulator if a person becomes a controller of the firm, increases or reduces control over the firm or ceases to have control over the firm.

11.4.5 [deleted]

Content and timing of the notification

11.4.7 [red] The notification by a firm under SUP 11.4.2, SUP 11.4.2A or SUP 11.4.4 must:

1. be in writing;
2. contain the information set out in:
(a) in the case of acquiring or increasing control, SUP 11.5.1 R (subject to SUP 11.5); or
(b) in the case of reducing control, SUP 11.5.7 R; and

(3) be made:
(a) as soon as the firm becomes aware that a person, whether alone or acting in concert, has decided to acquire control or to increase or reduce control; or
(b) if the change in control takes place without the knowledge of the firm, within 14 days of the firm becoming aware of the change in control concerned.

11.4.8 Principle 11 requires firms to be open and cooperative with the appropriate regulator. A firm should discuss with the appropriate regulator, at the earliest opportunity, any prospective changes of which it is aware, in a controller’s or proposed controller’s shareholdings or voting power (if the change is material). These discussions may take place before the formal notification requirement in SUP 11.4.2 R or SUP 11.4.4 R arises. (See also SUP 11.3.2 G). As a minimum, the appropriate regulator considers that such discussions should take place before a person:

(1) enters into any formal agreement in respect of the purchase of shares or a proposed acquisition or merger which would result in a change in control (whether or not the agreement is conditional upon any matter, including the appropriate regulator’s approval); or

(2) purchases any share options, warrants or other financial instruments, the exercise of which would result in the person acquiring control or any other change in control.

11.4.9 The obligations in SUP 11.4.2 R and SUP 11.4.2A R apply whether or not the controller himself has given or intends to give a notification, in accordance with his obligations under the Act.

Identity of controllers

11.4.10 A firm must take reasonable steps to keep itself informed about the identity of its controllers.

11.4.11 The steps that the appropriate regulator expects a firm to take to comply with SUP 11.4.10 R include, if applicable:

(1) monitoring its register of shareholders (or equivalent);

(2) monitoring notifications to the firm in accordance with Part 22 of the Companies Act 2006;

(3) monitoring public announcements made under the relevant disclosure provisions of the Takeover Code or other rules made by the Takeover Panel;
(4) monitoring the entitlement of delegates, or persons with voting rights in respect of group insurance contracts, to exercise or control voting power at general meetings.
11.5 Notifications by firms

11.5.1 Information to be submitted by the firm (see SUP 11.4.7 R (2)(a))

(1) The name of the firm;

(2) the name of the controller or proposed controller and, if it is a body corporate and is not an authorised person, the names of its directors and its controllers;

(3) a description of the proposed event including the shareholding and voting power of the person concerned, both before and after the change in control; and

(4) any other information of which the appropriate regulator would reasonably expect notice.

11.5.2 The notification from a firm under SUP 11.4.7 R (2)(a) need only contain as much of the information set out in SUP 11.5.1 R as the firm is able to provide, having made reasonable enquiries from persons and other sources as appropriate.

11.5.3 [deleted]

11.5.4 Firms are reminded that a change in control may give rise to a change in the group companies to which the appropriate regulator’s consolidated financial supervision requirements apply. Also, the firm may for the first time become subject to the appropriate regulator’s requirements on consolidated financial supervision (or equivalent requirements imposed by another EEA State). This may apply, for example, if the controller is itself an authorised undertaking. The appropriate regulator may therefore request such a firm, controller or proposed controller to provide evidence that, following the change in control, the firm will meet the requirements of these rules, if appropriate.

11.5.4A Firms are also reminded that a change in control may give rise to a notification as a financial conglomerate or a change in the supplementary supervision of a financial conglomerate (see GENPRU 3.1(Cross sector groups) and GENPRU 3.2(Third country groups)).

11.5.5 [deleted]

11.5.6 [deleted]
Form of notification when a person reduces control

11.5.7 **R** A notification of a proposed reduction in control must:

1. give the name of the controller; and
2. provide details of the extent of control (if any) which the controller will have following the change in control.

Joint notifications

11.5.8 **G** A firm and its controller or proposed controller may discharge an obligation to notify the appropriate regulator by submitting a single joint section 178 notice containing the information required from the firm and the controller or proposed controller. In this case, the section 178 notice may be used on behalf of both the firm and the controller or proposed controller.

11.5.9 **G** If a person is proposing a change in control over more than one firm within a group, then the controller or proposed controller may submit a single section 178 notice to the PRA in respect of all those firms which are PRA-authorised persons and a single section 178 notice to the FCA in respect of all those firms which are not PRA-authorised persons. The section 178 notice should contain all the required information as if separate notifications had been made, but information and documentation need not be duplicated within the set of information sent to each regulator.

11.5.10 **G** When an event occurs (for example, a group restructuring or a merger) as a result of which:

1. more than one firm in a group would undergo a change in control; or
2. a single firm would experience more than one change in control;

then, to avoid duplication of documentation, all the firms and their controllers or proposed controllers may discharge their respective obligations to notify the appropriate regulator by submitting a single section 178 notice to the PRA containing one set of information in relation to all the firms which are PRA-authorised persons and a single section 178 notice to the FCA containing one set of information in relation to all the firms which are not PRA-authorised persons.
11.6 Subsequent notification requirements by firms

Changes in the information provided to the appropriate regulator

11.6.1 G  Firms are reminded that SUP 15.6.4 R requires them to notify the appropriate regulator if information notified under SUP 11.4.2 R, SUP 11.4.2A R or SUP 11.4.4 R was false, misleading, inaccurate, incomplete, or changes, in a material particular. This would include a firm becoming aware of information that it would have been required to provide under SUP 11.5.1 R if it had been aware of it.

11.6.2 R  After submitting a section 178 notice under SUP 11.4.2 R or SUP 11.4.2A R and until the change in control occurs (or is no longer to take place), SUP 15.6.4 R and SUP 15.6.5 R apply to a UK domestic firm in relation to any information its controller or proposed controller provided to the appropriate regulator under SUP 11.5.1 R or SUP 11.3.7 D.

11.6.3 R  During the period in SUP 11.6.2 R, a UK domestic firm must take reasonable steps to keep itself informed about the circumstances of the controller or the proposed controller to which the notification related.

Notification that the change in control has taken place

11.6.4 R  A firm must notify the appropriate regulator:

(1) when a change in control which was previously notified under SUP 11.4.2 R, SUP 11.4.2A R or SUP 11.4.4 R has taken place; or

(2) if the firm has grounds for reasonably believing that the event will not now take place.

11.6.5 R  The notification under SUP 11.6.4 R must be given within 14 days of the change in control or of having the grounds (as applicable).

11.6.6 G  [deleted]
11.7 Acquisition or increase of control: assessment process and criteria

11.7.1 The assessment process and the assessment criteria are set out in sections 185 to 191 of the Act.

11.7.2 Section 191A deals with the procedure the appropriate regulator must follow where the appropriate regulator reasonably believes that:

(1) there has been a failure to give notice under section 178(1) of the Act in circumstances where notice was required;

(2) there has been a breach of a condition imposed under section 187 of the Act; or

(3) there are grounds for objecting to control on the basis of the matters in section 186 of the Act.

11.7.3 The appropriate regulator may serve restriction notices in certain circumstances in accordance with section 191B of the Act.

11.7.4 The appropriate regulator may apply to the court for an order for the sale of shares in accordance with section 191C of the Act.

11.7.5 [deleted]

11.7.6 [deleted]

11.7.7 [deleted]

11.7.8 [deleted]

11.7.9 [deleted]

11.7.10 [deleted]

11.7.11 [deleted]
11.7.12 | [deleted]

11.7.13 | Before making a determination under section 185 or giving a warning notice under section 191A, the appropriate regulator must comply with the requirements as to consultation with EC competent authorities set out in section 188 of the Act and with the other regulator set out in sections 187A, 187B and 191A of the Act, as applicable.

11.7.14 | [deleted]

11.7.15 | [deleted]

11.7.16 | [deleted]

11.7.17 | [deleted]

11.7.18 | [deleted]
11.8 Changes in the circumstances of existing controllers

11.8.1 A firm must notify the appropriate regulator immediately it becomes aware of any of the following matters in respect of one or more of its controllers:

(1) if a controller, or any entity subject to his control, is or has been the subject of any legal action or investigation which might put into question the integrity of the controller;

(2) if there is a significant deterioration in the financial position of a controller;

(3) if a corporate controller undergoes a substantial change or series of changes in its governing body;

(4) if a controller, who is authorised in another EEA State as a MiFID investment firm, CRD credit institution or UCITS management company or under the Solvency II Directive or the IDD, ceases to be so authorised (registered in the case of an IDD insurance intermediary).

In assessing whether a matter should be notified to the appropriate regulator under 11.8.1 R (1), 11.8.1 R (2) or 11.8.1 R (3), a firm should have regard to the guidance on satisfying the threshold conditions set out in paragraphs 2E and 3D of Schedule 6 to the Act contained in COND 2.5.

In respect of 11.8.1 R (3), the appropriate regulator considers that, in particular, the removal or replacement of a majority of the members of a governing body (in a single event or a series of connected events) is a substantial change and should be notified.

If a matter has already been notified to the appropriate regulator (for example, as part of the firm’s application for a Part 4A permission), the firm need only inform the appropriate regulator of any significant developments.

The level of a firm’s awareness of its controller’s circumstances will depend on its relationship with that controller. The appropriate regulator does not expect firms to implement systems or procedures so as to be certain of any changes in its controllers’ circumstances. However, the appropriate regulator does expect firms to notify it of such matters if the firm becomes aware of them, and it expects firms to make enquiries of its controllers if it becomes aware that one of the events in 11.8.1 R may occur or has occurred.
The appropriate regulator may ask the firm for additional information following a notification under SUP 11.8.1 R in order to satisfy itself that the controller continues to be suitable (see SUP 2: Information gathering by the FCA or PRA on its own initiative).
11.9 Changes in close links

Requirement to notify changes in close links

11.9.1 R

(1) [deleted]

(2) [deleted]

11.9.1A R

(1) A firm must notify the FCA that it has become or ceased to be closely linked with any person and ensure the following:

(a) where a firm has elected to report changes in close links on a monthly basis under SUP 11.9.5A R, the notification must be made in line with SUP 11.9.3BA R; and

(b) in any other case, the notification must be made by completing the Close Links Notification Form (see SUP 11.9.3B G) and must include the information in SUP 11.9.3D G.

(2) If a group includes more than one firm, a single close links notification may be made by completing the Close Links Notification Form or the Close Links Monthly Report (as applicable) and so satisfy the notification requirement for all firms in the group. Nevertheless, the requirement to notify, and the responsibility for notifying, remains with each firm in the group.

11.9.1B R

11.9.2 G

Guidance on what constitutes a close link is provided in COND 2.3.

11.9.2A G

A firm may elect not to include the following close links in the notification submitted under SUP 11.9.1A R, SUP 11.9.1B R, SUP 11.9.5A R, SUP 11.9.5B R or SUP 16.5:

(1) shares held in its capacity as custodian provided it can only exercise any voting rights attached to such shares under instructions given in writing or by electronic means;

(2) shares held in its capacity as collateral taker under a collateral transaction which involves the outright transfer of securities provided it does not declare any intention of exercising (and does not exercise) the voting rights attaching to such shares.
11.9.3 [deleted]

11.9.3-A [deleted]

11.9.3-B

Form of notification and method of submission

11.9.3A [deleted]

11.9.3B The Close Links Notification Form approved by the FCA for notifications under ■ SUP 11.9.1A R, ■ SUP 11.9.5A R may be found at the FCA website. The Close Links Notification Form approved by the FCA for notifications under ■ SUP 11.9.1AR (1)(b) may be found at the FCA website.

11.9.3BA The notification under ■ SUP 11.9.1AR (1)(a) must be made electronically by completing the Close Links Monthly Report and submitting it through the relevant platform provided by the FCA.

11.9.3BB The Close Links Monthly Report must contain the information specified in ■ SUP 16 Annex 35AR.

11.9.3C [deleted]

11.9.3CA [R]

11.9.3CB [R]

11.9.3D (1) The notification in ■ SUP 11.9.1AR (1)(b) and ■ SUP 11.9.1BR (1)(b) should contain a list of all persons with whom the firm is aware that it has close links, at the time the notification is made, and, for each such person, state:
   (a) its name;
   (b) the nature of the close links;
   (c) if the close links are with a body corporate, its country of incorporation, address and registered number; and
   (d) if the close links are with an individual, their date and place of birth.

(2) The firm must also submit a group organisation chart.
Timing of notification requirement

11.9.4 [R] [deleted]

11.9.4A [R] The firm must make a notification to the FCA under SUP 11.9.1A R:

(1) as soon as reasonably practicable and no later than one month after it becomes aware that it has become or ceased to be closely linked with any person; or

(2) where a firm has elected to report on a monthly basis, within fifteen business days of the end of each month by completing the Close Links Monthly Report for that month and must submit the group organisation chart on a quarterly basis unless there have been no changes since the submission of the previous organisation chart to the FCA, in which case the group organisation chart is not required.

11.9.4B [R]

Electing to notify changes in close links monthly

11.9.5 [R] (1) [deleted]

(2) [deleted]

11.9.5A [R] (1) A firm elects to report changes in close links on a monthly basis by sending a written notice of election to the firm's usual supervisory contact at the FCA.

(2) An election to report changes in close links on a monthly basis will stand until such time as the firm gives its usual supervisory contact at the FCA at least one month's written notice of its intention to cease reporting changes in close links on a monthly basis.

11.9.5B [R]

11.9.6 [G] [deleted]

11.9.6A [G] The FCA considers that monthly reporting of changes in close links will ordinarily only be appropriate for firms forming part of large groups.
Summary of notification requirements
[deleted]
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Aggregation of holdings for the purpose of prudential assessment of controllers

Q1: What is this guidance about?

A: This guidance considers when one person’s holding of shares or voting power must be aggregated with that of another person for the purpose of determining whether those persons have decided to acquire or increase control over a UK authorised person, as contemplated by section 181 or 182 of the Act, such that notice must be given to the FCA in accordance with section 178 (Obligation to notify the Authority: acquisitions of control) of the Act before making the acquisition or deciding to increase their control.

Q2: When are shares or voting power to be aggregated?

A: There are two situations which would require the holdings of two or more persons to be aggregated for the purpose of determining whether they are acquiring or increasing control within the meaning of section 181 or 182 of the Act. The first is where shares or voting power are held or to be held by persons ‘acting in concert’ - this is referred to in sections 178(2) and 422(3) of the Act. The second is where a person (H) is attributed with voting power in a firm through the application of any of the circumstances described in section 422(5)(a) of the Act (deemed voting power) in addition to any other voting power that he holds (or is deemed to hold) in that firm. These two situations may apply concurrently. For example, H could be acting in concert pursuant to section 178(2) of the Act and have deemed voting power under section 422(5)(a)(i) of the Act where H has concluded an agreement that obliges him and a third party shareholder in the firm to adopt, by concerted exercise of the voting power they hold, a lasting common policy towards the management of that firm.

Acting in Concert

Q3: What does ‘acting in concert’ mean for these purposes?

A: There is no definition of this phrase in the Act. The Glossary to the Guidelines for the prudential assessment of acquisitions and increases in holdings in the financial sector required by Directive 2007/44/EC (the ‘Acquisitions Directive’) published jointly by CEBS, CEIOPS and CESR (the ‘Level 3 Guidelines’) states that, for the purposes of the Acquisitions Directive, ‘persons are “acting in concert” when each of them decides to exercise his rights linked to the shares he acquires in accordance with an explicit or implicit agreement made between them.’ The relevant persons must therefore (1) hold shares and/or voting power in the firm or its parent undertaking, and (2) reach a decision to exercise the rights linked to those shares in accordance with an agreement (in writing or otherwise) between them.

While the rights ‘linked to’ shares for these purposes are most likely to be voting rights, persons may be ‘acting in concert’ where they decide to exercise other rights related to shares, either in addition to or instead of rights attached to voting power, in accordance with an agreement made between them. As indicated in the Level 3 Guidelines, persons will begin acting in concert when they take the decision to exercise their rights in accordance with an agreement between them. This decision may be taken before or after the time the relevant persons decide to purchase shares in the firm. The agreement need not require them always to exercise the rights attached to their respective shares in the same way - see, for example, the response to Question 11 in respect of passive shareholdings.

Q4: Does section 178(2) of the Act have the effect that two or more persons who already hold shares or voting power in a firm or its parent undertaking and who subsequently decide to exercise the
rights related to shares or voting power in accordance with an agreement between them are required
to give prior notice under section 178(1) of the Act, if their aggregated holdings fall within any of the
cases set out in section 181(2) of the Act or increase by any of the steps set out in section 182(2) of
the Act?

A: Yes. Section 178(1) of the Act applies when a person 'decides to acquire or increase control over a
UK authorised person...'. For the purposes of Part XII of the Act, a person's acquisition of control of a
firm is determined by virtue of his holdings of shares or voting power in that firm or in a parent
undertaking of that firm. In determining whether control has been acquired, section 178(2) of the Act
requires the holdings of shares or voting power of persons who are acting in concert to be
aggregated. As noted in the response to Question 3, persons begin acting in concert when they decide
to exercise the rights attached to their shares or voting power in accordance with an agreement
between them. Once this decision has been taken, shares or voting rights must be aggregated to
determine whether control has been or will be acquired. The same analysis applies to increases in
control and reductions in control, as set out in sections 182 and 183 of the Act, respectively.
Accordingly, the requirement to aggregate holdings of shares and/or voting power under section
178(2) of the Act may apply to existing holdings, as well as to new purchases, of shares and/or voting
power.

Q5: What types of arrangement amount to acting in concert in acquiring or holding shares or voting
power for the purposes of these Sections of the Act?

A: Although the term 'acting in concert' has a potentially wide meaning, not all common actions taken
by shareholders in relation to shares or voting power will require the aggregation of holdings of
shares or voting power for the purposes of section 178 of the Act. In particular, there are many
circumstances in which persons, who between them hold 10% or more of the shares or voting power
in a firm or its parent undertaking, may engage in a concerted exercise of voting power, without
this amounting to 'acting in concert' in a manner requiring aggregation of their holdings under section
178(2) of the Act. An agreement by one shareholder to vote with other shareholders on a specific
issue, for example, rather than on an ongoing or sustained basis, would not generally be regarded by
the FCA as acting in concert so as to require a section 178 notice to be given by that group of
shareholders, even where the group collectively holds 10% or more of the voting power in the firm.
However, see further on this point in the response to Question 9.

Deemed voting power

Q6: What is meant by 'deemed voting power'?

A: Deemed voting power is the term used in this guidance to describe those cases set out in section
422(5)(a) of the Act in which one person's holding of voting power is attributed to another. There may
be circumstances in which deemed voting power must be aggregated with other voting power for the
purposes of determining whether section 181(2)(b) of the Act applies, but the cases set out in section
422(5)(a) may result in the attribution of voting power to a person (H) without aggregation where H
holds no other voting power in the relevant firm and is not acting in concert with any other person
(for example, where H exercises the voting power attaching to shares deposited with him pursuant to
a discretion granted to him in the absence of (1) specific instructions from the actual shareholders, and
(2) any agreement with the shareholders as to how he should exercise that voting power or any other
rights attached to those shares - see section 422(5)(a)(vi) of the Act).

The provisions of section 422(5)(a) of the Act were transposed into the Act in order to implement
Directive 2004/109/EC (the Transparency Directive). These provisions have direct application to Part XII
of the Act, and in particular to the meaning of voting power for the purposes of that Part, by virtue of
section 191G (Interpretation) of the Act.

In introducing the cases in which the voting power of a third party may be attributed to H, the
Transparency Directive refers to the ability 'to acquire, to dispose of, or to exercise voting rights in any
of the [relevant] cases or a combination of them.' No new purchase of shares is therefore required in
order for these attribution provisions to apply.
Q7: Where X holds 10% of the voting power in a firm and X is a controlled undertaking of H, which itself has no holding at all directly in the firm, is H a controller?

A: Yes. This follows from section 422(5)(a)(v) of the Act, which provides that voting power includes, in relation to a person (H), voting power held by a controlled undertaking of H. The voting power held by X is attributed to H, making H a controller.

For the purposes of section 178 of the Act, both H and X would be required to notify and obtain the FCA’s approval prior to acquiring or increasing control.

Q7A: Where X holds 10% of the voting power in a firm and X is a controlled undertaking of H, which in turn is a controlled undertaking of A, is A a controller? In this example, A itself has no holding at all directly in the firm.

A: Yes. The voting power held by X is attributed to H, in turn attributed to A, meaning that X, H and A would all be controllers.

Practical application of aggregation of holdings

Q8: Does there need to be a new purchase of shares or voting rights in order for the notification requirement to arise?

A: No. As stated in the response to Question 4, the aggregation of shares and/or voting power is relevant to existing holdings of shares and/or voting power where no new purchase is to take place, as well as to new purchases.

Q9: Do the aggregation provisions apply to shareholders agreeing how they will vote on a particular issue, for example, for reasons of good corporate governance?

A: We would not generally regard shareholders as acting in concert for the purposes of section 178(2) of the Act or as having deemed voting power requiring aggregation pursuant to section 422(5)(a)(i) of the Act simply because they have agreed to vote together on a particular issue, for example:

- rejection of a proposal for the remuneration of directors;
- appointment/removal of a particular director; or
- approval/rejection of an acquisition or disposal proposed by the firm’s board of directors.

However, there may be circumstances in which voting together on a specific issue would amount to acting in concert for these purposes. Where, for example, shareholders who have no previous agreement in relation to the exercise of the rights attached to their shares or voting power agree to act together for the purpose of voting through the resolution(s) required to enable them to obtain control of the board of a firm, that is likely to constitute acting in concert for these purposes, although it may not fall within section 422(5)(a)(i) of the Act, if those shareholders have no ‘lasting common policy’ towards the firm’s management.

Those circumstances are likely to be exceptional and, while it is not possible in this guidance to give a definitive list of how they might arise, the FCA remains willing to provide firms with individual guidance on the point in cases of uncertainty.

Q10: What about agreements that specific issues will be put to a vote of shareholders?

A: An agreement that does no more than require particular management actions to be put to a vote of shareholders, such as major acquisitions, disposals or new issues of shares, would not of itself trigger the requirement to notify. This is because there is no agreement as to how the shareholders will exercise their rights on, or whether the shareholders will adopt a common policy towards, those proposals. An agreement which gives certain shareholders veto rights over key decisions by the firm may, however, bring those shareholders within the ambit of section 178(1) of the Act regardless of whether they are acting in concert, by virtue of their being able to exercise significant influence over the management of the firm - see section 181(2)(c) of the Act.
Q11: What about agreements as to how to exercise voting power on future issues generally?

A: This would involve acting in concert, and thus require the aggregation of holdings by the parties to the agreement, for the purposes of section 178 of the Act. It may also fall within the ambit of section 422(5)(a)(i) of the Act, but this will depend on whether the parties to the agreement have adopted a lasting common policy that relates to the management of the relevant undertaking.

Acting in concert not only covers agreements to exercise voting power, but may also arise as a result of ‘passive shareholder agreements’. In these, a shareholder (the ‘passive shareholder’) agrees explicitly or implicitly with another shareholder or group of shareholders (the ‘active shareholder’) that it will not exercise its voting power. For example, where the passive shareholder holds 2% of the voting power and the active shareholder holds 9% of the voting power, each would be regarded as having control (11% of the voting power) because their holdings are required to be aggregated under the acting in concert provisions. However, persons that acquire shares as part of an investment or hedging programme and adhere consistently to a stated policy of not voting those shares would not, by reason of that policy alone, be regarded as having entered into an agreement with other shareholders and so would not be regarded as acting in concert with them.

Q12: Are multiple purchasers of shares, who are each party to a share purchase agreement and whose combined shareholding will fall within section 181(2) of the Act, required to give notice pursuant to section 178(1) of the Act, on the basis that the existence of the agreement means they are acting in concert?

A: If it is clear that the only ‘agreement’ between one or more persons consists in their being parties to the same share purchase agreement, the terms of which pertain strictly to the purchase of shares and do not govern or otherwise seek to regulate the purchasers’ relationship with each other following completion of the share purchase, those purchasers would not be regarded by the FCA as acting in concert for the purpose of requiring notification under section 178 of the Act. If, however, the share purchase agreement contains provisions governing or otherwise regulating the exercise of the rights linked to the shares to be acquired by the purchasers (or the purchasers have entered into or propose to enter into a shareholders’ or other agreement with similar effect), the proposed acquirers may be regarded by the FCA to be acting in concert for the purpose of requiring notification under section 178 of the Act, depending on the terms of the relevant agreement(s). Further guidance on the effect of some of the typical provisions included in shareholders’ agreements is contained in the response to Question 14. Prospective shareholders who are uncertain as to the effect of any of the provisions of their agreement(s) in these circumstances may wish to seek (either formally or informally) individual guidance at an early stage from the FCA.

Where there is evidence to suggest that the parties do in fact intend to co-operate in relation to the exercise of voting or other rights relating to the shares they are acquiring, notwithstanding that no provisions to that effect appear in the share purchase or other written agreement, this may warrant the conclusion that there is an implicit agreement between them by virtue of which they are acting in concert.

Q13: What about agreements that are conditional on any necessary approval by the appropriate regulator?

A: Notice must be given under section 178(1) of the Act before control is acquired. The point in time at which this occurs may depend on a number of circumstances. In the context of a share purchase agreement that provides for FCA approval of the purchaser to be obtained before the acquisition is completed, the purchaser will not usually be required to give a section 178 notice prior to entering into the agreement. However, there may be circumstances in which control is actually acquired at the time the agreement is entered into, for example, where the parties have agreed that the purchaser will be entitled (whether by virtue of a power of attorney contained in the agreement or otherwise) to exercise the voting rights attached to the shares being acquired in the period between signing and completion. In that case, the purchaser will need to consider whether to give notice under section 178(1) prior to entering into the agreement.

Q14: What about pre-emption rights, ‘drag along’ rights and ‘tag along’ rights?
A: Typical examples of these arrangements are unlikely to trigger the requirement to notify under section 178(1) of the Act in themselves.

Bare pre-emption rights will simply indicate each shareholder’s (the ‘offeror’) agreement to give fellow shareholders an option to purchase his shares, if he wishes to sell. The acquisition of shares under these arrangements cannot take place until the offeror decides to sell his shares and other shareholders decide to buy them.

Shareholders will not usually be regarded as acting in concert in holding or acquiring shares simply by agreeing to give each other future pre-emption rights. In the event that some shareholders enter into an agreement to buy the offeror’s shares, those shareholders are only likely to be regarded as acting in concert by virtue of that agreement in the circumstances described in the response to Question 12 above.

The existence of ‘drag along’ and ‘tag along’ rights in a shareholders’ agreement designed to ensure equivalent treatment of shareholders of the same class in the event an offer is made, or to be made, by a non-shareholder to purchase the shares of any single shareholder in a private company would not, in and of themselves, result in the shareholders who have the benefit of those rights being considered to be acting in concert in their holding or acquiring of shares.

Q15: How does this guidance relate to the definition of ‘acting in concert’ in the Takeover Code (the ‘Code’)?

A: Although similar terminology may be used, the definition of ‘acting in concert’ in the Code derives from the Takeovers Directive and has particular relevance in determining whether the relationship between persons with interests in shares carrying voting rights is such as to require those rights to be aggregated for the purpose of assessing whether, under Rule 9.1, the threshold for the making of a mandatory offer to all other shareholders in a company to which the Code applies has been reached. The notes on the definition in the Code and on Rule 9.1 make clear that the Takeover Panel’s views in relation to acting in concert ‘...relate only to the Code and should not be taken as guidance on any other statutory or regulatory provisions’.

This guidance is given for a quite different purpose. It is relevant to considering whether the holdings of persons who have reached an agreement in relation to the shares or voting power they do or will hold must be aggregated for the purpose of determining whether they are subject to the requirements for prudential assessment specified in sections 185 et seq of the Act. This guidance has no relevance to how ‘acting in concert’ is to be interpreted in the context of the Code.