

## Are you subject to Consolidated Supervision?

### Introduction

An FSA firm broadly is subject to consolidated supervision if it is in a group that contains more than one regulated financial firm and/or a Holding Company.

Specifically this will mean that you are covered by BIPRU (Prudential sourcebook for Banks, Building Societies and Investment Firms) section 8 if you are

### Finding out if you are consolidated

#### **(1) a BIPRU firm that is a member of a UK consolidation group**

See Annex 1.

#### **(2) a BIPRU firm that is a member of a non-EEA sub-group**

See Annex 2

#### **(3) an ELMI\* that is a member of a UK consolidation group or non-EEA sub-group if that group includes a BIPRU firm**

See Annex 1.

\* an e-money firm which is not a bank, building society, incoming Treaty firm or incoming EEA firm.

#### **(4) a firm that is not a BIPRU firm and is a parent financial holding company in a Member State in a UK consolidation group**

See Annex 1

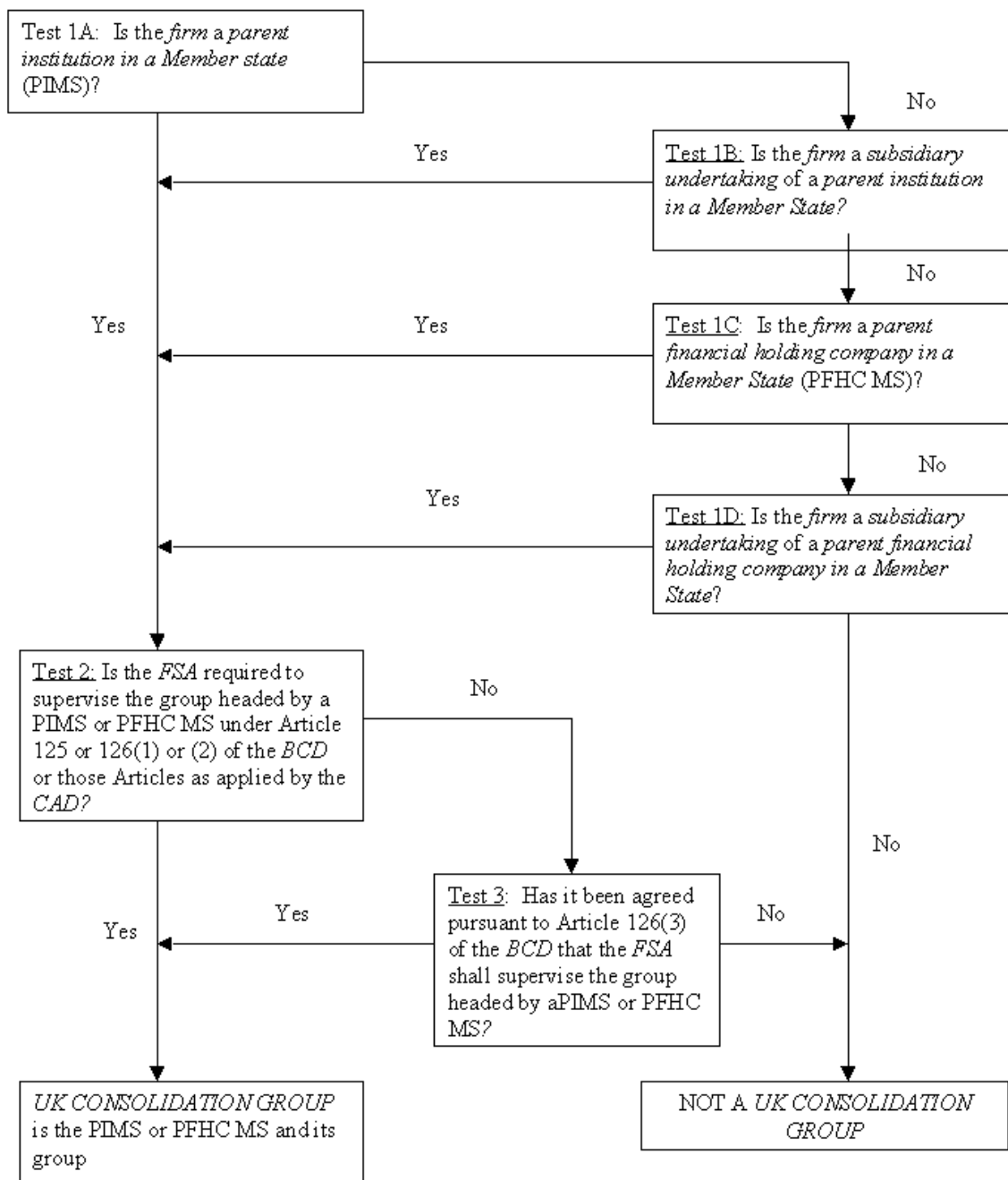
## What happens if you are consolidated?

Being inside a consolidated group has an impact on a firm's capital and capital requirement calculations as well as their reporting requirements.

- Firms must deduct illiquid assets in their capital calculations.
- Firms will need to apply the highest capital requirement category to all the firms in the group, so if a group contains a Full Scope Firm and a Limited Licence firm then the consolidated calculations will be done on the basis of the Full Scope rules.
- The capital requirement will be calculated either by adding together all the individual calculations made by the firms or by treating the whole group as one undertaking (FSA require notification regarding which approach is being used).
- The rules regarding the calculation of the risk components (Market, Credit, Fixed Overhead Requirement/Operational Risk) is slightly altered by BIPRU 8. One of the beneficial elements of this is that intra-group exposures and some intra group transactions do not need to be included as Credit Risks.
- A consolidated group will be required to report on a consolidated basis with additional forms and altered deadlines in some cases.
- Under BIPRU 8.4 a firm may have a waiver from consolidation if it can meet the specific requirements laid out there. This may be beneficial in lowering costs in certain types of group where being consolidated would offer little or no benefit and unreasonably inflate the firms capital adequacy. However the firms will need to deduct both illiquid assets and material holdings from their capital.

The above list is not exhaustive and represents some of the main impacts on firms subject to consolidated supervision.

Annex 1 (see definitions below the table for assistance)



Source - FSA

- Compliance
- Internal Audit
- Risk Management
- Corporate Governance

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## Definitions for the Table above

### **Parent Institution in a member state (PIMS)**

An institution which has an institution or a financial institution as a subsidiary undertaking or which holds a participation in such an institution, and which is not itself a subsidiary undertaking of another institution authorised in the same EEA State, or of a financial holding company set up in the same EEA State.

### **Parent financial holding company in a Member State**

A financial holding company which is not itself a subsidiary undertaking of an institution authorised in the same EEA State, or of a financial holding company set up in the same EEA State.

### **Article 125 BCD (Banking Consolidation Directive)**

1.	Where a parent undertaking is a parent credit institution in a Member State or an EU parent credit institution, supervision on a consolidated basis shall be exercised by the competent authorities that authorised it under Article 6.
2.	Where the parent of a credit institution is a parent financial holding company in a Member State or an EU parent financial holding company, supervision on a consolidated basis shall be exercised by the competent authorities that authorised that credit institution under Article 6.

### **Article 126 BCD (Banking Consolidation Directive)**

1.	Where credit institutions authorised in two or more Member States have as their parent the same parent financial holding company in a Member State or the same EU parent financial holding company, supervision on a consolidated basis shall be exercised by the competent authorities of the credit institution authorised in the Member State in which the financial holding company was set up.
	Where the parents of credit institutions authorised in two or more Member States comprise more than one financial holding company with head offices in different Member States and there is a credit institution in each of these States, supervision on a consolidated basis shall be exercised by the competent authority of the credit institution with the largest balance sheet total.
2.	Where more than one credit institution authorised in the Community has as its parent the same financial holding company and none of these credit institutions has been authorised in the Member State in which the financial holding company was set up, supervision on a consolidated basis shall be exercised by the competent authority that authorised the credit institution with the largest balance sheet total, which shall be considered, for the purposes of this Directive, as the credit institution controlled by an EU parent financial holding company.
3.	In particular cases, the competent authorities may by common agreement waive the criteria referred to in paragraphs 1 and 2 if their application would be inappropriate, taking into account the credit institutions and the relative importance of their activities in different countries, and appoint a different competent authority to exercise supervision on a consolidated basis. In these cases, before taking their decision, the competent authorities shall give the EU parent credit institution, or EU parent financial holding company, or credit institution with the largest balance sheet total, as appropriate, an opportunity to state its opinion on that decision.
4.	[Omitted]
Note	The Capital Adequacy Directive says that generally references in Articles 125 and 126 of the Banking Consolidation Directive to credit institution should be read as including ones to CAD investment firms. Also, the Banking Consolidation Directive and the Capital Adequacy Directive apply to the EEA. Therefore for the purposes of BIPRU 8 Articles 125 and 126 of the Banking Consolidation Directive should be read with the following adjustments:
(1)	a reference to a credit institution should be read as being one to a credit institution or CAD investment firm;
(2)	a reference to a parent credit institution in a Member State should be read as being one to a parent institution in a Member State;

	(3)	a reference to a EU parent credit institution should be read as being one to an EEA parent institution;
	(4)	a reference to a EU parent financial holding company should be read as being one to an EEA parent financial holding company;
	(5)	a reference to a Member State should be read as being one to an EEA State;
	(6)	a reference to a credit institution authorised in the Community should be read as being to a credit institution or CAD investment firm authorised in an EEA State.
	Parent financial holding company in a Member State and financial holding company have the same meaning as they do in the Glossary.	

## Annex 2

A firm will not be a member of a non-EEA sub-group unless it is also a member of a UK consolidation group.

### Step 1

The first step is to identify each undertaking in the firm's UK consolidation group that satisfies the following conditions:

- (1) it is an institution, financial institution or asset management company whose head office is outside the EEA (a third country banking or investment services undertaking);
- (2) one of the following applies:
  - (a) it is a subsidiary undertaking of a BIPRU firm in that UK consolidation group\*; or
  - (b) a BIPRU firm in that UK consolidation group holds a participation in it\*\*; and
  - (a and b above denote a potential non-EEA sub-group see below for more details)
- (3) that BIPRU firm is not a parent institution in a Member State.\*\*\*

\* If more than one BIPRU firm is a direct or indirect parent undertaking in accordance with (2)(a) above then the sub-groups of each of them are all potential non-EEA sub-groups. This is illustrated in example three in BIPRU 8 Annex 3 G (Examples of how to identify a non-EEA sub-group), where the sub-group of UK bank 1 and the sub-group of UK bank 2 are potential non-EEA sub-groups. (see Annex 3)

\*\* Similarly if there is more than one BIPRU firm that holds a participation in the third country banking or investment services undertaking in accordance with (2)(b) then the sub-group of each such BIPRU firm is a potential non-EEA sub-group.

\*\*\* The effect of BIPRU 8.3.7G (3) is that a non-EEA sub-group cannot be headed by a parent institution in a Member State. This is illustrated in example one of BIPRU 8 Annex 3 G (Annex 4).

### Step 2

The firm should then identify each undertaking in the firm's UK consolidation group that satisfies the following conditions:

- (1) it is an institution, financial institution or asset management company whose head office is outside the EEA (a third country banking or investment services undertaking);
- (2) one of the following applies:
  - (a) it is a subsidiary undertaking of a financial holding company in that UK consolidation group; or
  - (b) a financial holding company in that UK consolidation group holds a participation in it;
- (3) the head office of that financial holding company is in the United Kingdom; and
- (4) that financial holding company has a subsidiary undertaking that is a BIPRU firm.

The sub-group of the financial holding company identified in (2)(a) or (2)(b) is a potential non-EEA sub-group.

The financial holding company identified in may be a parent financial holding company in a Member State. This is illustrated by (Annex 5).

If more than one financial holding company is a direct or indirect parent undertaking in accordance with (2)(a) then the sub-groups of each of them are all potential non-EEA sub-groups.

Similarly if there is more than one financial holding company that holds a participation in the third country banking or investment services undertaking in accordance with (2)(b) then the sub-group of each such financial holding company is a potential non-EEA sub-group.

The firm should apply Step 2 to a third country banking or investment services undertaking even though it may be also be part of a potential non-EEA sub-group under BIPRU 8.3.7 G.

Having identified potential non-EEA sub-groups for each third country banking or investment services undertaking in its UK consolidation group the firm should then eliminate overlapping potential non-EEA sub-groups in the following way.

If:

- (1) one potential non-EEA sub-group is contained within a wider potential non-EEA sub-group; and
- (2) the third country banking or investment services undertakings in the two potential non-EEA sub-groups are the same;

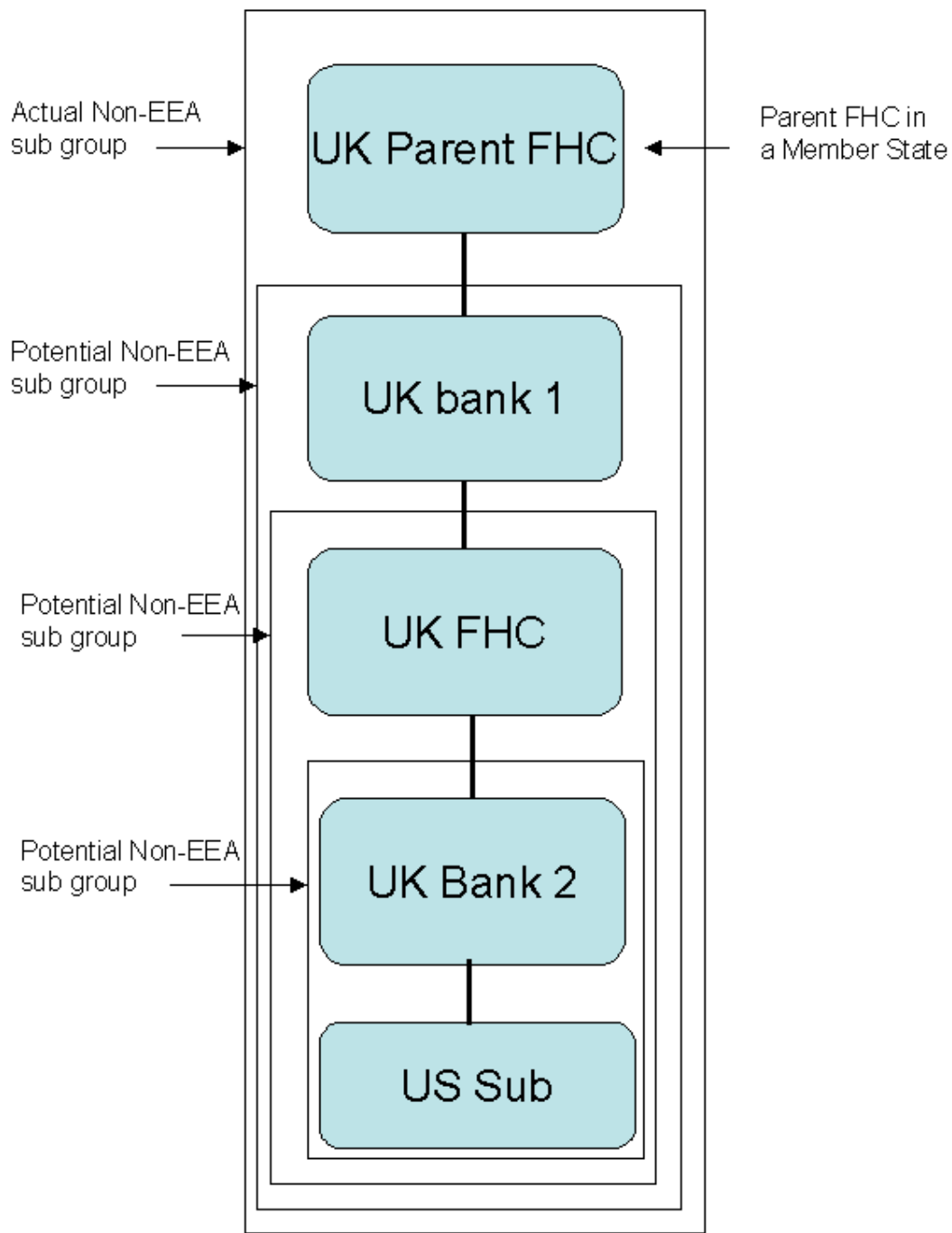
then the smaller potential non-EEA sub-group is eliminated.

(Please refer to BIPRU 8.3 for further guidance on more complicated structures)

Annex 3

Example 3

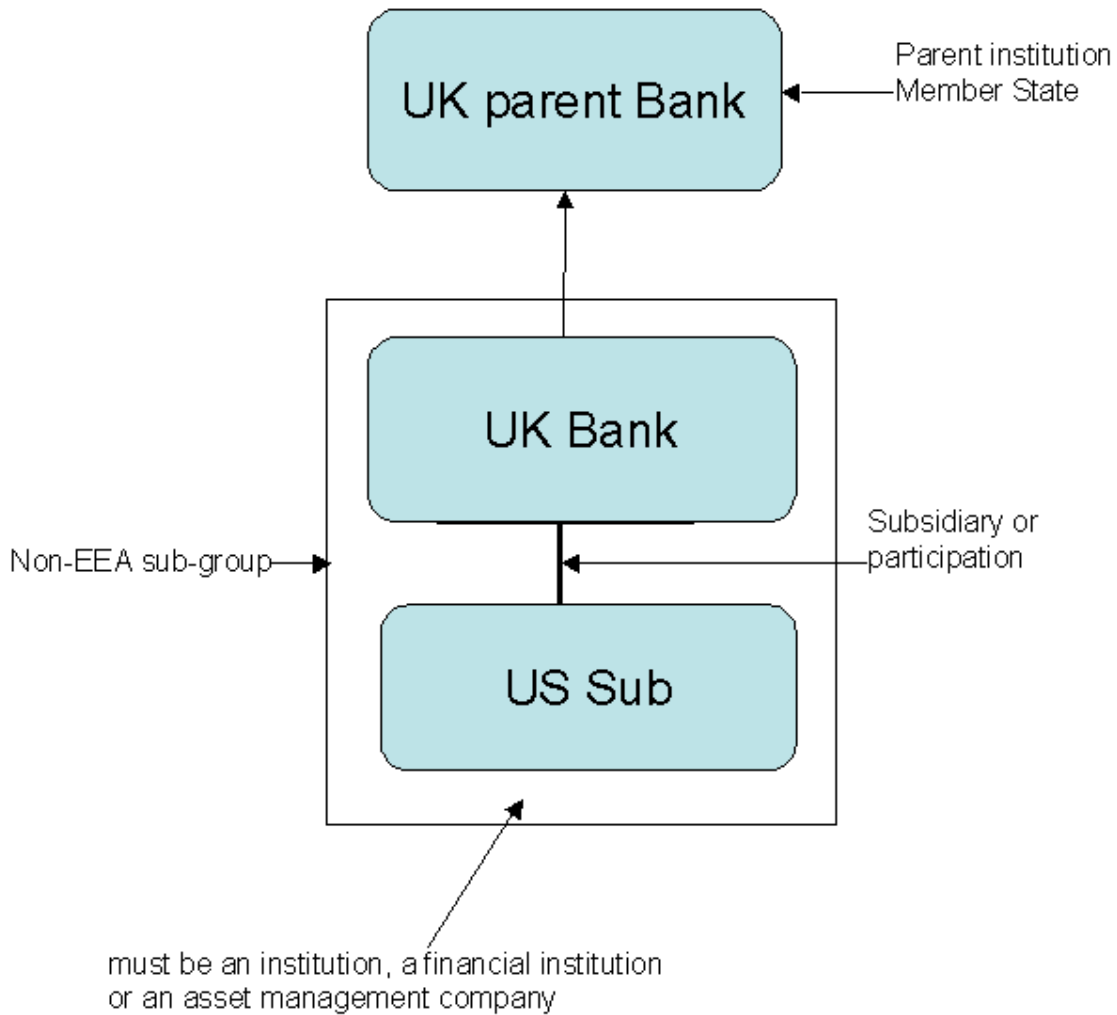
(example refers to BIPRU 8.3.9, 8.3.19 & 8.3.22)



Source - FSA

## Annex 4

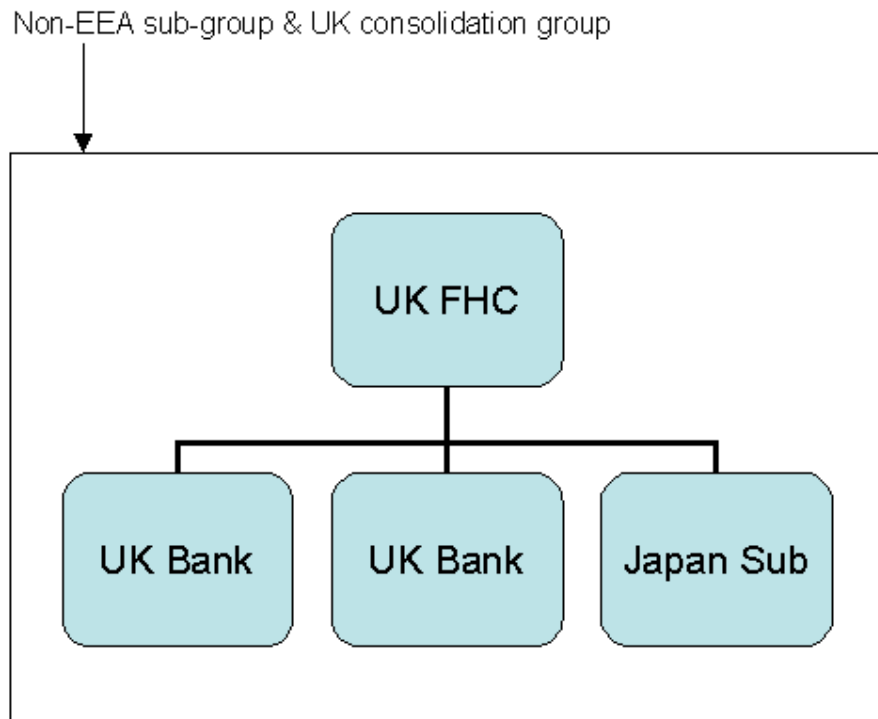
**Example 1**  
(example refers to EI PRU 8.3.11)



Source - FSA

## Annex 5

### Example 2 (example refers to BIPRU 8.3.14)



Source – FSA

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