

DRAFT FOR INFORMAL CONSULTATION – MARCH 2020

Prudential Standard FC01 – PRINCIPLES BASED

Capital requirements for financial conglomerates

Objectives and key requirements of Prudential Standard FC01

This Standard is made in terms of sections 105 and 164 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) and requires the holding company of a financial conglomerate to operate within the principles and ensure that the holding company of the financial conglomerate maintains sufficient capital in consideration of the risks posed to eligible financial institutions within the financial conglomerate.

It is the responsibility of the board of directors of the holding company of a financial conglomerate to ensure that the financial conglomerate meets the requirements for capital on a continuous basis.

This Standard highlights the Prudential Authority's requirements in terms of capital and sets down the capital reporting requirements for financial conglomerates.

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1. Commencement

- 1.1. This Standard commences on 1 January 2022.

Version number	Commencement date
1	1 January 2022

2. Legislative Authority

- 2.1. This Standard is made under section 164 of the Financial Sector Regulation Act, 2017 (Act No. 9 of 2017) (FSR Act).

3. Application

- 3.1. This Standard applies to all holding companies of financial conglomerates as designated by the Prudential Authority in terms of section 160 of the FSR Act.
- 3.2. Where a responsibility is placed on the holding company in terms of this Standard, it must be discharged by the board of directors (board) of the holding company and in respect of all the entities within the financial conglomerate.

4. Definition and interpretations

The terms used in this Standard, unless indicated otherwise, are defined in the FSR Act and the financial sector laws, and have the same meaning in this Standard.

- 4.1. Capital adequacy is defined as eligible capital divided by required capital and is a solvency control level, above which the Prudential Authority is unlikely to intervene on financial soundness grounds.
- 4.2. Regulated entity is an eligible financial institution or an entity regulated by a similar regulator in an equivalent jurisdiction.
- 4.3. Significant entity: an entity that is scoped in the financial conglomerate as it may pose a material or significant risk and will be separately reported on for purposes of financial conglomerate supervision.
- 4.4. Solo entity is a regulated entity on a stand-alone basis which is subject to prudential supervision (referred to as solo supervision). It is not subject to group supervision by the Prudential Authority.
- 4.5. Unregulated entity is a significant entity that is not a solo entity or a controlling company or an entity regulated by a regulator in a jurisdiction not deemed to be equivalent.
- 4.6. The Prudential Authority may elect to exclude certain entities for the purposes of financial conglomerate capital calculations, where such entities do not pose significant or material risk to the financial conglomerate.
- 4.7. The exclusion as set out in 4.6 above is subject to the condition that in no case will the aggregate amount of net income after tax exceed 20% of the said total

net income after tax or the assets of all relevant entities deemed non-significant exceed 10% of the total assets of the financial conglomerate group.

- 4.8 The 'Objectives and key requirements of Prudential Standard FC01' that are italicised in the preamble of this Standard must not be used in the interpretation of any section of this Standard.

5. Roles and responsibilities

- 5.1. The board of directors (board) of the holding company of a financial conglomerate is ultimately responsible for ensuring that the financial conglomerate complies with the principles and requirements of this Standard.
- 5.2. The board of the holding company of a financial conglomerate must ensure that the financial conglomerate at all times maintains a capital adequacy greater than 1.
- 5.3. Where the holding company of a financial conglomerate is of the view that the financial conglomerate may fail to meet its capital requirement in the following three months, it must immediately inform the Prudential Authority.
- 5.4. If the Prudential Authority is of the opinion that a financial conglomerate has failed or may fail to meet the capital requirement in the foreseeable future, it may exercise its powers to direct the holding company of the financial conglomerate to rectify the actual or potential breach.
- 5.5. If, in the view of the Prudential Authority, all risks are not adequately covered by the required capital of the financial conglomerate, the Prudential Authority may require the financial conglomerate to hold additional capital.
- 5.6. Where a financial conglomerate's control functions are required to perform certain functions in terms of this Standard, the board must ensure that the control functions regularly review and report to the board on the financial conglomerate's compliance with this Standard.
- 5.7. If requested to do so, the board of the holding company of the financial conglomerate and/or auditor must provide assurance to the Prudential Authority that the financial conglomerate complies with the requirements of this Standard.
- 5.8. The Prudential Authority will determine which jurisdictions are deemed equivalent.

6. Requirements and principles

- 6.1. The Prudential Authority in regulating and supervising financial conglomerates will require the holding company of the financial conglomerate to, on a semi-annual basis, assess the risk (includes potential risk) posed to eligible financial institution(s) within the financial conglomerate and maintain adequate levels of capital to mitigate such risks.
- 6.2. The risks that must be considered by the holding company of the financial conglomerate to the eligible financial institution (s) must include but are not limited to:

- (a) credit risk;
 - (b) counterparty credit risk;
 - (c) securitisation risk;
 - (d) operational risk;
 - (e) information technology risk (if not separately covered under operational risk)
 - (f) reputational risk;
 - (g) market risk;
 - (h) contagion risk;
 - (i) concentration risk;
 - (j) insurance-related risk;
 - (k) business risk;
 - (l) strategic risk; and
 - (m) residual risk.
- 6.3. In conducting a capital assessment for the financial conglomerate, the holding company will rely on the capital assessments conducted for groups and solo financial institutions within the financial conglomerate.
- 6.4. On completion of the capital assessment, the financial conglomerate must maintain the capital required and notify the Prudential Authority by providing a copy of the capital assessment and confirming whether additional capital is being held.
- 6.5. The capital assessment must consider the following when assessing the risks to the eligible financial institutions within the group:
- a. Risks posed by unregulated entities within the financial conglomerate
 - b. Any risks that may affect the eligible financial institution based on the concentration, nature of the group and intragroup transactions.
- 6.5 The financial conglomerate must have a risk management framework that deals with the maintenance of adequate capital as well as a capital risk plan.
- 6.6 The financial conglomerate must ensure that there is no over gearing and leveraging in its capital framework.
- 6.7 The sources of capital acceptable to the Prudential Authority must be loss-absorbing, permanent in nature and readily available when required.

7. Reporting requirements in terms of capital adequacy

- 7.1. The holding company of a financial conglomerate must submit regulatory reporting returns to the Prudential Authority on a semi-annual basis, one of which must be an audited annual return. The returns must be submitted within 60 days after the relevant reporting date.
- 7.2. The Prudential Authority may, in order to fulfil its supervisory duties in respect of the financial conglomerate, request additional information from the holding company of the financial conglomerate in respect of members of the group of companies.
- 7.3. The form and manner of regulatory reporting returns will be determined by the Prudential Authority and published on its website.