

# Financial Conglomerates

**DG FISMA – Unit D2**

*These slides accompany the explanation of the acquis to Albania and North Macedonia and can only be used for that purpose. Their content is subject to further development of the acquis and interpretation by the Court of Justice of the European Union*

# 1. The Financial Conglomerates Directive

[https://ec.europa.eu/info/law/financial-conglomerates-directive-2002-87-ec\\_en](https://ec.europa.eu/info/law/financial-conglomerates-directive-2002-87-ec_en)

- Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate – FICOD
- Financial conglomerates (FiCos) are financial groups that are active in one or more country and operate in both the insurance and banking businesses. They are often large, complex and of systemic importance, for example due to their size.

## 2. Supplementary supervision (1/2)

- FICOD requires supervisors to apply supplementary supervision on FiCos, in addition to the specific banking and insurance supervision.
- In 2018, 78 groups have been identified as financial conglomerates with the head of group in an EU/EEA country. The list of identified FiCos is published on ESAs website.

<https://esas-joint-committee.europa.eu/Pages/ESAs-publish-the-list-of-financial-conglomerates2018.aspx>

## 2. Supplementary supervision (2/2)

FICOD sets out specific requirements in particular:

- **on solvency**, specifically to prevent the same capital being used more than once as a buffer against risk in different entities in the same conglomerate ('multiple gearing of capital');
- on the suitability and professionalism of the **FiCo's management**;
- to ensure appropriate **risk management and internal control systems**;
- To appoint a **coordinator** (supervisory authority) for the overall supervision;
- for **information sharing / cooperation of supervisors** (including those in non-EU countries) of the regulated entities within the FiCo.

### 3. Post-crisis review of the Directive (1/2)

- In light of the financial crisis the Commission evaluated the effectiveness of FICOD in 2008.
- Supplementary supervision, as stipulated in the original Directive, could not be carried out on certain financial groups because of their legal structure.
  - In some cases, national financial supervisors were left without the appropriate tools because they had been obliged to choose either banking or insurance supervision under the sector-specific directives or supplementary supervision under the FICOD as the definitions for banking and insurance holding companies in the sector-specific directives and for **mixed financial holding companies** in the Conglomerates Directive were mutually exclusive.

### 3. Post-crisis review of the Directive (2/2)

- Directive 2011/89/EU introduced amendments to FICOD giving national financial supervisors new powers to better oversee the conglomerates' parent entities, such as **mixed financial holding companies**. In this way, supervisors may obtain better information at an early stage, should a financial conglomerate run into trouble, and be better equipped to intervene.
- Both sector-specific (banking and insurance) supervisions and supplementary supervisions can be applied on the conglomerate's parent entity, also if it concerns a holding company.

## 4. Key elements of the amended FICOD Directive

Addressing **C**onglomerates “*eight C's*” issues:

- **C**omplexity of the group structure – Art. 3
- **C**apital adequacy – Art. 6
- **C**oncentration – Art. 7
- **C**ontagion – Art. 8
- **C**onflicts of interest – Art. 9
- **C**oordination between supervisory authorities – Art. 10
- **C**ircumvention of sectoral rules – Art. 17
- **C**onvergence of supervisory practices – Art. 21a, 21b

*Thank you for your time.*

*Any questions?*