CENTRAL BANK OF CYPRUS

SUPERVISION DIVISION

DIRECTIVE TO BANKS FOR THE SUPPLEMENTARY SUPERVISION OF BANKS IN A FINANCIAL CONGLOMERATE (FINANCIAL CONGLOMERATES DIRECTIVE)

(FINANCIAL CONGLOMERATES DIRECTIVE)

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INDEX

UNOFFICIAL TRANSLATION OF THE OF THE CONSOLIDATED SUPPLEMENTARY SUPERVISION OF CREDIT INSTITUTIONS IN A FINANCIAL CONGLOMERATE DIRECTIVES OF 2012 AND 2016.

CAUTION:
THIS TRANSLATION AND CONSOLIDATION IS UNOFFICIAL AND WAS PERFORMED IN ORDER TO FACILITY THE USERS. THIS DOCUMENT CONSOLIDATES THE MAIN TEXT OF BASIC DIRECTIVE AND ITS AMENDMENTS IN A SINGLE BUT UNOFFICIAL DOCUMENT TO BE USED AS A REFERENCE TOOL. THE CENTRAL BANK HAS NO LIABILITY FOR ITS CONTENT.

The Central Bank of Cyprus, in accordance to the powers vested to it by section 41 (1) and (2) of the Business of Credit Institution Law 1997 up to (Art. 8) 2015, issues this Directive to credit institution which are in possession of a Banking Licence, for the purpose of complying with European Union directive named 'Directive 2011/89/EE of European Parliament and of the Council of 16 November 2011 with respect to the supplementary supervision of credit institutions, in a financial conglomerate'.

CHAPTER I
TITLE , SCOPE AND DEFINITIONS

Title and scope

1. (a) This directive will be cited as the directives for the Supplementary Supervision of Credit Institutions in a Financial Conglomerate Directives of 2012 and 2016.

(b) This Directive lays down rules for the supplementary supervision of a regulated credit institution, and which is part of a financial conglomerate.

Definitions for the purpose of this directive

2. Subject to the definitions included in the Business of Credit Institutions Law 1997 up to (Art.8) 2015 and for the purpose of this directive the following definitions apply:

"insurance undertaking" has the meaning assigned to it by Article 2 of the Insurance Services and other Related Issues Laws of 2002-2011, as amended or replaced;

"competent authorities" shall mean:

a) in the case of the Republic, the Central Bank of Cyprus, the Securities and Exchange Commission and the Superintendent of Insurance

b) in the case of other member states, the national authorities of the member states which are empowered by law or regulation to supervise the credit institutions, insurance undertakings , investment firms , asset management companies or alternative investment fund managers whether on an individual or a group wide basis;

"Alternative investment fund manager" means a manager of alternative investment funds within the meaning of Article 4, paragraph 1 b), l) and ab) of Directive 2011/61 / EU or an undertaking which has its registered office in a third country and which would be obliged, pursuant to Directive 2011/61 / EU, require authorization if it had its registered office within the European Union;

"intra-group transactions" shall mean all transactions by which regulated entities within a financial conglomerate rely either directly or indirectly upon other undertakings within the same group or upon any natural or legal person linked to the undertakings within that group by "close links", for the fulfilment

of an obligation, whether or not contractual, and whether or not for payment;

“Securities and Exchange Commission” shall mean the public law entity set up and operating in accordance with the provisions of the Cyprus Securities and Exchange Commission Laws of 2009 to 2012.

‘investment firm’ "or" IF " has the meaning assigned to it by Article 2 of the Investment Services and Activities and Regulated Markets Law of 2007 and 2009, as amended or replaced;

"asset management company" shall have the meaning given to the term "management company" in Article 2 of the Open-ended Undertakings for Collective Investment Law of 2012, as may be amended or replaced, and enterprise which has its registered office in third country and which would be obliged to seek authorization in accordance with Article 6 paragraph 1 of Directive 2009/65 / EC if it had its registered office within the Community.

"mixed financial holding company" shall mean a parent undertaking, other than a regulated entity, which together with its subsidiaries, at least one of which is a regulated entity which has its head office in the European Union, and other entities, constitutes a financial conglomerate;

"European Supervisory Authorities (ESAs)" means the following European Supervisory Authorities: the European Banking Authority, European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority;

"Superintendent of Insurance" means the public servant appointed in accordance to the provisions of Article 4 of the Insurance Services and Other Related Issues Laws of 2002 to 2011, as amended or replaced, to act as the Superintendent of Insurance;

"Subsidiary undertaking" means within the meaning of Article 1 of Directive 83/349 / EEC, a subsidiary undertaking any undertaking over which, in the opinion of the competent authorities, a parent undertaking effectively exercises a dominant influence or all subsidiaries of such subsidiary undertakings ;

"Regulation (EU) No. 1093/2010" means the EU Regulation No. 1093/2010 of the European Parliament and of the Council of 24 November 2010 on establishing a European Supervisory Authority (European Banking Authority);

"Regulation (EU) No. 1094/2010" means the EU Regulation No. 1094/2010 of the European Parliament and of the Council of 24 November 2010 on establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority);

"Regulation (EU) No. 1095/2010" means the EU Regulation No. 1095/2010 of the European Parliament and of the Council of 24 November 2010 on establishing a European Supervisory Authority (European Securities and Markets Authority);

“Central Bank of Cyprus” shall mean the Central Bank of Cyprus

"Joint Committee" means the Joint Committee of European Supervisory Authorities (ESA) established by Articles 54 of Regulation (EU) No. 1093/2010, of Regulation (EU) No. 1094/2010 and Regulation (EU) No. 1095/2010 respectively

"Parent undertaking" means within the meaning of Article 1 of Seventh Council Directive 83/349 / EEC of 13 June 1983 on consolidated accounts parent undertaking or any undertaking which, in the opinion of the competent authorities, effectively exercises a dominant influence over another undertaking; "

"Law" shall mean the Business Credit Institutions Law of 1997up to (no. 8) of 2015 as amended or replaced ·

"Directive 2009/138 / EC" means Directive 2009/138 / EC of the European Parliament and of the Council of 25 November 2009 relating to the taking up and pursuit of the business of Insurance and Reinsurance (Solvency II) (recast), as may be amended or replaced.

"group" shall mean a group of undertakings, which consists of:

(i) the parent undertaking,
(ii) its subsidiaries,
(iii) the entities in which the parent undertaking or its subsidiaries hold a participation, and
(iv) undertakings linked to each other by a relationship within the meaning of Article 12 paragraph 1 of Directive 83/349 / EEC;

and includes any sub-group.

Provided that for the purpose of this directive, where the parent undertaking does not own any subsidiary undertakings, but owns participation in entities as defined in sub-point (iii) above, the parent undertaking and the said participations may form a financial conglomerate, subject to the definition of the term provisions "financial conglomerate or a financial conglomerate."

Regulated entity 'means a credit institution or insurance undertaking or reinsurance undertaking, investment firm or asset management company or an alternative investment fund manager;

"close links" means a situation in which two or more natural or legal persons are linked by control or participation, or a situation in which two or more natural or legal persons are permanently linked to one and the same person by a control relationship;

"risk concentration" shall mean all exposures with a loss potential borne by entities within a financial conglomerate, which are large enough to threaten the solvency or the financial position in general of the regulated entities in the financial conglomerate regardless of whether the risk exposures may be caused by counterparty risk and credit risk, investment risk, insurance risk, market risk, other risks, or a combination or interaction of these risks.

"participation" shall mean the holding of rights in the share capital of other undertakings, whether or not in the form of certificates, which by creating a durable link with those undertakings, are intended to contribute to the activities of the undertaking that owns the rights in the certificates, or the direct or indirect ownership of 20 % or more of the voting rights or capital of an undertaking;

“related entities” shall mean
(a) the parent undertaking and one or more of the entities with which the parent undertaking is not connected as described in sub-points (ii) and (iii) in the definition of ‘group’ above and which are managed on a unified basis pursuant to a contract concluded with that undertaking or provisions in the memorandum or articles of association of those undertakings or

(b) the administrative, management or other supervisory bodies of the parent undertaking and of one or more other undertakings with which it is not connected as described in sub-points (ii) and (iii) in the definition of ‘group’ above, consist for the major part of the same persons in office during the financial year and until the consolidated financial statements are drawn up.

"coordinator" shall mean the competent regulatory authority which is appointed, in accordance with the provisions of Paragraph 11 of this directive, as the competent regulatory authority responsible for the coordination and for the exercise of supplementary supervision over a specific financial conglomerate.

"relevant competent authorities" shall mean:
(a) Member States' competent authorities responsible for the sectoral group-wide supervision of any of the regulated entities in a financial conglomerate, especially the ultimate parent undertaking of a sector;

b) the coordinator appointed in accordance with Paragraph 11 if different from the authorities referred to in subpoint (a) above;

(c) other competent authorities concerned, where relevant, in the opinion of the authorities referred to in (a) and (b). Until the entry into force of any regulatory technical standards adopted in accordance with Article 21a, paragraph 1, point b) of Directive 2011/89 this opinion is formed in particular this opinion shall especially taking into account the market share of the regulated

entities of the conglomerate in other Member States, in particular if it exceeds 5 %, and the importance in the conglomerate of any regulated entity established in another Member State;

"sectoral rules" means Union legislation relating to the prudential supervision of regulated entities, as established in particular by Directives 2004/39 / EC, 2013/36 / EU and 2009/138 / EC.

“third country” shall mean a country which is not a member state.

"financial conglomerate" means a group or sub-group, where head of the group or sub-group is a regulated entity or where at least one of the subsidiaries of the group or sub-group is a regulated entity, and that meets the following conditions:

(a) where the head of a group or sub-group is a regulated entity;

(i) a parent entity financial sector entity, or an entity which holds a participation in an entity in the financial sector, or an entity linked with an entity in the financial sector by a relationship within the meaning of the definition of the term "affiliates" in this paragraph;

(ii) at least one of the entities in the group or sub-group within the insurance sector and at least one in the banking or investment services sector and

(iii) the consolidated and/or aggregated activities of the entities in the group or sub-group within the insurance sector and of the entities within the banking and investment services sector are both significant within the meaning of points (2) or (3) of Paragraph 3.

(b) where no head of a group or sub-group regulated entity:

(i) the group's or sub-group mainly occur in the financial sector within the meaning of subparagraph (1) of paragraph 3;

(ii) at least one of the entities in the group or sub-group within the insurance sector and at least in the banking sector or in the provision of investment services;

(iii) the consolidated and/or aggregated activities of the entities in the group or sub-group within the insurance sector and of the entities in the banking sector and investment services, are both substantial within the meaning of paragraphs (2) or (3) of paragraph 3.

"financial sector" means a sector composed of one or more of the following operations:

(a) a credit institution, financial institution or an ancillary banking services (hereinafter collectively referred to as "the banking sector");

(b) an insurance undertaking, a reinsurance undertaking or an insurance holding company within the meaning assigned to these terms by Article 212 (1) (f) of Directive 2009/138 / EU;

(c) investment services company (IF).

Thresholds for identifying a financial conglomerate.

3.(1) For the purposes of determining whether the activities of a group mainly occur in the financial sector, within the meaning of the definition of 'financial conglomerates' (b (i)), the ratio of the balance sheet total of the regulated and non-regulated financial sector entities in the group to the balance sheet total of the group as a whole should exceed 40 %.

(2) (a) For the purposes of determining whether activities in different financial sectors are significant within the meaning of sub-item (iii) of point (a) or sub-item (iii) of point (b) of the definition of the term "financial conglomerate", for each financial sector the average of the ratio of the balance sheet total of that financial sector to the balance sheet total of the financial sector entities in the group and the ratio of the solvency requirements of the same financial sector to the total solvency requirements of the financial sector entities in the group should exceed 10 %.

b) For the purposes of this directive, the smallest financial sector in a financial conglomerate is the sector with the smallest average and the most important financial sector in a financial conglomerate is the sector with the highest average. For the purposes of calculating the average and for the measurement of the smallest and the most important financial sectors, the banking sector and the investment services sector shall be considered together.

(c) Asset management companies shall be added to the sector to which they belong within the group. If you do not belong exclusively to one sector within the group, added to the smallest financial sector.

(d) alternative investment fund managers added to the sector they belong to within the group. If you do not belong exclusively to one sector within the group, added to the smallest financial sector. "

(3) (a) Cross-sectoral activities shall also be presumed to be significant within the meaning of sub-item (iii) of point (a), and sub-item (iii) of point (b) of the definition of the term "financial conglomerate" if balance sheet total of the smallest financial sector in the group exceeds EUR 6 billion.

(b) If the group does not reach the threshold referred to in point (a) of subparagraph (2) above, the Central Bank, in agreement

with the other relevant competent authorities may decide not to regard the group as a financial conglomerate group activities, or not to apply the provisions of paragraphs 7, 8 or 9, if they consider that the inclusion of the group in the scope of this Directive or the application of such provisions is not necessary or would be inappropriate or misleading with respect to the objectives of supplementary supervision.

(c) The Central Bank shall notify the decisions taken in accordance with this section to the other competent authorities and, except in exceptional cases, the public.

(3a) (a) If the group reaches the threshold referred to in subparagraph (2) of this paragraph, but the smallest sector does not exceed EUR 6 billion, the Central Bank may decide by common agreement with the other relevant competent authorities not consider the conglomerate group or not to apply the provisions of paragraphs 7, 8 or 9, if they consider that the inclusion of the group in the scope of this Directive or the application of such provisions is not necessary or would be inappropriate or misleading with respect to the objectives supplementary supervision.

(b) The Central Bank shall notify the other competent authorities of decisions taken in accordance with this subparagraph and, except in exceptional cases, the public.

(4) (a) For the application of the provisions of points (1), (2) and (3), the Central Bank of Cyprus by common agreement with the other relevant competent authorities may:

(i) exclude an entity when calculating the ratios, in the cases provided for in subparagraph (5) of paragraph 6 unless if the entity has transferred its registered office in the Republic of Cyprus in a third country and presumed that the entity changed its location in order to avoid regulation

(ii) be deemed to be met by the financial conglomerate the thresholds referred to in subparagraphs (1) and (2) for three consecutive years to avoid sudden regime shifts, and not considered to meet the threshold for three consecutive years if there are significant changes in the group structure

(iii) exclude one or more participations in the smaller sector if such participations are decisive for the identification of a financial conglomerate, and are collectively of negligible interest with respect to the objectives of supplementary supervision.

(b) Where a financial conglomerate has been identified according to points (1), (2) and (3), the decisions referred to in subpoint (a) of this point shall be taken on the basis of a proposal made by the coordinator of that financial conglomerate.

(5) For the application of points (1) and (2) above, the Central Bank, in exceptional cases and by common agreement with the

other relevant competent authorities, may replace the criterion based on balance sheet total with one or more of the following parameters or add one or more of these parameters, if the Central Bank of Cyprus and the other relevant competent authorities are of the opinion that these parameters are of particular relevance for the purposes of supplementary supervision under this Directive:

(a) income structure,
(b) off-balance-sheet activities.
(c) Total assets under management.

(6) For the application of points (1) and (2), if the ratios referred to in those points fall below 40 % and 10 % respectively for financial conglomerates already subject to supplementary supervision, a lower ratio of 35 % and 8% respectively shall apply for the following three years to avoid sudden regime shifts

Similarly, for the application of point (3), if the balance sheet total of the smallest financial sector in the group falls below EUR 6 billion for conglomerates already subject to supplementary supervision, a lower figure of EUR 5 billion shall apply for the following three years to avoid sudden regime shifts

During the period referred to in this point, the coordinator may, with the agreement of the other relevant competent authorities, decide that the lower ratios or the lower amount referred to in this point shall cease to apply.

(7) The calculations referred to in this Paragraph regarding the balance sheet shall be made on the basis of the aggregated balance sheet total of the entities of the group, according to their annual accounts. For the purposes of this calculation, undertakings in which a participation is held shall be taken into account as regards the amount of their balance sheet total corresponding to the aggregated proportional share held by the group. However, where consolidated accounts are available, they shall be used instead of aggregated accounts.

The solvency requirements referred to in points (2) and (3) shall be calculated in accordance with the provisions of the relevant sectoral rules.

(8)The competent authorities shall, on an annual basis, reassess waivers of the application of supplementary supervision and shall review the quantitative indicators set out in this Article and risk-based assessments applied to financial groups.

Identifying a financial conglomerate.

4.(1) The Central Bank of Cyprus, as the competent authority responsible for authorising credit institutions in accordance with the provisions of the Business of Credit Institutions Laws 1997 up to (No. 8) 2015, shall, on the basis of Paragraphs 2, 3 and 5, identify any group that falls under the scope of this Directive. For this purpose:

(a)The Central Bank of Cyprus cooperates closely, with other competent authorities in those cases where the authorised credit institution is in a group which has been identified as a financial conglomerate

(b) if the Central Bank of Cyprus is of the opinion that a credit institution is a member of a group which may be a financial conglomerate, which has not already been identified in accordance with the provisions of this Directive 2002/87, the Central Bank of Cyprus shall communicate its view to the other competent authorities concerned.

(2)The Central Bank ,when it act as a coordinator shall also inform the competent authorities which have authorised regulated entities in the group, the competent authorities of the Member State in which the mixed financial holding company has its head office and the Joint Committee

CHAPTER II
SUPPLEMENTARY SUPERVISION
SECTION 1
SCOPE

Scope of supplementary supervision of credit institutions referred to in paragraph 1(b).

5. (1) Without prejudice to the provisions on supervision contained in the sectoral rules, the Central Bank of Cyprus provides for the supplementary supervision of the credit institutions referred to in Paragraph 1 (b), to the extent and in the manner prescribed in this Directive.

(2) The following regulated entities shall be subject to supplementary supervision at the level of the financial conglomerate in accordance with Paragraphs 6 to 19:

(a) every credit institution referred to in Paragraph 1(b) which is at the head of a financial conglomerate

(b) every credit institution, the parent undertaking of which is a mixed financial holding company which has its head office in the European Union

(c) every credit institution referred to in Paragraph 1(b) linked with another financial sector entity by a relationship within the meaning of ‘connected entities’ of Paragraph 2.

Where a financial conglomerate is a subgroup of another financial conglomerate which meets the requirements of subpoint (a) above, Paragraphs 6 to 17 are applied to the regulated entities within the latter group only and not to the subgroup and any reference in the Directive to the terms group and financial conglomerate will then be understood as referring to that latter group.

(3) Every credit institution which is not subject to supplementary supervision in accordance with subparagraph 2 above, the parent undertaking of which is a regulated entity or a mixed financial holding company which has its head office in a third country, shall be subject to supplementary supervision at the level of the financial conglomerate to the extent and in the manner prescribed in paragraph 20.

(4)(a) Where persons hold participations or capital ties in one or more regulated entities authorised in the Republic or in another member state or exercise significant influence over such entities without holding a participation or capital ties, other than the cases referred to in points (2) and (3) above, the Central Bank of Cyprus shall, by common agreement with the other relevant competent authorities and in conformity with national law, determine whether and to what extent supplementary supervision of the regulated entities is to be carried out, as if they constitute a financial conglomerate.

(b) In order for the Central Bank of Cyprus to apply such supplementary supervision, at least one of the entities is an authorised credit institution and the conditions set out in subsections (ii) and (iii) of sections (a) and (b) of the 'financial conglomerate' definition. The Central Bank of Cyprus, after consulting with the other relevant competent authorities, shall take its decision, taking into account the objectives of the supplementary supervision as provided for by this Directive.

(c) For the purposes of applying the provisions of subpoint (a) to "cooperative groups", the Central Bank of Cyprus, after reaching agreement with the other relevant competent authorities, must take into account the public financial commitment of these groups with respect to other financial entities.

(5) Without prejudice to Paragraph 15, the exercise of supplementary supervision at the level of the financial conglomerate shall in no way imply that the competent authorities are required to play a supervisory role in relation to mixed financial holding companies, third-country regulated entities in a financial conglomerate or unregulated entities in a financial conglomerate, on a stand-alone basis.

SECTION 2
FINANCIAL POSITION

Capital adequacy
Annex I.

6. (1)Without prejudice to the sectoral rules, supplementary supervision of the capital adequacy of the regulated entities in a financial conglomerate shall be exercised in accordance with the rules laid down in Paragraph 9(2) to (5) and in Annex I.

Annex I

(2) (a) Regulated entities in a financial conglomerate are required to ensure that own funds are available at the level of the financial

conglomerate which are always at least equal to the capital adequacy requirements as calculated in accordance with Annex I.

(b) Such regulated entities are required to have in place adequate capital adequacy policies at the level of the financial conglomerate

(c) The requirements referred to in subpoints (a) and (b) shall be subject to supervisory overview by the coordinator in accordance with Section 3.

(d) The coordinator shall ensure that the calculation referred to in subpoint (a) is carried out at least once a year, either by the regulated entities or by the mixed financial holding company.

(e) The results of the calculation and the relevant data for the calculation shall be submitted to the coordinator by

(i) from the credit institution or,

(ii) where the provisions of Paragraph 11(3) apply, from the regulated entity which has been authorised by a supervisory authority of another member state, which is at the head of a financial conglomerate, or,

(iii) where the financial conglomerate is not headed by a credit institution, by the mixed financial holding company or by the regulated entity in the financial conglomerate identified by the coordinator after consultation with the other relevant competent authorities and with the financial conglomerate.

(3) For the purposes of calculating the capital adequacy requirements referred to in point (a) of subparagraph 2, the following entities shall be included in the scope of supplementary supervision in accordance with Annex I:

(a) a credit institution, a financial institution or an ancillary services undertaking

(b) an insurance undertaking, a reinsurance undertaking or an insurance holding company

(c) an investment firm;

(d) a mixed financial holding company.

(4) (a)When calculating the supplementary capital adequacy requirements with regard to a financial conglomerate by applying method 1 (Accounting consolidation) referred to in Annex I, the own funds and the solvency requirements of the entities in the group shall be calculated by applying the corresponding sectoral rules on the form and extent of consolidation as laid down in particular:

(i) in accordance with the 575/2013/EU regulation issued on 26 June 2013, in accordance with the supervision requirements for credit institutions and investment companies and the amendment of the 648/2012/EU regulation and based on the 2013/36/EU Directive of the European Council and Board on 26 June 2013 in relation with the access to the activity of credit institutions in the supervision of the credit institutions and investment companies , for the amendment of Directive 2002/87/EU and for the repealing of Directives 2006/48/EC and 2006/49/EC.

(ii)Sections 67 to 74 Investment Services and Activities and Regulated Markets Law of 2007 and 2014 and the directives issued , and

(iii) Part A, paragraph (A) of Annex Seven of the Insurance Services and other Related Issues Laws of 2002-2013.

(b) When applying method 2 (Deduction and aggregation) referred to in Annex I, the calculation shall take account of the proportion of the subscribed capital which is directly or indirectly held by the parent undertaking or undertaking which holds a participation in another entity of the group.

(5) (a) The coordinator may decide not to include a particular entity in the scope when calculating the supplementary capital adequacy requirements in the following cases

(i) if the entity is situated in a third country where there are legal impediments to the transfer of the necessary information, without prejudice to the sectoral rules regarding the obligation of competent authorities to refuse authorisation where the effective exercise of their supervisory functions is prevented;

(ii) if the entity is of negligible interest with respect to the objectives of the supplementary supervision of regulated entities in a financial conglomerate;

(iii) if the inclusion of the entity would be inappropriate or misleading with respect to the objectives of supplementary supervision.

(b) However, if several entities are to be excluded pursuant to (ii) of subpoint (a) above, they must nevertheless be included when collectively they are of non-negligible interest.

(c) In the case mentioned in (iii) of subpoint (a) above. The coordinator shall, except in cases of urgency, consult the other relevant competent authorities before taking a decision.

(d) When the coordinator does not include a credit institution referred to in paragraph 1 (b) in the scope under one of the cases provided for in (ii) and (iii) of subpoint (a) above, the Central Bank of Cyprus may ask the entity which is at the head of the financial

conglomerate for information which may facilitate the supervision of the regulated entity.

Risk concentration Annex II.

7. (1) Without prejudice to the sectoral rules, supplementary supervision of the risk concentration of regulated entities in a financial conglomerate shall be exercised in accordance with the rules laid down in Paragraph 9(2) to (4) in Annex II.

Annex II

(2) Regulated entities or mixed financial holding companies are required to report on a regular basis and at least annually to the coordinator any significant risk concentration at the level of the financial conglomerate, in accordance with the rules laid down in this Paragraph and in Annex II. The coordinator will inform the regulated entities or the mixed financial holding company of the necessary information to be submitted, as
well as the frequency and the manner of submission of the information. The necessary information shall be submitted to the coordinator by

(i) the regulated entity which has been authorised in the Republic or in another member state which is at the head of the financial conglomerate or,

(ii) where the financial conglomerate is not headed by a regulated entity which has been authorised in the Republic or in another member state, by the mixed financial holding company or

(iii) by the regulated entity in the financial conglomerate identified by the coordinator after consultation with the other relevant competent authorities and with the financial conglomerate.

These risk concentrations shall be subject to supervisory overview by the coordinator in accordance with Section 3.

(3)The Central Bank of Cyprus may set quantitative limits, or take other supervisory measures which would achieve the objectives of supplementary supervision, with regard to any risk concentration at the level of a financial conglomerate

(4) Where a financial conglomerate is headed by a mixed financial holding company, the sectoral rules regarding risk concentration of the most important financial sector in the financial conglomerate, if any, shall apply to that sector as a whole, including the mixed financial holding company.

Intra-group transactions Annex II.

8. (1) Without prejudice to the sectoral rules, supplementary supervision of intra-group transactions of regulated entities in a financial conglomerate shall be exercised in accordance with the rules laid down in Paragraph 9(2) to (4), in Section 3 of this Chapter, and in Annex II.

Annex II

(2) Regulated entities or mixed financial holding companies are required to report, on a regular basis and at least annually, to the coordinator all significant intra-group transactions of regulated entities within a financial conglomerate, in accordance with the rules laid down in this Paragraph and in Annex II. The coordinator

will set the necessary information to be submitted, as well as the frequency and the manner of submission of the information. Insofar as no definition of the thresholds referred to in paragraph 3 of Annex II has been drawn up, an intra-group transaction shall be presumed to be significant if its amount exceeds at least 5 % of the total amount of capital adequacy requirements at the level of a financial conglomerate.

Annex II

The necessary information shall be submitted to the coordinator

(a) by the regulated entity which has been authorised in the Republic or in another member state which is at the head of the financial conglomerate or,

(b) where the financial conglomerate is not headed by a regulated entity which has been authorised in the Republic or in another member state, by the mixed financial holding company or

(c) by the regulated entity in the financial conglomerate identified by the coordinator after consultation with the other relevant competent authorities and with the financial conglomerate.

These intra-group transactions shall be subject to supervisory overview by the coordinator.

(3) The Central Bank of Cyprus may set quantitative limits and qualitative requirements, or take other supervisory measures that would achieve the objectives of supplementary supervision, with regard to intra-group transactions of regulated entities within a financial conglomerate.

(4) Where a financial conglomerate is headed by a mixed financial holding company, the sectoral rules regarding intra-group transactions of the most important financial sector in the financial conglomerate shall apply to that sector as a whole, including the mixed financial holding company.

Internal control mechanisms and risk management processes.

9. (1) Regulated entities are required to have, in place at the level of the financial conglomerate, adequate risk management processes and internal control mechanisms, including sound administrative and accounting procedures.

(2) The risk management processes shall include:

(a) sound governance and management with the approval and periodical review of the strategies and policies by the appropriate governing bodies at the level of the financial conglomerate with respect to all the risks they assume;

(b) adequate capital adequacy policies in order to anticipate the impact of their business strategy on risk profile and capital requirements as determined in accordance with Paragraph 6 and Annex I;

(c) adequate procedures to ensure that their risk monitoring systems are well integrated into their organisation and that all measures are taken to ensure that the systems implemented in all the undertakings included in the scope of supplementary supervision are consistent so that the risks can be measured, monitored and controlled at the level of the financial conglomerate.

(d) arrangements that contribute to the development, if necessary, adequate arrangements and recovery and resolution plans. These settings will be updated at regular intervals.

(3) The internal control mechanisms shall include:

(a) adequate mechanisms as regards capital adequacy to identify and measure all material risks incurred and to appropriately relate own funds to risks;

(b) sound reporting and accounting procedures to identify, measure, monitor and control the intra-group transactions and the risk concentration.

(4)(a) All credit insitutions within the scope of supplementary supervision of the Central Bank in accordance with paragraph 5 shall have adequate internal control mechanisms for the production of any data and information which would be relevant for the purposes of supplementary supervision.

(b) The Central Bank may carry out checks to ensure the adoption, implementation and adequacy of the mechanisms referred to in point (a).

(c)The credit institutions, as regulated entities must regularly submit to the Central Bank, details at financial conglomerate level to their legal structure, governance and organizational structure, including all regulated entities, non-regulated subsidiaries and significant branches.

(d)The credit institutions, as regulated entities disclose publicly, at the level of the conglomerate, on an annual basis, either in full or by way of references to equivalent information, a description of their legal structure, the governance and organizational structure.

(5) The processes and mechanisms referred to in points 1 to 4 shall be subject to supervisory overview by the coordinator.

(6) The Central Bank shall align the application of supplementary supervision in relation to internal control mechanisms and risk management processes as provided in this paragraph, with the supervisory review processes as provided in subsections (6) to (9) of section 26 of law.

SECTION 3
MEASURES TO FACILITATE SUPPLEMENTARY SUPERVISION AND REQUIREMENTS TOWARDS THE JOINT COMMITTEE

Joint committee.

10. A consistent cross-sector and cross-border supervision and compliance with the European Union legislation is guaranteed by the Joint Committee in accordance with Article 56 of Regulation (EU) No. 1093/2010, Regulation (EU) No. 1094/2010 and Regulation (EU) No. 1095/2010 respectively.

Stress testing.

10A. (1) The Central Bank acting as coordinator ensures that appropriate and regular stress testing of financial conglomerates.

(2) The Central Bank acting as the coordinator shall communicate the results of stress tests to the Joint Committee.

(3) The Central Bank, when not acting as a coordinator, shall cooperate fully with the coordinator for the purpose of ensuring the conduct of appropriate and regular stress testing.

Competent authority responsible for exercising supplementary supervision (the coordinator).

11. (1) In order to ensure proper supplementary supervision of the regulated entities in a financial conglomerate, a single coordinator, responsible for coordination and exercise of supplementary supervision, shall be appointed from among the competent authorities of the Member States concerned, including those of the Member State in which the mixed financial holding company has its head office. The identity of the coordinator is published in the webstite of the Joint Committee.

(2) The appointment of the coordinator shall be based on the following criteria:

(a) where a financial conglomerate is headed by a regulated entity which has been authorised in the Republic or in another Member State , the task of coordinator shall be exercised by the competent authority which has authorised that regulated entity pursuant to the relevant sectoral rules;

(b) where a financial conglomerate is headed by a regulated entity which has not been authorised in the Republic or in another Member State, the task of coordinator shall be exercised by the competent authority identified in accordance with the following principles:

(i) where the parent of a regulated entity, which has been authorised in the Republic or in another Member State, is a mixed financial holding company, the task of coordinator shall be exercised by the competent authority which has authorised that regulated entity pursuant to the relevant sectoral rules;

(ii) where more than one regulated entity with a head office in the European Union, have as their parent the same mixed financial holding company, and one of these entities has been authorised

in the Member State in which the mixed financial holding company has its head office, the task of coordinator shall be exercised by the competent authority of the regulated entity authorised in that Member State.

Where more than one regulated entity, which has been authorised in the Republic or in another Member State, being active in different in financial sectors, have been authorised in the in the Member State in which the mixed financial holding company has its head office, the task of coordinator shall be exercised by the competent authority of the regulated entity active in the most important financial sector.

Where the financial conglomerate is headed by more than one mixed financial holding company with a head office in different Member States and there is a regulated entity in each of these Member States, the task of coordinator shall be exercised by the competent authority of the regulated entity with the largest balance sheet total if these entities are in the same financial sector, or by the competent authority of the regulated entity in the most important financial sector;

(iii) where more than one regulated entity with a head office in the European Union have as their parent the same mixed financial holding company and none of these entities has been authorised in the Member State in which the mixed financial holding company has its head office, the task of coordinator shall be exercised by the competent authority which authorised the regulated entity with the largest balance sheet total in the most important financial sector;

(iv) where the financial conglomerate is a group without a parent undertaking at the top, or in any other case, the task of coordinator shall be exercised by the competent authority which authorised the regulated entity in the Republic or in another Member State with the largest balance sheet total in the most important financial sector;

(3) In particular cases, the Central Bank may by common agreement with the other relevant competent authorities waive the criteria referred to in point (2), if their application would be inappropriate, taking into account the structure of the conglomerate and the relative importance of its activities in different countries, and appoint a different competent authority as coordinator. In these cases, before taking their decision, the Central Bank and the other competent authorities shall give the conglomerate an opportunity to state its opinion on that decision.

Tasks of the coordinator.

12.(1) The tasks to be carried out by the coordinator with regard to supplementary supervision shall include:

(a) coordination of the gathering and dissemination of relevant or essential information in going concern and emergency situations, including the dissemination of information which is of importance for a competent authority's supervisory task under sectoral rules;

(b) supervisory overview and assessment of the financial situation of a financial conglomerate;

(c) assessment of compliance with the rules on capital adequacy and of risk concentration and intra-group transactions as set out in paragraphs 6, 7 and 8;

(d) assessment of the financial conglomerate's structure, organisation and internal control system as set out in paragraph 9;

(e) planning and coordination of supervisory activities in going concern as well as in emergency situations, in cooperation with the relevant competent authorities involved;

(f) other tasks, measures and decisions assigned to the coordinator by this
Directive or deriving from coordination agreements signed between the coordinator and the relevant competent authorities.

(2) In order to facilitate and establish supplementary supervision on a broad legal basis, the coordinator and the other relevant competent authorities, and where necessary other competent authorities concerned, shall have coordination arrangements in place. The coordination arrangements may entrust additional tasks to the coordinator and may specify the procedures for :

(a) the decision-making process among the relevant competent authorities as referred to in paragraphs 3, 4, 5(4), 6, 13(2), 18 and 20, and
(b) for cooperation with other competent authorities.

(3) The coordinator should, when it needs information which has already been given to another competent authority in accordance with the sectoral rules, contact this authority whenever possible in order to prevent duplication of reporting to the various authorities involved in supervision.

(4) Without prejudice to the possibility of delegating specific supervisory competences and responsibilities as provided for by sectoral legislation of the European Union, the presence of a coordinator entrusted with specific tasks concerning the supplementary supervision of regulated entities in a financial conglomerate shall not affect the tasks and responsibilities of the competent authorities as provided for by the sectoral rules.

(5) The required cooperation under this Section and the exercise of the tasks listed in paragraphs 1, 3 and 4 of this paragraph and in paragraph 13 and, subject to confidentiality requirements and Union law, the appropriate coordination and cooperation with relevant third- country supervisory authorities where appropriate, shall be fulfilled through colleges, established pursuant to Article 116 of Directive 2013/36/EU or Article 248(2) of Directive 2009/138/EC.

The coordination arrangements referred to in the second subparagraph shall be separately reflected in the written coordination arrangements in place pursuant to subsections (8), (10) and (11) of section 39 of the Law or Article 248 of Directive 2009/138/EC. In the case the Central Bank acts as coordinator and as Chair of a college established pursuant subsection (11A) of Article 39 of the Law, shall decide which other competent authorities participate in a meeting or in any activity of that college.'

Cooperation and exchange of information between competent authorities

13. (1)The Central Bank as the competent authority responsible for the supervision of credit institutions, shall cooperate closely with the competent authority appointed as the coordinator for financial conglomerates. Without prejudice to the responsibilities of the Central Bank as defined under sectoral rules, the Central Bank , the coordinator and any other relevant competent authority, shall provide one another with any information which is essential or relevant for the exercise of the other authorities' supervisory tasks under the sectoral rules and this Directive. In this regard, the competent authorities and the coordinator shall communicate on request all relevant information and shall communicate on their own initiative all essential information.

This cooperation shall at least provide for the gathering and the exchange of information with regard to the following items:

(a) Determining the legal structure, the governance and organizational structure of the group, including all regulated entities, non-regulated subsidiaries and significant branches belonging to the financial conglomerate, the holders of qualifying holdings of the ultimate parent and the competent authorities of the regulated entities the financial conglomerate.

(b) the financial conglomerate's strategic policies;

(c) the financial situation of the financial conglomerate, in particular on capital adequacy, intra-group transactions, risk concentration and profitability;

(d) the financial conglomerate's major shareholders and management;

(e) the organisation, risk management and internal control systems at financial conglomerate level;

(f) procedures for the collection of information from the entities in a financial conglomerate, and the verification of that information;

(g) adverse developments in regulated entities or in other entities of the financial conglomerate which could seriously affect the regulated entities;

(h) major sanctions and exceptional measures taken by competent authorities in accordance with sectoral rules or this Directive.

(2) The Central Bank of Cyprus may also exchange with the following authorities such information as may be needed for the performance of their respective tasks, regarding regulated entities in a financial conglomerate, in line with the provisions laid down in the sectoral rules:

(a) Central Banks,
(b) the European System of Central Banks and
(c) the European Central Bank
(d) the ESRB in accordance with Article 15 of Regulation (EU) No. 1092/2010 of the European Parliament and of the Council of 24 November 2010 on macro-prudential oversight of the financial system in the European Union and establishing a European Systemic Risk Board.

(3) Without prejudice to their respective responsibilities as defined under sectoral rules, the Central Bank shall, prior to its decision, consult with the other competent authorities concerned with regard to the following items, where these decisions are of importance for other competent authorities' supervisory tasks:

(a) changes in the shareholder, organisational or management structure of
regulated entities in a financial conglomerate, which require the approval or authorisation of the Central Bank;

(b) major sanctions or exceptional measures taken by the Central Bank.

The Central Bank may decide not to consult in cases of urgency or where such consultation may jeopardise the effectiveness of the decisions. In this case, the Central Bank shall, without delay, inform the other competent authorities.

(4) The coordinator may invite the competent authorities of the Member State in which a parent undertaking has its head office, and which do not themselves exercise the supplementary supervision ,to ask the parent undertaking for any information which would be relevant for the exercise of its coordination tasks as laid down in paragraph 12, and to transmit that information to the coordinator

Where the information referred to in paragraph 16(2) has already been given to a competent authority in accordance with sectoral rules, the competent authorities responsible for exercising supplementary supervision may apply to the first-mentioned authority to obtain the information.

(5) For the purposes of this Directive, the Central Bank may cooperate and exchange information with :

(a) the Securities and Exchange Commission, the Commissioner of the CSSDA and the Commissioner of Insurance Companies
(b) other competent authorities, as referred to in points (1), (2) and (3)

The collection or possession of information with regard to an entity within a financial conglomerate which is not a regulated entity shall not in any way imply that the competent authorities are required to play a supervisory role in relation to these entities on a stand-alone basis.

Information received in the framework of supplementary supervision, and in particular any exchange of information between competent authorities and between competent authorities and other authorities which is provided for in this Directive, shall be subject to the provisions on professional secrecy and communication of confidential information laid down in section 25 of the Central Bank of Cyprus Laws.

Cooperation and exchange of information with the Joint Committee.

14.(1) The Central Bank shall cooperate with the Joint Committee for the purposes of this Directive, according to Regulation (EU) No. 1093/2010.

(2) H Central Bank shall without delay provide the Joint Committee with all the information necessary to carry out its duties in accordance with Article 35 of Regulation (EU) No. 1093/2010.

(3) (a) The Central Bank acting as coordinator provides the Joint Committee with the information referred to in paragraph 9, subparagraph (4) and paragraph 13, subparagraph (1), second subparagraph, point (a).

(b) If the Central Bank does not act as coordinator, obtains by the Joint Committee information on the legal structure, governance and organizational structure of financial conglomerates.

Management body of mixed financial holding companies.

15. The persons who effectively direct the business of a mixed financial holding company must be of sufficiently good repute and have sufficient experience to perform those duties.

Access to information.

16. (1) Natural and legal persons included within the scope of supplementary supervision, whether or not a regulated entity, may exchange amongst themselves any information which would be relevant for the purposes of supplementary supervision and are able to exchange information in accordance with this Directive and with the ESA in accordance with Article 35 of Regulation (EU) No. 1093/2010, Regulation (EU) No. 1094/2010 and Regulation (EU) No. 1095 / 2010 respectively, and where necessary through the Joint Committee.

(2) The Central Bank, when approaching the entities in a financial conglomerate, whether or not a regulated entity, either directly or indirectly, shall have access to any information which would be relevant for the purposes of supplementary supervision.

Verification.

17. Where, in applying this Directive, the Central Bank wishes in specific cases to verify the information concerning an entity, whether or not regulated, which is part of a financial conglomerate and is situated in another Member State, they shall ask the competent authorities of that other Member State to have the verification carried out within the framework of their competences, either (a) by carrying out the verification themselves, (b) by allowing an auditor or expert to carry it out, or (c) by allowing the Central Bank to carry it out itself.

The Central Bank , if it so wishes, participate in the verification when it does not carry out the verification itself

Enforcement measures.

18. If the regulated entities in a financial conglomerate do not comply with the requirements referred to in Paragraphs 6 to 9 or where the requirements are met but solvency may nevertheless be jeopardised or where the intra-group transactions or the risk concentrations are a threat to the regulated entities' financial position, the necessary measures shall be required in order to rectify the situation as soon as possible:

(a) by the coordinator with respect to the mixed financial holding company,

(b) by the competent authorities with respect to the regulated entities; to that end, the coordinator shall inform those competent authorities of its findings

Without prejudice to Paragraph 19(2), the Central Bank may determine what measures may be taken with respect to mixed financial holding companies.

The competent authorities involved, including the coordinator, shall where appropriate coordinate their supervisory actions.

Additional powers of the competent authorities.

19.(1) The Central Bank shall have the power to take any supervisory measures deemed necessary in order to avoid or to deal with the circumvention of sectoral rules by regulated entities in a financial conglomerate.

(2) The Central Bank works closely with other supervisory authorities to ensure that sanctions and measures that may be taken by the Central Bank produce the desired results

SECTION 4
THIRD COUNTRIES

Parent undertaking outside the European Union.

20. (1) Without prejudice to the sectoral rules, in the case referred to in Paragraph 5(3), the Central Bank shall verify whether the credit institutions, the parent undertaking of which has its head office in a third country, are subject to supervision by a third-country competent authority, which is equivalent to that provided for by the provisions of this Directive on the supplementary supervision of regulated entities referred to in Paragraph 5(2).

The verification shall be carried out by the Central Bank which would be the coordinator if the criteria set out in Paragraph 11(2) were to apply, on the request of the parent undertaking or of any of the regulated entities authorised in a Member State or on its own initiative.

(2) When the Central Bank disagrees with the decision taken by another relevant competent authority under subparagraph (1), Article 19 of Regulation (EU) No. 1093/2010.

(3) In the absence of equivalent supervision referred to in point (1), the Central Bank shall apply to the regulated entities, by analogy, the provisions concerning the supplementary supervision of regulated entities referred to in Paragraph 5(2). As an alternative, the Central Bank of Cyprus may apply one of the methods set out in point (4).

(4) The Central Bank may apply other methods which ensure appropriate supplementary supervision of regulated entities in a financial conglomerate. These methods must be agreed by the coordinator, after consultation with the other relevant competent authorities. The Central Bank may, in particular calls for a financial holding company which has its head office in the European Union and apply this Directive to the regulated entities in the financial conglomerate headed by is that financial holding company. The Central Bank shall ensure that those methods achieve the objective of supplementary supervision under this Directive, and inform the other competent authorities involved and the Commission.

3. Deleted

A single format in connection with the calculation methods.

21A. Within two years of the adoption of any implementing technical standards in accordance with paragraph 2(a) of article 21a of 2002/87 directive, the ACIs members of financial conglomerates apply a single format in connection with the calculation methods listed in Annex I, Part II in frequency and dates that may determine the Central Bank.

CHAPTER III
ASSET MANAGEMENT COMPANIES

Asset management companies.

22. (1) Pending further coordination of sectoral rules, the Central Bank in cooperation with the Commissioner of the CSSDA, the Superintendent of Insurance , the Securities and Exchange Commission, as well as the competent authorities of other Member states ,where this applies, shall provide for the inclusion of asset management companies:

(a) within in the scope of consolidated supervision of credit institutions and investment firms, or in the scope of supplementary supervision of insurance undertakings in an insurance group;

(b) where the group is a financial conglomerate, in the scope of supplementary supervision within the meaning of this Directive;

(c) in the identification process in accordance with Article 3(2).

Alternative investment fund managers.

22A.(1) Pending further coordination of sectoral rules, the Central Bank in cooperation with the Commissioner of the CSSDA, the Superintendent of Insurance , the Securities and Exchange Commission, as well as the competent authorities of other Member states ,where this applies, shall provide for the inclusion of alternative investment fund managers:

(a) within the scope of consolidated supervision of credit institutions and investment firms, or within the scope of supplementary supervision of insurance undertakings in an insurance group;

(b) where the group is a financial conglomerate, within the scope of supplementary supervision within the meaning of this Directive; and

(c) within the identification process in accordance with Article 3(2).

(2) (a)For the application of paragraph 1, the Central Bank in cooperation with the Commissioner of the CSSDA, the Superintendent of Insurance , the Securities and Exchange Commission, as well as the competent authorities of other Member states ,where this applies, decide, according to which sectoral rules (banking sector, insurance sector or investment services sector) alternative investment fund managers are to be included in the consolidated or supplementary supervision referred to in point (a) of paragraph 1. For the purposes of this paragraph, the relevant sectoral rules regarding the form and extent of the inclusion of financial institutions shall apply *mutatis*

mutandis to alternative investment fund managers. For the purposes of supplementary supervision referred to in point (b) of paragraph 1, the alternative investment fund manager shall be treated as part of whichever sector it is included in by virtue of point (a) of paragraph 1.

(b)Where an alternative investment fund manager is part of a financial conglomerate, references to regulated entities, and to competent and relevant competent authorities shall therefore, for the purposes of this Directive, be understood as including, respectively, alternative investment fund managers and the competent authorities responsible for the supervision of alternative investment fund managers. This applies *mutatis mutandis* as regards groups as referred to in point (a) of paragraph 1.

CHAPTER IV
INFORMATION TO THE FINANCIAL CONGLOMERATES COMMITTEE

Information to the financial conglomerate committee.

23. The Central Bank shall inform the Financial Conglomerates Committee of the principles it applies concerning the supervision of intra-group transactions and risk concentration.

CHAPTER V
FINAL PROVISIONS

Implementation of the present directive by persons which are not banks.

24. (1) Where the present Directive imposes responsibilities to persons outside the scope of paragraph 1(b), such responsibilities, are deemed, for the purposes of the present Directive, as responsibilities of the credit institutions referred to in paragraph 1(b) which are in a financial conglomerate, which must ensure the said persons fulfil their responsibilities.

(2) Failure by the said persons to comply with the provisions of the present Directive, may result in measures to be taken, in accordance with the present Directive, against the credit institutions which are in the financial conglomerate.

Entry into force.

25. This Directive shall enter into force from the date of publication in the Official Gazette of the Republic.

ANNEX I
CAPITAL ADEQUACY

1. The calculation of the supplementary capital adequacy requirements of the regulated entities in a financial conglomerate referred to in Paragraph 6(1) of this Directive shall be carried out in accordance with the technical principles and one of the methods described in this Annex.

2. Without prejudice to the provisions of paragraph 3 described in this Annex, the Central Bank, where it assumes the role of coordinator with regard to a particular financial conglomerate, may decide, after consultation with the other relevant competent authorities and the conglomerate itself, which method shall be applied by that financial conglomerate.

3. The Central Bank, where it assumes the role of coordinator with regard to a particular financial conglomerate, may require that the calculation be carried out according to one particular method among those described in this Annex if a financial conglomerate is headed by a regulated entity which has been authorised in the Republic. Where a financial conglomerate is not headed by a regulated entity which is registered in the Republic or in another member state, the application of any of the methods described in this Annex is permitted, except in situations where the relevant competent authorities are located in the Republic, in which case the application of one of the methods may be required.

I. Technical principles

Extent and form of the supplementary capital adequacy requirements calculation.

1. Whichever method is used, when the entity is a subsidiary undertaking and has a solvency deficit, or, in the case of a non-regulated financial sector entity, a notional solvency deficit, the total solvency deficit of the subsidiary has to be taken into account. Where in this case, in the opinion of the coordinator, the responsibility of the parent undertaking owning a share of the capital is limited strictly and unambiguously to that share of the capital, the coordinator may give permission for the solvency deficit of the subsidiary undertaking to be taken into account on a proportional basis.

Where there are no capital ties between entities in a financial conglomerate, the coordinator, after consultation with the other relevant competent authorities, shall determine which proportional share will have to be taken into account, bearing in mind the liability to which the existing relationship gives rise.

Other technical principles.

2. Regardless of the method used for the calculation of the supplementary capital adequacy requirements of regulated entities in a financial conglomerate as laid down in Section II of this Annex, the coordinator, and where necessary other competent authorities concerned, shall ensure that the following principles will apply:

(a) the multiple use of elements eligible for the calculation of own funds at the level of the financial conglomerate (multiple gearing) as well as any inappropriate intra-group creation of own funds must be eliminated; in order to ensure the elimination of multiple gearing and the intra-group creation of own funds, the Central Bank shall
apply by analogy the relevant principles laid down in the relevant sectoral rules;

(b) (i) Pending further harmonisation of sectoral rules, the solvency requirements for each different financial sector represented in a financial conglomerate shall be covered by own funds elements in accordance with the corresponding sectoral rules; when there is a deficit of own funds at the financial conglomerate level, only own funds elements which are eligible according to each of the sectoral rules (cross-sector capital) shall qualify for verification of compliance with the additional solvency requirements;

For the purposes of this Directive, cross sectoral capital is:

- reserves which may be distributed by the subsidiary to the parent undertaking;

- own funds which may be transferred from the parent undertaking to a subsidiary undertaking, provided that the parent undertaking has guaranteed the subsidiary undertaking provided the own funds to be transferred are eligible to be included as own funds of the subsidiary;

- own funds which may be transferred from one subsidiary undertaking to another subsidiary undertaking, provided that the former has guaranteed the affiliated undertaking, provided the own funds to be transferred are eligible to be included as own funds of the latter.

Where sectoral rules provide for limits on the eligibility of certain own funds instruments, which would qualify as cross-sector capital, these limits would apply mutatis mutandis when calculating own funds at the level of the financial conglomerate;

(ii) when calculating own funds at the level of the financial conglomerate, the Central Bank shall also take into account the effectiveness of the transferability and availability of the own funds across the different legal entities in the group, given the objectives of the capital adequacy rules;

For the purposes of this Directive, own funds may be transferred from one entity of a financial conglomerate to another entity of the financial conglomerate only if:

- there is a subsidiary undertaking-parent undertaking relationship and the own funds to be transferred from the

subsidiary to the parent do not exceed the reserves of the subsidiary which are available for distribution, or

- the parent undertaking owns at least 75% of the issued share capital or of the voting rights, provided the parent undertaking has guaranteed the obligations of the subsidiary undertaking and the nature of the components of own funds to be transferred are eligible to be included in the own funds of the subsidiary entity. This procedure may be also followed when own funds are transferred between subsidiary entities.

(iii)where, in the case of a non-regulated financial sector entity, a notional solvency requirement is calculated in accordance with section II of this Annex, notional solvency requirement means the capital requirement with which such an entity would have to comply under the relevant sectoral rules as if it were a regulated entity of that particular financial sector.

In the case of asset management companies, solvency requirement means the capital requirement set out in section 42(3) of the Open-ended Undertakings for Collective Investment in Transferable Securities (UCITS) and Related Issues Laws of 2004 and 2008.

The notional solvency requirement of a mixed financial holding company shall be calculated according to the sectoral rules of the most important financial sector in the financial conglomerate.

II. Technical calculation methods

Method 1: "Accounting consolidation" method
The calculation of the supplementary capital adequacy requirements of the regulated entities in a financial conglomerate shall be carried out on the basis of the consolidated accounts.

The supplementary capital adequacy requirements shall be calculated as the difference between:

(i) the own funds of the financial conglomerate calculated on the basis of the consolidated position of the group; the elements eligible are those that qualify in accordance with the relevant sectoral rules; and

(ii) the sum of the solvency requirements for each different financial sector represented in the group; the solvency requirements for each different financial sector are calculated in accordance with the corresponding sectoral rules.

The sectoral rules referred to are in particular:

(i) the Business of Credit Institutions Laws of 1997 up to (No.8) 2015, the Directives for the calculation of the capital adequacy ratio of credit insititutions and large exposures.

(ii) the Insurance Services and Other Related Issues Laws of 2002-2011 for insurance companies

(iii) the Investment Services and Activities and Regulated Markets Law of 2007 and 2009 and the Securities and Exchange Commission Directive on capital adequacy of IFs 2010

In the case of non-regulated financial sector entities which are not included in the aforementioned sectoral solvency requirement calculations, a notional solvency requirement shall be calculated.

The difference shall not be negative

Method 2: "Deduction and aggregation" method

The calculation of the supplementary capital adequacy requirements of the regulated entities in a financial conglomerate shall be carried out on the basis of the accounts of each of the entities in the group.

The supplementary capital adequacy requirements shall be calculated as the difference between:

(i) the sum of the own funds of each regulated and non-regulated financial sector entity in the financial conglomerate; the elements eligible are those which qualify in accordance with the relevant sectoral rules; and

(ii) the sum of
- the solvency requirements for each regulated and non-regulated financial sector entity in the group; the solvency requirements shall be calculated in accordance with the relevant sectoral rules, and

- the book value of the participations in other entities of the group.

In the case of non-regulated financial sector entities, a notional solvency requirement shall be calculated. Own funds and solvency requirements shall be taken into account for their proportional share as provided for in Paragraph 6(4) and in accordance with Section I of this Annex.

Method 3:Combination Method

The Central Bank may allow a combination of method 1 and method 2.

ANNEX II
TECHNICAL APPLICATION OF THE PROVISIONS ON INTRA-GROUP TRANSACTIONS AND RISK CONCENTRATION

1. The coordinator, after consultation with the other relevant competent authorities, shall identify the type of transactions and risks regulated entities in a particular financial conglomerate shall report in accordance with the provisions of Paragraph 7(2) and Paragraph 8(2) on the reporting of intra-group transactions and risk concentration.

2. When defining or giving their opinion about the type of transactions and risks, the coordinator and the relevant competent authorities shall take into account the specific group and risk management structure of the financial conglomerate.

3. In order to identify significant intra-group transactions and significant risk concentration to be reported in accordance with the provisions of Paragraphs 7 and 8, the coordinator, after consultation with the other relevant competent authorities and the conglomerate itself, shall define appropriate thresholds based on regulatory own funds and/or technical provisions

4. When overviewing the intra-group transactions and risk concentrations, the coordinator shall in particular monitor the possible risk of contagion in the financial conglomerate, the risk of a conflict of interests, the risk of circumvention of sectoral rules, and the level or volume of risks.

The Central Bank of Cyprus may allow their competent authorities to apply at the level of the financial conglomerate the provisions of the sectoral rules on intra-group transactions and risk concentration, in particular to avoid circumvention of the sectoral rules.