CYPRUS SECURITIES AND EXCHANGE COMMISSION

DIRECTIVE DI144-2007-11 OF 2012 OF CYPRUS SECURITIES AND EXCHANGE COMMISSION FOR THE SUPPLEMENTARY SUPERVISION OF INVESTMENT FIRMS IN A FINANCIAL CONGLOMERATE

(FINANCIAL CONGLOMERATES DIRECTIVE)

ORDER OF PARAGRAPHS

Directive on the supplementary supervision of investment firms in a financial conglomerate

The Cyprus Securities and Exchange Commission , in accordance to the powers vested to it by subsection (5) of section 52 and subsection (1) of section 71 of the Investment Firms Laws of 2002-2005 and for purposes of harmonisation with sections 1 to 19, 21, 30, 32 and 33 of Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 with respect to the supplementary supervision of banks, insurance undertakings and investment firms in a financial conglomerate, issues this Directive to investment firms which have been authorised by the Cyprus Securities and Exchange Commission:

CHAPTER I

OBJECTIVE AND DEFINITIONS

1. Title and Objective

1.1 Title

This Directive will be cited as the Directive DI144-2007-11 of 2012 for the Supplementary Supervision of Investment Firms in a Financial Conglomerate.

1.2 Objective

This Directive lays down rules for the supplementary supervision of an investment firm which has been granted an authorisation by the Cyprus Securities and Exchange Commission and which is part of a financial conglomerate.

2. Definitions

For the purposes of this Directive:

1. "**reinsurance undertaking**" shall mean a reinsurance undertaking as defined in section 2 of the Insurance Business Laws;

2. "**competent authorities**" shall mean:

   a) in the case of the Republic, the Cyprus Securities and Exchange Commission, the Central Bank of Cyprus, the Commissioner of the Cooperative Societies' Supervision and Development Authority, 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 investment firms, and/or banks, and/or CCIs and/or insurance undertakings, whether on an individual or a group-wide basis;

3. "**insurance undertaking**" shall mean an insurance undertaking as defined in section 2 of the Insurance Companies Laws of 2002 to (No.6) of 2004 and any private or public entity operating as an insurance undertaking which has obtained an authorisation in a country other than the Republic of Cyprus;

4. "**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 fulfillment of an obligation, whether or not contractual, and whether or not for payment;

5. "**Cyprus Securities and Exchange Commission**" shall mean the public law entity established and operating pursuant to the Cyprus Securities and Exchange Commission (Establishment and Responsibilities) Laws of 2001 to (No.2) of 2004.

6. "**investment firm**" shall mean an investment firm as defined in section 2 of the Investment Firms Laws of 2002 to (No.2) of 2004, excluding banks and CCIs, including those firms referred to in the said section as 'recognised Third country I.Fs';

7. "**asset management company**" shall mean a Management Company as defined in section 41 of the Open-ended Undertakings for Collective Investment in Transferable Securities (U.C.I.T.S.) and Related Issues Law of 2004, as well as an undertaking the registered office of which is outside the European Union and which would require authorisation in accordance with the provisions of section 43 of the said Law if it had its registered office within the European Union;

8. "**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;

9. "**Superintendent of Insurance**" shall mean the public servant, appointed in accordance with the provisions of section 4 of the Insurance Companies Law, to act as Superintendent of Insurance;

10. "**Commissioner of Cooperative Societies' Supervision and Development Authority**" or "**Commissioner CSSDA**" means the Commissioner of the Cooperative Societies' Supervision and Development Authority, appointed pursuant to section 4 of the Cooperative Societies Laws;

11. "**subsidiary undertaking**" shall mean a subsidiary undertaking as defined in section 148 of the Companies Law and any undertaking over which, in the opinion of the Cyprus Securities and Exchange Commission, a parent undertaking effectively exercises a dominant influence;

    It is provided that all subsidiary undertakings of subsidiary undertakings shall also be considered as subsidiary undertakings of the parent undertaking;

12. "**Central Bank of Cyprus**" shall mean the Central Bank of Cyprus as defined by the term 'Bank' in the Central Bank of Cyprus Laws of 2002 and 2003;

13. "**Member state**" shall mean a member state of the European Union;

14. "**parent undertaking**" shall mean a parent undertaking as defined in section 148 of the Companies Law and any undertaking which, in the opinion of the Cyprus Securities and Exchange Commission, effectively exercises a dominant influence over another undertaking;

15. "**group**" shall mean a group of undertakings, which consists of:

    a) the parent undertaking,

    b) its subsidiaries,

    c) the entities in which the parent undertaking or its subsidiaries hold a participation, and

    d) undertakings linked to each other by a relationship within the meaning of point 20 of this paragraph;

    It is 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 (c) above, the parent undertaking and the said participations may form a financial conglomerate, subject to the provisions of sub-points (d) and (e) of point (27) of this paragraph;

16. "**regulated entity**" shall mean an investment firm, a bank, a CCI or an insurance undertaking;

17. "**close links**" shall mean a situation in which two or more natural or legal persons are linked by:

    (a) "participation", which shall mean the ownership, directly or by way of control, of 20% or more of the voting rights or capital of an undertaking, or

    (b) "control", which shall mean the relationship between a parent undertaking and a subsidiary, in all the cases referred to in section 148 of the Companies Law, or a similar relationship between any natural or legal person and an undertaking;

It is provided that any subsidiary undertaking of a subsidiary undertaking shall also be considered a subsidiary of the parent undertaking which is at the head of those undertakings;

It is further provided that a situation in which two or more natural or legal persons are permanently linked to one and the same person by a control relationship shall also be regarded as constituting a close link between such persons;

18. "**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 general financial position of the regulated entities in the financial conglomerate; such exposures may be caused by counterparty risk/credit risk, investment risk, insurance risk, market risk, or other risks, or a combination or interaction of these risks;

19. "**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 between the two undertakings, are intended to contribute to the activities of the undertaking that owns the rights in the capital, or the direct or indirect ownership of 20% or more of the voting rights or capital of an undertaking;

20. "**related entities**" shall mean:

    (a) the parent undertaking and one or more of the entities with which the parent undertaking is not connected with the relations (b) or (c) stated in point (15) above, and which are managed on a unified basis pursuant to a contract concluded with the parent 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 the parent undertaking is not connected with the relations (b) or (c) stated in point (15), their majority or which consists of the same persons holding office during the financial year and until the consolidated financial statements are drawn up;

21. "**cooperative credit institution**" or "**CCI**", shall have the meaning given to this term in section 2 of the Cooperative Societies Laws of 1985 to 2005.

22. "**coordinator**" shall mean the competent authority which is appointed, in accordance with the provisions of paragraph 10 of this Directive, as the competent authority responsible for the coordination and exercise of supplementary supervision over a specific financial conglomerate.

23. "**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;

    (b) the coordinator, if different from the authorities referred to in sub-point (a), above;

    (c) other competent authorities concerned, where relevant, in the opinion of the authorities referred to in sub-points (a) and (b) above. This opinion shall especially take 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;

24. "**sectoral rules**" shall mean the European Union legislation relating to the prudential supervision of regulated entities, in particular laid down in Directives 73/239/EEC[1], 79/267/EEC[2], 98/78/EC[3], 93/6/EEC[4], 93/22/EEC[5] and 2000/12/EC[6] and 2004/39/EC[7] ;

[1] First Council Directive 73/239/EEC of 24 July 1973 on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of direct insurance other than life assurance.

[2] First Council Directive 79/267/EEC of 5 March 1979 on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of direct life assurance

25. "**bank**" shall mean a bank or an electronic money institution as defined in section 2 of the Banking Laws of 1997 to (No.1) of 2005 and any private or public entity corresponding to the definition of the terms bank or electronic money institution which has obtained an authorisation in a country other than the Republic of Cyprus;

26. "**third country**" shall mean a country which is not a Member State.

27. "**financial conglomerate**" shall mean a group which meets, subject to the provisions of paragraph 3 of this Directive, the following conditions:

    (a) a regulated entity, which has been authorised in the Republic of Cyprus or in another Member State, is at the head of the group, or at least one of the subsidiaries in the group is a regulated entity, which has been authorised in the Republic of Cyprus or in another Member State;

    (b) where there is a regulated entity, which has been authorised in the Republic of Cyprus or in another Member State, at the head of the group, it is either a parent undertaking of an entity in the financial sector, or an entity which holds a participation in an entity in the financial sector, or an entity related with an entity in the financial sector by a relationship within the meaning of point (20) in this paragraph;

    (c) where there is no regulated entity which has been authorised in the Republic of Cyprus or in another Member State at the head of the group, the group's activities mainly occur in the financial sector within the meaning of point 3.1 of paragraph 3;

    (d) at least one of the entities in the group is within the insurance sector and at least one is within the banking or investment services sector;

    (e) the consolidated and/or aggregated activities of the entities in the group within the insurance sector and the consolidated and/or aggregated activities of the entities within the banking and investment services sector are both significant within the meaning of points 3.2 or 3.3 of paragraph 3.

    It is provided that any subgroup of a group under the meaning of point 15 of this paragraph, which meets the above criteria, shall be considered as a financial conglomerate;

28. "**financial sector**" shall mean a sector composed of one or more of the following entities:

    (a) a bank or a CCI or a company performing functions which are inextricably related to banking as laid down in subsection (3) of section 13 of the Banking Laws, or an entity whose main function is the holding or management of immovable property, or an ancillary banking services undertaking in relation to the main business of one or more banks ("the banking sector");

    (b) an insurance undertaking, a reinsurance undertaking or an insurance holding company as defined in section 2 of the Insurance Business Laws ("the insurance sector");

    (c) an investment firm, excluding banks and CCIs, or a financial institution as defined in section 2 of the Investment Firms' Laws (the "investment services sector");

    (d) a mixed financial holding company, as defined in point 8 of this paragraph.

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[3] Directive 98/78/EC of the European Parliament and of the Council of 27 October 1998 on the supplementary supervision of insurance undertakings in an insurance group

[4] Council Directive 93/6/EEC of 15 March 1993 on the capital adequacy of investments firms and credit institutions

[5] Council Directive 93/22/EEC of 10 May 1993 on investment services in the securities field

[6] Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions

[7] Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC.

3. 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 paragraph 2, point 27, sub-point (c), 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%.

3.2. (a) For the purposes of determining whether activities in different financial sectors are significant within the meaning of paragraph 2, point 27, sub-point (e), 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 sector, the banking sector and the investment services sector shall be counted together.

3.3 Cross-sectoral activities shall also be deemed to be significant within the meaning of paragraph 2, point 27, sub-point (e) if the balance sheet total of the smallest financial sector in the group exceeds EUR 6 billion. If the group does not reach the threshold referred to at point 3.2, sub-point (a) above, the Cyprus Securities and Exchange Commission may decide by common agreement with the other relevant competent authorities not to regard the group as a financial conglomerate, or not to apply the provisions of paragraphs 7, 8 or 9, if they are of the opinion 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, taking into account, for instance, the fact that:

(a) the relative size of the smallest financial sector of the group does not exceed 5%, measured either in terms of the average referred to in point 3.2 above or in terms of the balance sheet total or the solvency requirements of such financial sector; or

(b) the market share of the smallest financial sector of the group does not exceed 5% in any Member State, measured in terms of the balance sheet total in the banking or investment services sectors and in terms of gross premiums written in the insurance sector.

It is provided that decisions taken in accordance with this point shall be notified to the other competent authorities concerned.

3.4 (a) For the application of the provisions of points 3.1-3.3 above, the Cyprus Securities and Exchange Commission by common agreement with the other relevant competent authorities may:

(i) exclude a specific entity when calculating the ratios, in the cases referred to in paragraph 6, point 6.5;

(ii) consider that the thresholds stated in points 3.1 and 3.2 are complied with for three consecutive years so as to avoid sudden regime shifts, and disregard such compliance if there are significant changes in the group's structure.

(b) Where a financial conglomerate has been identified according to points 3.1-3.3, the decisions referred to in sub-point (a) shall be taken on the basis of a proposal made by the coordinator of that financial conglomerate.

3.5. For the application of points 3.1 and 3.2 above, the Cyprus Securities and Exchange Commission, 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 both of the following parameters or add one or both of these parameters, if the Cyprus Securities and Exchange Commission and the other relevant competent authorities are of the opinion that these parameters are of particular relevance for the following purposes of supplementary supervision under this Directive:

(a) income structure,

(b) off-balance-sheet activities.

3.6 For the application of points 3.1 and 3.2, if the ratios referred to in those points fall below 40% and 10% respectively, for conglomerates already subject to supplementary supervision, a lower ratio of 35% and 8% respectively shall apply for the following three years, so as to avoid sudden regime shifts.

It is provided that, for the application of point 3.3, 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, so as to avoid sudden regime shifts.

It is further provided that, 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 paragraph shall cease to apply.

3.7 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.

It is provided that, the solvency requirements referred to in points 3.2 and 3.3 shall be calculated in accordance with the provisions of the relevant sectoral rules.

4. Identifying a financial conglomerate

4.1. The Cyprus Securities and Exchange Commission, as the competent authority responsible for authorising investment firms in accordance with the provisions of the Investment Firms Laws, 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 Cyprus Securities and Exchange Commission cooperates closely, where necessary, with the other competent authorities, where investment firms authorised in accordance with the provisions of the Investment Firms Laws, are in a group which has been identified as a financial conglomerate by other competent authorities,

b) if the Cyprus Securities and Exchange Commission is of the opinion that an investment firm which has been authorised by the Cyprus Securities and Exchange Commission, is a member of a group which may be a financial conglomerate, which has not already been identified according to this Directive or according to similar provisions of another Member-State, the Cyprus Securities and Exchange Commission shall communicate its view to the other competent authorities concerned.

4.2 The coordinator, shall inform the parent undertaking at the head of a group or, in the absence of a parent undertaking, the regulated entity with the largest balance sheet total in the most important financial sector in a group, that (a) the group has been identified as a financial conglomerate and (b) of the appointment of the coordinator. The coordinator shall also inform the competent authorities which have authorised regulated entities in the group and the competent authorities of the Member State in which the mixed financial holding company has its head office, as well as the European Commission.

CHAPTER II

SUPPLEMENTARY SUPERVISION

SECTION 1

SCOPE

5. Scope of supplementary supervision of investment firms

5.1. Without prejudice to the provisions on supervision contained in the sectoral rules, the Cyprus Securities and Exchange Commission ensures the supplementary supervision of investment firms referred to in paragraph 1, point 1.2, to the extent and in the manner prescribed in this Directive.

5.2. The following regulated entities shall be subject to supplementary supervision at the level of the financial conglomerate in accordance with paragraphs 6 to 17:

(a) every investment firm referred to in paragraphs (1), point 1.2 which is at the head of a financial conglomerate;

(b) every investment firm referred to paragraph (1), point 1.2, the parent undertaking of which is a mixed financial holding company which has its head office in the European Union;

(c) every investment firm referred to in paragraph 1, point 1.2, linked with another financial sector entity by a relationship within the meaning of paragraph 2, point 20.

It is provided that where a financial conglomerate is a subgroup of another financial conglomerate which meets the requirements of sub-point (a) above, paragraphs 6 to 17 are applied to the regulated entities within the latter group only, and not to the subgroup. Any reference in the Directive to the terms group and financial conglomerate will then be understood as referring to that latter group.

5.3 Every investment firm referred to in paragraph 1, point 1.2, which is not subject to supplementary supervision in accordance with point 5.2 above and its parent undertaking is a regulated entity having its head office outside the European Union or a mixed financial holding company having its head office outside the European Union, shall be subject to supplementary supervision at the level of the financial conglomerate, to the extent and in the manner prescribed in paragraph 18.

5.4 a) Where persons hold participations or have 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 having capital ties, other than the cases referred to in points 5.2 and 5.3 above, the Cyprus Securities and Exchange Commission shall, by common agreement with the other relevant competent authorities and pursuant to national law, determine whether and to what extent supplementary supervision of the regulated entities is to be carried out, as if they constituted a financial conglomerate.

b) In order for the Cyprus Securities and Exchange Commission to apply such supplementary supervision, at least one of the entities must be an investment firm referred to in paragraph 1, point 1.2 and the conditions set out in paragraphs 2, point 27, sub-points (d) and (e) must be met. The Cyprus Securities and Exchange Commission, 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 sub-point (a) to "cooperative groups", the Cyprus Securities and Exchange Commission by agreement with the other relevant regulatory authorities, must take into account the public financial commitment of these groups with respect to other financial entities.

5.5 Subject to the provisions of paragraph 13, 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

6. Capital adequacy

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 paragraphs 9 points 9.2 to 9.5, in Section 3 of this Chapter, and in Annex 1.

6.2. (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 1.

(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 sub-points (a) and (b) shall be subject to supervisory overview by the coordinator in accordance with Section 3 of this chapter.

(d) The coordinator shall ensure that the calculation referred to in sub-point (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) the investment firm within the meaning of paragraph 1 point 1.2 or, (ii) where the provisions of paragraph 10, point 10.3 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 regulated entity within the meaning of paragraph 1 point 1.2, 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.

6.3. For the purposes of calculating the capital adequacy requirements referred to in sub-point (a) of point 6.2 above, the entities referred to in paragraph 2, point 28 shall be included in the scope of supplementary supervision in the manner and to the extent defined in Annex 1.

6.4. When calculating the supplementary capital adequacy requirements with regard to a financial conglomerate by applying Method 1 (Accounting consolidation) in Part II of Annex 1, 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 in:

a) Sections 50 to 52 of the Investment Firms Law and the Directives issued pursuant to these sections,

b) Sections 21 and 39 of the Banking Laws and the Directives issued pursuant to these sections,

c) Section 41J of the Cooperative Societies Laws and the Directives issued pursuant to this section, and

d) Part A, paragraph (A) of Annex Seven of the Insurance Companies Laws.

When applying Methods 2 ("Deduction and aggregation"), or 3 ("Book value-Requirement deduction") referred to in Part II of Annex 1, the calculation shall take account of the proportional share held by the parent undertaking or undertaking which holds a participation in another entity of the group. "Proportional share" means the proportion of the subscribed capital which is held, directly or indirectly, by that undertaking.

6.5. (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 point (a)(ii) above, they must nevertheless be included when collectively they are of non-negligible interest.

(c) In the case mentioned in point (a)(iii) 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 an investment firm mentioned in paragraph 1 point 1.2, in the scope of the cases provided for in (a)(ii) and (iii) above, the Cyprus Securities and Exchange Commission may ask the entity which is at the head of the financial conglomerate for information which may facilitate the supervision of the regulated entity.

7. Risk concentration

7.1. Subject to the provisions of 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 points 9.2 to 9.4, in Section 3 of this Chapter and in Annex 2.

7.2. 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 shall specify the information that must be filed as well as the frequency and the manner of filing 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 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 of this Chapter.

7.3. The Cyprus Securities and Exchange Commission 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.

7.4. 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.

8. Intra-group transactions

8.1. Subject to the provisions of 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 sections 9.2 to 9.4, in Section 3 of this Chapter, and in Annex 2.

8.2. 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 2. The coordinator shall specify the information that must be filed as well as the frequency and the manner of filing the information. Insofar as the thresholds referred to in paragraph 3 of Annex 2 have not been defined, 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.

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

8.3. The Cyprus Securities and Exchange Commission 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.

8.4. 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.

9. 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.

9.2. 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 1;

(c) adequate procedures to ensure that their risk monitoring systems are fully 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.

9.3. 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.

9.4. All undertakings included in the scope of supplementary supervision pursuant to paragraph 5, must have adequate internal control mechanisms for the production of any data and information which would be relevant for the purposes of the supplementary supervision.

9.5. The processes and mechanisms referred to in points 9.1 to 9.4 shall be subject to supervisory overview by the coordinator.

SECTION 3

MEASURES TO FACILITATE SUPPLEMENTARY SUPERVISION

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

10.1 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.

10.2 The appointment of the coordinator shall be based on the following criteria:

(a) where a financial conglomerate is headed by a regulated entity authorised in the Republic of 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 not headed by a regulated entity authorised in the Republic or 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 Republic or in another Member State, 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.

It is provided that where more than one regulated entity, being active in different financial sectors, have been authorised in the Republic or in another 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.

It is further provided that 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 Republic or in another Member State 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 another Member State with the largest balance sheet total in the most important financial sector.

10.3. In particular cases, the Cyprus Securities and Exchange Commission may by common agreement with the other relevant competent authorities waive the criteria referred to in point 10.2, 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 Cyprus Securities and Exchange Commission and the other competent authorities shall give the financial conglomerate an opportunity to state its opinion on that decision.

11. Tasks of the coordinator

11.1. 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 the application of this Directive.

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 cooperation arrangements in place. The cooperation arrangements may entrust additional tasks to the coordinator and may specify the procedures for i) the decision-making process among the relevant competent authorities as referred to in paragraphs 3 and 4, paragraph 5 point 5.4, paragraph 6, paragraph 12 point 12.2, and paragraphs 16 and 18, and ii) for cooperation with other competent authorities.

11.2. 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.

11.3. Without prejudice to the possibility of delegating specific supervisory competences and responsibilities as provided for by sectoral legislation, 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.

12. Cooperation and exchange of information between competent authorities

12.1. The Cyprus Securities and Exchange Commission, as the competent authority responsible for the supervision of the investment firms referred to in paragraph 1 point 1.2, shall cooperate closely with the competent authority appointed as the coordinator for that financial conglomerate. Without prejudice to the responsibilities of the Cyprus Securities and Exchange Commission as defined under sectoral rules, the Cyprus Securities and Exchange Commission, 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) identification of the group structure of all major entities belonging to the financial conglomerate, as well as of the competent authorities of the regulated entities in the group;

(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.

The Cyprus Securities and Exchange Commission 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:

- Central Banks,

- the European System of Central Banks and

- the European Central Bank.

12.2 Without prejudice to their respective responsibilities as defined under sectoral rules, the Cyprus Securities and Exchange Commission 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 Cyprus Securities and Exchange Commission;

(b) major sanctions or exceptional measures taken by the Cyprus Securities and Exchange Commission.

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

12.3. 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 pursuant to paragraph 10, to ask the parent undertaking for any information which would be relevant for the exercise of its coordination tasks as laid down in paragraph 11, and to transmit that information to the coordinator.

Where the information referred to in paragraph 14 point 14.2 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.

12.4. For the purposes of this Directive, the Cyprus Securities and Exchange Commission may cooperate with and exchange information a) with the Central Bank of Cyprus, the Commissioner CSSDA and the Superintendent of Insurance and b) other competent authorities, as provided in points 12.1-12.3. 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 sections 30 and 31 of the Cyprus Securities and Exchange Commission (Establishment and Responsibilities) Laws of 2002-2004.

13. Management body of mixed financial holding companies

13.1 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 their duties.

14. Access to information

14.1. Natural and legal persons included within the scope of supplementary supervision, whether or not a regulated entity, may exchange amongst them any information which would be relevant for the purposes of supplementary supervision.

14.2. The Cyprus Securities and Exchange Commission, 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.

15. Verification

15.1 Where, in applying this Directive, the Cyprus Securities and Exchange Commission 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, it 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 Cyprus Securities and Exchange Commission to carry it out itself.

It is provided that the Cyprus Securities and Exchange Commission may, if it so wishes, participate in the verification when it does not carry out the verification itself.

16. Enforcement measures

16.1 If the regulated entities in a financial conglomerate do not comply with the requirements referred to in paragraphs 6, 7, 8 and 9, or where the requirements are met but solvency may nevertheless be jeopardized, 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:

- by the coordinator with respect to the mixed financial holding company,

- 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 17 point 17.2, the Cyprus Securities and Exchange Commission 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.

17. Additional powers of the competent authorities

17.1. The Cyprus Securities and Exchange Commission shall have the power to take any supervisory measure deemed necessary in order to avoid or to deal with the circumvention of sectoral rules by regulated entities in a financial conglomerate.

17.2. Breaches in the provisions of this Directive by:

a) investment firms mentioned in paragraph 1 point 1.2 are penalised pursuant to paragraph (m) of subsection (4) of section 64 of the Investment Firms Laws,

b) mixed financial holding companies, and/or their effective managers, and/or other persons, to whom the present Directive creates obligations, are penalised pursuant to subsection (5) of section 64 of the Investment Firms Laws.

SECTION 4

THIRD COUNTRIES

18. Parent undertakings outside the European Union

18.1. Without prejudice to the provisions of the sectoral rules, in the case referred to in paragraph 5, point 5.3, the Cyprus Securities and Exchange Commission shall verify whether the investment firms pursuant to paragraph 1 point 1.2, the parent undertaking of which has its head office outside the European Union, 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 point 5.2. The verification shall be carried out by the competent authority which would have been the coordinator if the criteria set out in paragraph 10 point 10.2 were to apply, on the request of the parent undertaking or of any of the regulated entities authorised in the European Union or on its own initiative.

It is provided that the said competent authority shall consult the other relevant competent authorities, and shall take into account any applicable guidance prepared by the Financial Conglomerates Committee.

It is further provided that, for this purpose the competent authority shall consult the said Committee before taking a decision.

18.2. In the absence of equivalent supervision referred to in point 18.1, above, the Cyprus Securities and Exchange Commission shall apply to the regulated entities, by analogy, the provisions concerning the supplementary supervision of regulated entities referred to in paragraph 5 point 5.2. Alternatively, the Cyprus Securities and Exchange Commission may apply one of the methods set out in point 18.3.

18.3 The Cyprus Securities and Exchange Commission may apply other methods to ensure appropriate supplementary supervision of the regulated entities in a financial conglomerate. These methods must be agreed by the coordinator, after consultation with the other relevant competent authorities. The Cyprus Securities and Exchange Commission may in particular require the establishment of a mixed 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 that holding company. The methods must achieve the objectives of the supplementary supervision, as defined in this Directive, and must be notified to the other competent authorities involved and the European Commission.

19. Cooperation with third-country competent authorities

19.1. In the cases where:

(a) the parent undertaking of the investment firm is registered in a third country, and

(b) the investment firm is registered in a third country and whose parent undertaking is an investment firm registered in a Member State or a financial holding company registered in a Member State,

the Cyprus Securities and Exchange Commission may request, through the Ministry of Finance, that the Commission submits proposals to the European Council for the negotiation of agreements with one or more third countries regarding the means of exercising supplementary supervision of regulated entities in a financial conglomerate.

CHAPTER III

ASSET MANAGEMENT COMPANIES

20. Asset management companies

20.1 Pending further coordination of sectoral rules, the Cyprus Securities and Exchange Commission in cooperation with the Superintendent of Insurance, the Commissioner CSSDA and the Cyprus Securities and Exchange Commission shall provide for the inclusion of asset management companies:

a) in the scope of consolidated supervision of investment firms, banks, CCIs, and/or in the scope of supplementary supervision of insurance undertakings in an insurance group; and

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

20.2 For the application of point 20.1, sub-point (a), the relevant supervisory authorities of the Republic shall decide, according to which sectoral rules (banking sector, insurance sector or investment services sector) asset management companies shall be included in the consolidated and/or supplementary supervision referred to in point 20.1 sub-point (a) above. For the purposes of this provision, the relevant sectoral rules regarding the form and extent of the inclusion of investment firms (where asset management companies are included in the scope of consolidated supervision of banks and investment firms) and of reinsurance undertakings (where asset management companies are included in the scope of supplementary supervision of insurance undertakings) shall apply mutatis mutandis to asset management companies. For the purposes of supplementary supervision referred to in sub-point (ii) of point (a), above, the asset management companies shall be treated as part of whichever sector it is included in by virtue of sub-point (i) of point (a).

20.3 Where an asset management company is part of a financial conglomerate, any reference to the notion of regulated entity and any reference to the notion of competent authorities and relevant competent authorities shall therefore, for the purposes of this Directive, be understood as including, respectively, asset management companies and the competent authorities responsible for the supervision of asset management companies. This applies mutatis mutandis as regards groups referred to in point 20.1, sub-point (a).

CHAPTER IV

NOTIFICATION OF THE FINANCIAL CONGLOMERATES COMMITTEE

21. Notification of the Financial Conglomerates Committee

21.1 The Cyprus Securities and Exchange Commission 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

22. Repeal of Directive DI144-2007-11 of 2011 and Directive DI144-2007-11(A) of 2012

22.1 The Commission's Directives DI144-2007-11 of 2011 and Directive DI144-2007-11(A) of 2012, with reference Regulatory Administrative Decision (Κ.Δ.Π.) 394/2011 and 122/2012, are hereby repealed and substituted with the present Directive.

23. Entry into force

23.1 The provisions of this Directive shall first apply to the supervision of accounts for the financial years commencing after 31 December 2004.

ANNEX 1

CAPITAL ADEQUACY

1. The calculation of the supplementary capital adequacy requirements of the regulated entities in a financial conglomerate referred to in paragraph 6 point 6.1 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 the next paragraph, where the Cyprus Securities and Exchange Commission 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. Where the Cyprus Securities and Exchange Commission 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 authorised 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 all 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

1. Extent and form of the supplementary capital adequacy requirements calculation

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 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.

2. Other technical principles

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 Part II of this Annex, the coordinator, and where necessary other competent authorities concerned, shall ensure that the following principles will apply:

(i) 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 Cyprus Securities and Exchange Commission shall apply, by analogy, the relevant principles laid down in the relevant sectoral rules;

(ii) (a) 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:

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

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

3) funds which may be transferred from one subsidiary undertaking to another subsidiary undertaking, provided that the former has guaranteed the related undertaking, and the type of funds to be transferred are eligible to be included as own funds of the related undertaking.

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

(b) When calculating own funds at the level of the financial conglomerate, the Cyprus Securities and Exchange Commission 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 group only if:

1) 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

2) the parent undertaking owns at least 75% of the issued share capital or of the voting rights, and only where 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.

(c) where, in the case of a non-regulated financial sector entity, a notional solvency requirement is calculated in accordance with Part 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 of the Open-ended Undertakings for Collective Investment in Transferable Securities (U.C.I.T.S.) and Related Issues Law.

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 Investment Firms Laws and Directive 7/2003 of the Cyprus Securities and Exchange Commission on investment firms.

(ii) the Banking Laws and Directives of the Central of Cyprus for the calculation of the capital adequacy ratio of banks and for the calculation of the capital base of banks,

(iii) the Cooperative Societies Laws and the Regulatory Decision of the CSSDA Commission for the Calculation of Own Funds and the capital adequacy ratio for the CCIs.

(iv) the Insurance Companies Law for insurance companies,

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, point 6.4 and in accordance with Part I of this Annex.

The difference shall not be negative.

Method 3: "Book value-Requirement deduction" 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 own funds of the parent undertaking or the entity at the head of the financial conglomerate; the elements eligible are those which qualify in accordance with the relevant sectoral rules;

and

(ii) the sum of

- the solvency requirement of the parent undertaking or the head entity's referred to in (i), above and

- the higher of the book value between the parent undertakings' participation in other entities in the group, and these entities' solvency requirements; the solvency requirements of the latter shall be taken into account for their proportional share as provided for in paragraph 6 point 6.4 and in accordance with Part I of this Annex.

In the case of non-regulated financial sector entities, a notional solvency requirement shall be calculated.

When valuing the elements eligible for the calculation of the supplementary capital adequacy requirements, participations in entities may be valued by the equity method i.e. they may be valued with the share of the own funds corresponding to the percentage of own funds represented by the participation.

The difference shall not be negative.

Method 4: Combination of methods 1, 2 and 3

The Cyprus Securities and Exchange Commission may allow a combination of methods 1, 2 and 3, or a combination of two of these methods.

ANNEX 2

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, point 7.2 and paragraph 8, point 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 paragraph 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 regulating 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 Cyprus Securities and Exchange Commission 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.