



SOUTH AFRICAN RESERVE BANK  
Prudential Authority

# **Comments and responses**

## **Draft Prudential Standard – Capital requirements for financial conglomerates**

July – August 2021 consultation

**Commentators:**

<b>Name of organisation/individual:</b>	BASA
<b>If the commentator is an organisation, provide the name and designation of the contact person:</b>	Benjamin April General Manager Prudential Division
<b>Name of organization</b>	Bank of China
<b>If the commentator is an organisation, provide the name and designation of the contact person:</b>	Rookaya Salajee – Assistant General Manager- Compliance
<b>Name of organization</b>	Standard Chartered Bank
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<b>Name of organisation/individual:</b>	The South African Insurance Association
<b>If the commentator is an organisation, provide the name and designation of the contact person:</b>	Mashudu Mabogo Legal Specialist
<b>Name of organisation/individual:</b>	Nedbank
<b>If the commentator is an organisation, provide the name and designation of the contact person:</b>	Lianca du Toit - Supervisory Liaison Administrator Supervisory Liaison Administrator
<b>Name of organisation/individual:</b>	Habib Overseas Bank Limited
<b>If the commentator is an organisation, provide the name and designation of the contact person:</b>	Manzar Kazmi – Managing Director Henk Engelbrecht – Executive Director
<b>Name of organisation/individual:</b>	Discovery Limited
<b>If the commentator is an organisation, provide the name and designation of the contact person:</b>	Tash Balipursad Regulatory Change – Group Compliance

No	Commentator	Paragraph of the Standard	Comment	Response
<b>GENERAL COMMENTS ON STANDARD</b>				
1.	<b>BASA</b>	<b>General</b>	<p>It is not clear why the economic capital calculated within the banking and insurance entities is not considered as the basis for the financial conglomerate capital standard.</p> <p><b>Clarify</b> economic capital is not considered as the basis for the financial conglomerate capital standard.</p>	<p>Economic capital is a principle-based company specific calculation and not a regulatory capital calculation on which this standard focuses on. The financial conglomerates need to bear in mind that they are also required to conduct a Financial Conglomerate - Capital and Risk Assessment (FC-CARA) to determine economic capital at a financial conglomerate level.</p>
2.	<b>BASA</b>	<b>General</b>	<p>Is there an expectation for risk, 2<sup>nd</sup> line of defense, and audit, 3<sup>rd</sup> line of defence, to play a role in the review of capital calculations and returns (specifically need for consistency of FSI market risk models, fungibility adjustments, add on of additional risks)?</p> <p><b>Clarify</b> the role of risk and audit</p>	<p>Once the standards are finalised, the Prudential Authority (PA) will be issuing a prudential standard that deals with audit requirements. The PA does not see modelling playing a big role for calculation of capital at a financial conglomerate level.</p> <p>The determination of capital is based on a standardised approach and not requiring internal models.</p> <p>There is an expectation for risk management and governance processes to play a role in capital management and submission of returns. Please also refer to the Governance and Risk Management Standard for financial conglomerates.</p> <p>For the field testing the Head of Balance Sheet Management or Capital Management or a similar function is required to sign-off.</p>

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3.	BASA	General	<p>Will appreciate it that an updated version of the standard be provided before the planned field testing becomes effective, post the workshop mentioned in the commentary matrix (item 92).</p> <p><b>Recommend</b> an updated version of the standard be provided before the planned field testing becomes effective.</p>	Noted. The final draft standard will be published before field testing commences.
4.	BASA	General	<p>We will appreciate that the final financial conglomerate standards are published with sufficient time to allow for the finalisation of internal implementation and internal assurance work to be done before the effective date of the standards.</p> <p><b>Request</b> that adequate time be given for internal implementation and assurance before the implementation date</p>	FC-02 to FC-05 was published in 2021 and effective on 1 January 2022. The draft capital standard will be finalised after the field testing whereby the financial conglomerates would have already started developing an internal implementation and assurance framework.
5.	BASA	General	<b>Clarify</b> and confirm alignment of the intragroup standard to the capital standard, and treatment in the assessment of significant entities in the FC structure.	The standards are aligned in terms of what is meant by intragroup transactions. Significant entities are entities that are scoped into the financial conglomerate. Without further details related to the request for alignment, it is difficult to respond further.
6.	BASA	General	<b>Clarify</b> , are there any links to the reporting for the intragroup reporting templates – consistency and validations required if applicable.	Once the capital standard and reporting template are finalised – the PA will review the other financial conglomerate reporting templates for applicable validation and alignment.

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7.	Bank of China	General	No comment as the draft prudential standard has no impact on bank	Noted.
8.	Standard Chartered Bank	General	No comments from Standard Chartered Bank as the bank is not a financial conglomerate.	Noted
9.	SAIA	General	No comment	Noted.
10.	Nedbank	General	We wish to confirm that Nedbank does not have any additional comments on the draft Financial Conglomerate Prudential Standard on Capital Requirements.	Noted.
11.	Habib Overseas Bank	General	Habib do not have any comments on the draft Prudential Standard.	Noted.
<b>COMMENTS ON THE REPORTING TEMPLATE</b>				
12.	BASA		<u>FCO1.1</u> <b>Update</b> Cell D19 as formula should read =D15-D16	Noted. The formula has been amended accordingly.
13.	BASA		<u>FC01.1</u> Where does regulatory deductions (goodwill) get reported at the FC level for entities outside of the solo/controlling company? Goodwill arises on consolidation, but the reporting seems to be at a standalone entity level (e.g., controlling or solo entity). <b>Clarify</b>	Initial reporting is in FC01.3.1 and the deduction is reported in FC01.3.3. Row 18 will be completed once a capital add-on is applicable. This will be communicated with the relevant Financial Conglomerate on a case-by-case basis.

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			<p>Row 18 requires an amount to be populated as the capital add-on, this is not info that will be available at the time of the impact assessment. <b>Clarify</b></p> <p>Also when implemented, how frequently will this add-on be assessed by the Prudential Authority, given that this requirement is a 6 monthly reporting requirement. <b>Clarify</b></p> <p>Assuming that the capital add-on will be informed by the ICAAP for the FC. Will this follow after the completion of the banking group ICAAP and insurance entities ORSA. How will the timing of the ICAAP submission be coordinated? <b>Clarify</b></p> <p>Column G - what is the relevance of the net assets column, is this meant to align to the eligible capital, suggesting a Tier 1 equivalent for eligible capital? <b>Clarify</b></p>	<p>The PA will reassess the applicable capital add-on depending on the risk profile of the financial conglomerate.</p> <p>The holding company of the financial conglomerate must, at least on an annual basis or when there is a significant change in the risk profile of the financial conglomerate, conduct an appropriate risk and capital assessment to enhance the link between the financial conglomerate's risk profile, its risk management, and its capital. This assessment is called the FC-CARA. Please refer to FC04 – Governance and Risk Management.</p> <p>Column G reflects total assets less total liabilities. It is a calculated field and is for information purposes. It is not aligned to the eligible capital.</p>
14.	BASA		<p><u>FC01.2.1</u></p> <p>Is there a definition for Layer 1,2,3,4,5? <b>Clarify</b></p> <p>If this template is only for FC entity names, why is the requirement for it to be completed in R000 – are there specific values to be included? <b>Clarify</b></p>	<p>There is no definition of the layers – it is the organogram of the financial conglomerate. It must be customised according to the structure of the financial conglomerate. The layers are not limited to 5 layers.</p> <p>For example: Layer 1 will be the holding company; layer 2 can either be an intermediate holding company or a member; and layer 3 can be a subsidiary or associate member of the</p>

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				layer 2 member / intermediate holding company etc. Noted. This requirement is not applicable to sheets that require qualitative data. This legend is common across all sheets.
15.	BASA		<u>FC01.2.2</u> The type of entity in the drop-down menu does not include option of securities firm, which are also regulated? <b>Clarify</b>	Securities firms according to the standard is treated as an unregulated entity for the purposes of capital calculation.
16.	BASA		<u>FC01.3.1</u> Should a column for investments in associates and joint ventures in the FC group be included separately? <b>Clarify</b>	Template amended to cater for Joint Ventures and Investments in Associates.
17.	BASA		<u>FC01.3.2</u> Will debt instruments (column L) also include Tier 2 capital instruments that qualify as capital? <b>Clarify</b>  Column H – is there a definition for other regulated liabilities? <b>Clarify</b>	Yes, debt instruments will be included here (as they are on the liabilities side of the balance sheet for any company). Qualifying debt instruments will also be included on FC01.3.3 under column K (sub-ordinated liabilities).  This column has been removed.
18.	BASA		<u>FC01.3.3</u> What should be populated in column H 'Capital movements during the period? Will this be for the 6-month period? <b>Clarify</b>  By including retained earnings, is this the IFRS reported retained earnings, therefore ignoring appropriation of profits concept under the banking regulations? <b>Clarify</b>	Yes, it is for the reporting period.  Yes, subsequent adjustment will be done in column R.  Column J.

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			<p>Where is equity accounted AT1 instrument reported?  <b>Clarify</b></p> <p>Column K – does this include AT1 and Tier 2, from banking perspective? <b>Clarify</b></p> <p>Column O – what valuations should be included in this column? <b>Clarify</b></p> <p>Column S - what would qualify for reporting under ‘other’.  <b>Clarify</b></p>	<p>Column K is limited to Tier 2 instruments only.</p> <p>Column O - Anything that is valued differently as per any applicable financial sector regulatory frameworks e.g., Prudential Value Adjustments</p> <p>Column S – anything that does not fit into the preceding 4 columns.</p>
19.	BASA		<p>FC Information – row 24</p> <p>The other sheets are not updating to the specified number of rows and columns</p> <p><b>Update</b> the links</p>	<p>Noted. The customize button must be activated. The updated template now has the correct macro.</p>
20.	BASA		<p>There is no Isle of Man in the country list.</p>	<p>Noted. The Isle of Man has been added.</p>
21.			<p>W.R.T the insurance group that is owned by the Conglomerate –?</p> <p><b>Recommend it be disclosed a single line on this return</b></p>	<p>On FC 1.2.1 – we want to see all the entities within a conglomerate – the whole organogram.</p> <p>On FC 1.2.2 – the filer/user should indicate which entities are part of the insurance group in column L. The return will automatically collapse those entities and only show the entry for the insurance group on subsequent sheets. For clarity, in column L, the controlling company must be indicated with a ‘N’ as it is not part of a sub-group but rather a sub-group itself. All other entities within the sub-group must be indicated with a ‘Y’.</p>



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22.	BASA		References are made to goodwill. However, as goodwill arises on consolidation, and we are effectively deconsolidating, there will be no goodwill, only the actual NAV of the various subsidiaries in the Group. <b>Clarify</b>	No block will be deconsolidated therefore goodwill will apply.
23.	BASA		Standard Bank Group and Liberty Holdings do not appear in the metadata. <b>Update</b>	Noted. The lists have been updated.
24.	<b>BASA</b>		There are no rules supporting Leverage Ratio as this seems to be pointing to a separate calculation <b>Recommend</b> that a simple leverage ratio be incorporated in the template.	On FC01.2.2, Column T deals with the leverage ratio. A formula has been added to log file.
25.	<b>BASA</b>		What is the purpose of columns L and M on template FCO 1.2.2? Selecting “no” seems to exclude these entities from the summary section. <b>Clarify</b>	Column M indicates which of the entities of the financial conglomerate form part of the calculation of capital of the financial conglomerate. Thus, it will only be "N" in the case where a scoped in entity is excluded as per paragraph 4.2 of the financial conglomerate capital standard. Column L aims to create the blocks that will be used for the capital calculation of the financial conglomerate. As an example, all entities that form part of an insurance group will be selected as "Y" while the controlling company of the insurance group will be selected as "N". This means that only the controlling company (representing the insurance group block) will be displayed further on in the template.
26.	<b>BASA</b>		The PA provided some feedback on what a Block constitutes. By way of a scenario, clarify the following.	This depends on whether the Sub-Holdco is scoped in as part of group supervision. If it is then Bank Z and Bank Q fall under the banking

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			<p>1. The FC Holdco owns a Sub Holdco</p> <p>2. The Sub Holdco owns 2 banks in jurisdictions outside of SA. Bank Z and Bank Q.</p> <p>3. The Sub Holdco is defined as a member of the conglomerate.</p> <p>In this scenario, the Sub Holdco has been, by way of a letter from the PA, confirmed as a member of the conglomerate. Does the Sub Holdco constitute a Block, or does Bank Z and Bank Q constitute a Block?</p> <p><b>Clarify</b></p>	group which is a block. If not, then the Sub-HoldCo, Banks Z and Q are blocks separately.
27.	<b>BASA</b>		<p>Definition of “Blocks”. IS a block perhaps all solo banks in the foreign solo banks in the Group – thus the summary per FCO1.1?</p> <p><b>Clarify</b></p>	The summary on FC01.1 provides an aggregated view of the results per type of block. Thus, it aggregates all the different blocks on sheet FC01.3 into the types of blocks on sheet FC01.1. All solo banks which do not form part of a designated banking group (i.e., level 2 supervision) will each be a block for the purpose of the calculation. Banks that form part of a designated banking group will be included in the banking group block and thus not be treated separately for the capital calculation.
28.	<b>SAIA</b>		No comment	Noted.
<b>COMMENTS ON THE STANDARD</b>				
29.	<b>BASA</b>	<b>4.1</b>	The definition and methodology for identifying a block are not clear from the standard. It has suggested the below as proposals to assist in providing clarity based on the feedback provided in the last consultation.	The PA prefers not to include examples in definitions as it may be used to narrow the scope of the definition.

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			<p><b>Recommend</b> replacing the definition with the feedback in the commentary matrix:</p> <p>“block” means a solo entity (i.e., where this entity is not part of level 2 supervision), a controlling company (i.e., either the insurance group or banking group in the case of level 2 supervision), an unregulated entity not part of another block or the residual assets and liabilities of the holding company of the financial conglomerate. Thus, an intermediate holding company as referenced here would be the controlling company in level 2 supervision and a block.</p>	<p>The PA is of the view that the definition of a block is clear.</p>
30.	<b>BASA</b>	<b>4.1</b>	<p>Definitions for the terms “similar regulator” and “equivalent jurisdiction” are not defined in the context of a financial conglomerate.</p> <p><b>Recommend</b> including definitions for the terms “similar regulator” and “equivalent jurisdiction” defined in the context of a financial conglomerate</p>	<p>The PA will test the concepts during the field testing and will communicate further details if necessary.</p>
31.	<b>BASA</b>	<b>4.1</b>	<p>The standard is silent on “securities services” as a standalone type of institution which may be included as per the published financial conglomerate designation criteria under section 4 “any combination of banking, insurance and securities services”.</p> <p><b>Recommend</b> that a definition be included e.g., cross-reference to the designation criteria and then stipulate that for the standard that where a security service is not included within a bank or insurance group it is treated the same way as an unregulated entity for the standard.</p> <p><b>Clarify</b> if prudential supervision (or solo supervision) only refers to supervision by the PA. It is also not clear what</p>	<p>‘Securities services entities’ are also captured by the standard. According to this Standard read with the reporting return securities services entities are regarded as unregulated.</p>

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			<p>group supervision means, it is assumed that it refers to any entity which is part of either a banking or insurance group (that is included in the group of companies supervised under a controlling company).</p> <p><b>Recommend</b> listing terms that are defined in other pieces of legislation and indicate where these definitions reside. (Example of this approach is insurance standard FSG1 Attachment 1 approach.) A list of terms defined in the Financial Sector Regulation Act e.g., "eligible financial institution" could be included. This is very helpful for users.</p>	<p>The standard has been amended to define group supervision and solo supervision.</p>
32.	<b>BASA</b>	<b>4.1</b>	<p><u>Definition of a controlling company</u></p> <p>Does the definition of controlling company also cover entities in other sectors, e.g., securities firms? <b>Clarify</b></p>	<p>The definition of a controlling company also covers entities in other sectors, if it is licensed by the Prudential Authority or by a similar regulator in an equivalent jurisdiction.</p>
33.	<b>BASA</b>	<b>4.1</b>	<p><u>Definition of eligible capital</u></p> <p>Reference is made to capital resources</p> <p><b>Clarify</b> the tiers of capital to be included from both a banking (CET1, Tier 1 or total available capital) and insurance perspective (Tier 1 and Tier 2,).</p> <p>6.4.2 refers to eligible capital using NAV, suggesting a Tier 1 equivalent requirement.</p> <p><b>Recommended</b> that a consistent approach be adopted across all blocks.</p>	<p>The principle applied uses regulatory numbers from existing regulations without the need to recalculate eligible capital for the purposes of the financial conglomerate.</p> <p>NAV is applicable to unregulated entities as such entities are, by definition, not part of group or solo supervision or has any prudential regulations to calculate regulatory eligible capital.</p> <p>There is no tiering at the financial conglomerate holding company level. Tiering is dealt with in the various blocks. All eligible capital at the block level can count towards the financial</p>

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				conglomerate holding company's eligible capital.
34.	<b>BASA</b>	<b>4.1</b>	<p><u>Definition of required capital</u></p> <p><b>Clarify</b> is there a level of calibration to calculate the required capital, e.g., banking = RWA x minimum percentage requirement?</p> <p>It is unclear if the minimum requirement will reference a Tier 1 or total capital requirement (from a banking perspective). It is our understanding that, at a FC holding company level, the Prudential Authority can decide if a FC specific capital add-on will be required. If this is the case, <b>clarify</b> will the requirement for each block also include a 'bank-specific add-on' in the relevant minimum requirement?</p> <p><b>Recommend</b> that the PA consider if there will be any element of double count and how this will be accounted in the definition of required capital.</p> <p>It is unclear how the required capital for insurance entities will be derived (level) and whether a 1.0x CAR will be used.</p> <p><b>Clarify</b></p>	<p>The PA cannot provide a level of calibration at the financial conglomerate level as we build the calculation using the regulatory calculations for banks and insurers and then use the method provided in the Standard for the entities that are not captured in existing regulatory frameworks.</p> <p>For regulated entities, the calibration is as per the regulations of those entities and not relevant for this Standard.</p> <p>Capital add-ons from a financial conglomerate perspective will only be affected at the holding company level and may be a Rand amount or a specified percentage. No capital add-on will be applicable for a block of a regulated entity or controlling company as any shortfalls in a block will be addressed by the regulations and supervision of that block.</p> <p>The capital requirements for insurance entities and insurance groups will be as per the relevant insurance prudential standards (i.e., SCR and Group SCR).</p>

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35.	BASA	4.1	<p><u>Definition of significant entity</u></p> <p>For materiality/significance rule –</p> <p><b>Clarify</b> will any thresholds be applied (from an IFRS perspective) to determine significance?</p> <p><b>Clarify</b> Is there any alignment to the significance ruleset currently applied for banking consolidated supervision reporting (BA600)?</p> <p><b>Clarify</b> the differentiation between IFRS consolidation or BA600 consolidated supervision and most relevant set of numbers.</p>	There is no link to BA 600. The onus rests with the PA to exclude entities.
36.	BASA	4.3	<p><u>The 20% threshold for net income and 10% of total assets</u></p> <p><b>Clarify</b> will this be based on the consolidated net income and consolidated total assets, in terms of IFRS?</p> <p><b>Clarify</b> will this also factor in eliminations for intragroup assets and income adjustments for each block?</p>	Noted. This paragraph has been deleted as it is not necessary to clarify in the standard. The PA will access the exclusion of entities on a case-by-case basis.
37.	BASA	5.2	<p>Capital adequacy: the definition is not clear as to whether the PA will only intervene if the capital adequacy goes below 1, or whether there may be activated before this point is reached – given that in line with paragraph 5 the PA may form a prospective view on whether the financial conglomerate will fall below 1. This has significant implications for buffer management.</p> <p><b>Recommend</b> explicitly stating that the PA will only intervene if the capital adequacy goes below 1. The onus will then rest on the financial conglomerate to provide a view of the required buffer (based on the risks, structure,</p>	<p>Supervision is a nuanced exercise and as an entity approaches a cover level of 1, more intense supervision will be applied. Breaching the level of 1 will attract regulatory action.</p> <p>The percentage of the buffer depends on the FC-CARA of the financial conglomerate.</p>

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			and governance of the financial conglomerate) and manage its capital adequacy in line with this requirement.	
38.	<b>BASA</b>	<b>5.2</b>	<p>Additional clarification required:</p> <p>Where the capital adequacy ratio is calculated as:</p> <p>Eligible Capital = <math>\Sigma</math> (Banki; Insureri; Unregulated Entities; HoldCo Residuali)</p> <p>Required Capital i = <math>\Sigma</math> (Banki; Insureri; Unregulated Entities; HoldCo Residuali)</p> <p><b>Recommend</b> the added clarification:</p> <p>Where the capital adequacy ratio is calculated as:</p> <p>Eligible Capitali = <math>\Sigma</math> (Banki; Insureri; Unregulated Entities; HoldCo Residuali)</p> <p>Required Capital i = <math>\Sigma</math> (Banki; Insureri; Unregulated Entities; HoldCo Residuali)</p>	Noted. The PA is of the view that the description in paragraph 6.8 is sufficient and explains in words what the formula is saying.
39.	<b>BASA</b>	<b>5.5</b>	Does this mean that until this list is published, no other jurisdiction is considered to be equivalent? <b>Clarify</b>	Yes.
40.	<b>BASA</b>	<b>5.5</b>	Will the initial list be the same as that published in the Insurance Act of 2017's "Notice Determination of Equivalent Foreign Jurisdiction" that became effective 1 July 2018? <b>Clarify</b>	No, the list mentioned is for jurisdictions that meet the objects of the Insurance Act. For the field testing the PA, will not be determining any equivalent jurisdictions and will address each matter on a case-by-case basis considering the impact of recognition and non-recognition on capital
41.	<b>BASA</b>	<b>5.5</b>	<u>Notice on its official website determine equivalent jurisdictions for the purposes of this Standard.</u>	As and when such determinations have been made, the notice will be published. Refer to

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			<b>Clarify</b> the timing on the notice on the website and frequency of such notifications?	response to comment 40 above regarding the field testing.
42.	<b>BASA</b>	<b>6</b>	<p>Suggest including a section describing how to identify a block in line with the feedback in the commentary matrix, before 6.4. Where the residual assets and unregulated and residual liabilities are identified the IFRS deduction approach should be used</p> <p><b>Recommend</b> for inclusion:</p> <p>“The definition of a block details the various groupings that would form part of a block. That is:</p> <ul style="list-style-type: none"> <li>• Solo entity (i.e., only supervised under level 1).</li> <li>• An insurance group or banking group (as supervised and scoped under level 2).</li> <li>• An unregulated entity as defined (i.e., not supervised and not included in an insurance or banking group under level 2 supervision); and</li> <li>• Residual assets and liabilities of the holding company of the financial conglomerate (i.e., not included in the first three bullets).”</li> </ul>	Noted. The PA is of the view that the definitions in 4.1 of a block and unregulated entities adequately covers this.
43.	<b>BASA</b>	<b>6.2</b>	<p><u>The holding company of the financial conglomerate should first be consolidated in terms of IFRS.</u></p> <p>What part of the IFRS financial statements is being referred to here? Is this meant to refer to the Equity Section of the Conglomerate or is the intention to capture the entirety of the conglomerates consolidated IFRS financial statement</p>	Full IFRS consolidation, in accordance with relevant IFRS issued from time to time.



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			online marked as “Holding Company of the Conglomerate”. <b>Clarify</b>	
44.	<b>BASA</b>	<b>6.2 and 6.3</b>	In terms of methodology, clarity is required in terms of what allowance is made in the consolidated IFRS accounts for entities excluded based on paragraphs 4.2 and 4.3 (in line with requirements set out in 6.2 and 6.3)? <b>Clarify</b> what allowance is made in the consolidated IFRS accounts for entities excluded based on paragraphs 4.2 and 4.3 (in line with requirements set out in 6.2 and 6.3)?	The deduction of the blocks will happen as part of the elimination of the intra-group transactions. Entities that have been excluded in terms of paragraph 4., should be assigned zero values post deductions.
45.	<b>BASA</b>	<b>6.3</b>	<u>The IFRS values of the different blocks must be deducted from this consolidated value.</u> Is the template meant to facilitate this “Deduction” or is a separate exercise required outside of the template? This will then be at odds with point one above. <u>The IFRS values of the different blocks must be deducted from this consolidated value.</u> What is referred to here as the IFRS values. Please include a comprehensive definition that will avoid “interpretive” audit findings. <b>Clarify</b>	See response to comment 44. A separate calculation is not required, the template does facilitate the deduction as part of the elimination of intragroup transactions.  The PA is of the view that meaning regarding ‘IFRS values’ is clear. Please also refer to the definition of a ‘block’ under paragraph 4.1 of the Standard.
46.	<b>BASA</b>	<b>6.3</b>	<u>The IFRS values of the different blocks must be deducted from this consolidated value</u> A further understanding of the purpose of this paragraph is required. If the IFRS NAV for the blocks are deducted from the consolidated FC value/available capital, there can be an element of doublecount, as the consolidated NAV at the	See response to comment 45.  Only IFRS values get deducted in terms of paragraph 6.3 and not IFRS NAV values.

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			holding company level only includes post acquisition reserves. <b>Clarify</b> will the deduction from consolidated NAV relate only to post acquisition reserves for the different blocks?	
47.	<b>BASA</b>	<b>6.4.1</b>	Is this paragraph to be interpreted that the capital requirements for each entity/block be calculated in terms of the existing prudential regulatory requirements applicable to such entity? <b>Clarify</b>	Yes.
48.	<b>BASA</b>	<b>6.4</b>	It is not clear as to what would count as initial eligible capital for unregulated entities. Will it be the eligible capital mean the capital as recognised under IFRS? <b>Clarify</b>	See paragraph 6.4.2 where NAV must be used.
49.	<b>BASA</b>	<b>6.4</b>	It is not clear as to what would count as initial eligible capital for the residual holding company block. Will it be the eligible capital mean the capital as recognised under IFRS after the deduction of the other blocks? <b>Clarify</b>	Paragraph 6.4.3 has been reworded to clarify what is regarded as eligible capital for the holding company.
50.	<b>BASA</b>	<b>6.5</b>	Intragroup transactions: It is not clear how are cash assets for an insurer, or cell captive insurance arrangements for a bank dealt with. Reinsurance is mentioned explicitly. <b>Clarity</b> how are cash assets for an insurer, or cell captive insurance arrangements for a bank dealt with?	Elimination of intra-group transactions are only required when such intra-group transactions would result in double-counting in either eligible or required capital.
51.	<b>BASA</b>	<b>6.5.2</b>	It needs to be made clear if intra-group transactions must be eliminated or only if there is double counting or multiple usages. Removal of certain intra-group transactions may lead to non-sensible results; for example, if an insurer backs linked or market-related liabilities with equity/bonds or deposits with a bank in the conglomerate but passes all the risk to the policyholder. It is at least requested that the	Intragroup transactions must only be eliminated if double-counting may occur, please see paragraph 6.5.1.  Should any incidents occur, during field testing that lead to non-sensical results, please contact the Prudential Authority.

No	Commentator	Paragraph of the Standard	Comment	Response
			<p>conglomerate can apply to the PA for an alternative approach.</p> <p><b>Clarify</b> and it is also <b>requested</b> that the conglomerate be able to apply to the PA for an alternative approach.</p>	
52.	<b>BASA</b>	<b>6.5.3</b>	<p>It is not clear how are the first-party cell captive arrangements and/or wholly-owned captives dealt with in terms of elimination?</p> <p><b>Clarify</b></p>	<p>Only where these arrangements lead to double counting would elimination be required. The list in 6.5.3 is not an exhaustive list but merely some examples. Any transaction that could lead to double counting must be eliminated, whether they are mentioned in the list or not.</p>
53.	<b>BASA</b>	<b>6.5.3 (b)</b>	<p>There appears to be a typing error.</p> <p>"Cross holdings and holdings of capital instruments that were issued by the holding company of the financial conglomerate, by any of its subsidiaries;"</p> <p>Should one of the highlighted words "by" be "to"? Alternatively, should the first "by" be "by (or to)" and the second "by" be "to (or by)"? If the latter applies, it is suggested an extra bullet is added - so that the meaning is clear irrespective of whether the subsidiary or the holding company is the one issuing the capital instruments.</p> <p><b>Clarify</b></p>	<p>Noted. The Standard has been amended accordingly.</p> <p>Cross holdings between blocks which could include capital instruments.</p>
54.	<b>BASA</b>	<b>6.8.1</b>	<p>Suggest defining economic interest e.g., footnote 16 pg. Prudential Standard FSG 2 Assessing the Financial Soundness of Insurance Groups Using the Deduction and Aggregation Method "For less than 100%-owned participation, the share that is owned by third parties should</p>	<p>The use of economic interest should be used in its common use. In most instances this would be equivalent to shareholding.</p>

No	Commentator	Paragraph of the Standard	Comment	Response
			not be included in group own funds where the third-party has the option to return its shareholding.” <b>Recommend</b> updating defining economic interest e.g., footnote 16 pg. Prudential Standard FSG 2 Assessing the Financial Soundness of Insurance Groups Using the Deduction and Aggregation Method “For less than 100%-owned participation, the share that is owned by third parties should not be included in group own funds where the third-party has the option to return its shareholding.”	
55.	<b>BASA</b>	<b>6.3</b>	It is unclear what is meant by the “IFRS value of the different blocks must be deducted from the consolidated value” <b>Recommend</b> a numerical example to illustrate how the requirements should be calculated.	See response to comment 44 above.
56.	<b>BASA</b>	<b>6.6.1</b>	<b>Clarify</b> if the definition of fungible capital refers to only the eligible capital in excess of the required capital for the specific block.	Fungible capital is all capital that can be transferred to another entity in the conglomerate and non-fungible capital is all capital that cannot be transferred. However, to not create a drag at the conglomerate level, non-fungible capital within a block may be recognised such that eligible capital equals required capital for that block.
57.	<b>BASA</b>	<b>6.6.3</b>	It is unclear how non-fungible eligible capital is to be limited at a financial conglomerate level. <b>Recommend</b> a numerical example to illustrate how the requirements should be calculated.	All non-fungible capital is limited at the conglomerate level, however, see comment 57.

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58.	BASA	6.6.4 (a)	<p>It is not clear whether the qualifying capital of a bank controlling company, held in terms of the requirements of the Regulations relating to banks would be considered fungible for financial conglomerate purposes?</p> <p><b>Clarify</b> whether the qualifying capital of a bank controlling company, held in terms of the requirements of the Regulations relating to banks would be considered fungible for financial conglomerate purposes?</p>	Yes, it can possibly qualify as fungible. In the case where legal or regulatory requirements disallow such transfer of capital it would be considered non-fungible. See comment 56.
59.	BASA	6.6.4	6.6.4 cross-references to 6.7. The regulatory exclusionary considerations are in par 6.6.6. <b>Update</b>	Noted. The Standard has been updated accordingly.
60.	BASA	6.6.4(b)	<p><u>b) Ancillary eligible capital and encumbered assets of participation within the financial conglomerate...</u></p> <p>The terms 'encumbrance' and 'participation' are not defined in the FSR Act.</p> <p>"Encumbrance" is defined in the Insurance Act and "participation" is defined in insurance standards FS11 and FSG1. Are these terms defined elsewhere in the financial conglomerate regulatory framework?</p> <p>Not all financial conglomerates would have insurers in the conglomerate.</p> <p><b>Recommend</b> a cross-reference to where these terms are defined is required.</p>	<p>Yes, noted. Please see paragraph 4.1 which states that definitions in other applicable financial sector laws apply.</p> <p>The wording of paragraph 6.6.4(b) has been amended.</p>
61.	BASA	6.6.4(c)	This relates to the previous point 2, on what constitutes eligible capital. It is unclear why capital instruments not issued from the holding company of an FC should be deducted. The existing bank regulations do not prohibit	It is our understanding that such instruments would not be fungible, but conglomerates are

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			<p>issuance from operating companies. The concept of issuance from a top listed entity is also not relevant to non-banking (i.e., insurance) entities.</p> <p><b>Recommend</b> that the PA consider issuance from the intermediate holding company or operating entity.</p> <p>Given the allowance for equivalent jurisdictions under the FC standards, and recognition of instruments issued by intermediate/operating entities, <b>clarify</b> what would the rationale be for excluding such instruments?</p>	<p>allowed to approach the Prudential Authority for consideration.</p>
62.	<b>BASA</b>	<b>6.6.4</b>	<p><u>Eligible capital related to deferred tax assets.</u></p> <p><b>Clarify</b> if this relate to the actual IFRS deferred tax asset balance?</p>	<p>Not, necessarily. It depends on the nature of the block. If the block is regulated, use the applicable accounting standards read together with the financial sector law/regulations.</p> <p>If the block is unregulated, used the deferred tax already calculated.</p> <p>.</p>
63.	<b>BASA</b>	<b>6.6.5</b>	<p>There is a full stop missing at the end of the final sentence.</p> <p><b>Update</b></p>	<p>Noted. The standard has been amended accordingly.</p>
64.	<b>BASA</b>	<b>6.7.1</b>	<p>It is not clear how this would happen except via an intra-group transaction, so not sure it is necessary. <b>Clarify</b></p>	<p>Different methods of consolidations are used by different blocks. The purpose of paragraph 6.7.1 is to avoid double counting of capital between blocks. The PA will continue to monitor this requirement during field-resting to determine its appropriateness.</p>

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65.	<b>BASA</b>	<b>6.8</b>	<p>It is unclear how the aggregation of each of the respective “blocks” should be performed.</p> <p><b>Recommend</b> the PA provide a numerical example to illustrate how the requirements should be calculated.</p>	<p>In basic terms, sum the eligible capital and required capital (after adjustments) for each of the various blocks. The structure of the reporting template will assist in the aggregation process.</p>
66.	<b>BASA</b>	<b>7.1</b>	<p>Consideration should be given of the costs to the industry. The PA indicated in its comments on section 7.1 "It is accepted that the information submitted after 60 days will not necessarily be final or complete if the underlying processes are not completed in time." This clause does not appear in the standard - which means holding companies of conglomerates may not be comfortable to base their submissions on draft figures received from Level 2 groups. The conglomerate will also require time to pull together a conglomerate view once Level 2 groups and other entities within the group have supplied figures.</p> <p><b>Recommend</b> the 60-day deadline per clause 7.1 be changed to 4 months for at least the dry-run/field testing starting in January 2022 and for the period up to the 1 January 2025 commencement date and allow for re-submission post-audit where required.</p>	<p>Submission during the field testing will be according to timelines of the field testing and not necessarily following 7.1. The standard does not require fully audited final numbers to be submitted, but a submission at the required intervals, nonetheless. Paragraph 7.1 has been replaced referring the submission process to a determination on the PA webpage.</p> <p>The submission period will be monitored during the field testing.</p>
67.	<b>SAIA</b>	<p>7.1</p> <p>The holding company of a financial conglomerate must submit</p>	<p>In respect of the revision to paragraph 7.1, and associated responses #147 and #148 in “4 - Comments matrix from previous consultation”, require further clarity.</p> <p>In particular:</p>	<p>See response to comment 66 above.</p>

No	Commentator	Paragraph of the Standard	Comment	Response
		<p>regulatory reporting returns on a six monthly basis in June and December. The returns must be submitted within 60 days after the relevant reporting date.</p>	<ul style="list-style-type: none"> <li>▪ The direct interpretation of the requirement suggests that returns must be submitted in the calendar months of June and December. This will prove difficult for Financial Conglomerates that have year-end and interim reporting dates ending in those months. While this was probably not the intention of the revision, the Standard should be amended to clarify that these are the reporting dates and not the submission dates. Furthermore, for the avoidance of doubt, 'six monthly basis', should be amended to 'semi-annual basis', as 'six monthly' may be interpreted as limiting the period under review to only six months – irrespective of whether the reporting date is for interims or year-ends.</li> <li>▪ Response #148 states, "In the 60 days submission does not require that the reporting is audited. It is accepted that the information submitted after 60 days will not necessarily be final or complete if the underlying processes are not completed in time." While it is appreciated that the response recognizes the challenge of aggregating the required underlying information within 60 days, and this would likely need to be unaudited and draft information, it will still prove practically challenging to source the necessary financial information during the normal financial reporting cycle. Requisite balance sheet information is only available around 1 and a half months after the reporting date, for example. It is recommended that the Financial Conglomerate return submission date aligns with or after the Group return submission date to avoid</li> </ul>	<p>See response to comment 66 above.</p> <p>Noted.</p>



No	Commentator	Paragraph of the Standard	Comment	Response
			<p>duplication of effort and promote internal consistency between the two returns.</p> <ul style="list-style-type: none"> <li>▪ In order to be consistent with the terminology used in the submission intervals for solo and group returns, it is requested that the reference to '60 days' be stated in months. It is unclear whether this should represent 60 calendar month days (two months) or 60 business days (three months).</li> </ul>	
68.	<b>Discovery</b>	7.1	<p>The revision to paragraph 7.1, and associated responses #147 and #148 in “4 - <i>Comments matrix from previous consultation - 1 July 2021</i>”, require further clarity.</p> <p>In particular:</p> <ul style="list-style-type: none"> <li>▪ The revision states that “The holding company of a financial conglomerate must submit regulatory reporting returns on a six monthly basis in June and December”. The direct interpretation of this statement suggests that returns must be submitted in the calendar months of June and December. This will prove difficult for Financial Conglomerates that have year-end and interim reporting dates ending in those months. While this was probably not the intention of the revision, the Standard should be amended to clarify that these are the reporting dates and not the submission dates. Furthermore, for the avoidance of doubt, ‘six monthly basis’, should be amended to ‘semi-annual basis’, as ‘six monthly’ may be interpreted as limiting the period under review to only six</li> </ul>	See response to comment 66 above.

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			<p>months – irrespective of whether the reporting date is for interims or year-ends.</p> <ul style="list-style-type: none"> <li data-bbox="792 459 1505 1098">▪ Response #148 states, “In The 60 days submission does not require that the reporting is audited. It is accepted that the information submitted after 60 days will not necessarily be final or complete if the underlying processes are not completed in time.” While it is appreciated that the response recognizes the challenge of aggregating the required underlying information within 60 days, and this would likely need to be unaudited &amp; draft information, it will still prove practically challenging to source the necessary financial information during the normal financial reporting cycle. Requisite balance sheet information is only available around 1.5 months after the reporting date, for example. It is recommended that the Financial Conglomerate return submission date align with or after the Group return submission date to avoid duplication of effort and promote internal consistency between the two returns.</li> <li data-bbox="792 1171 1505 1369">▪ In order to be consistent with the terminology used in the submission intervals for solo and group returns, it is requested that the reference to ‘60 days’ be stated in months. It is unclear whether this should represent 60 calendar month days (two months) or 60 business days (three months).</li> </ul>	

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69.	<b>BASA</b>	<b>7.1</b>	<p>Compiling estimated figures for submission for consolidation and reporting by the conglomerate may put pressure on the insurer and insurance group's reporting processes. There may be overlap between the teams involved in finalising the insurer and insurance group's annual financial statements and the people who are required to supply figures that allow financial conglomerate reporting</p> <p><b>Recommend</b> if the 60-day requirement is non-negotiable that this requirement is phased in.</p>	See response to comment 66 above.