



Coordination agreement on identification and capital adequacy of financial conglomerates

The Bank of Italy, CONSOB and ISVAP

HAVING REGARD TO European Parliament and Council Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate (hereinafter the “Directive”) and in particular Article 11(1), last sentence under which in order to facilitate and establish supplementary supervision on a broad legal basis, the coordinator and the other relevant competent authorities, and where necessary other competent authorities concerned, shall have coordination arrangements in place;

TAKING ACCOUNT of the third paragraph of Annex I to the Directive, under which EU Member States may require that the calculation of capital adequacy be carried out according to one particular method if a financial conglomerate is headed by a regulated entity which has been authorized in that Member State and also where a financial conglomerate is not headed by a regulated entity but the relevant competent authorities are located in the same Member State;

HAVING REGARD TO Legislative Decree 142 of 30 May 2005 (hereinafter the “Decree”), implementing the Directive, and in particular:

- Article 1(1)(z), which defines the competent authorities as the national authorities of the Member States which are empowered by law or regulation to supervise credit institutions, electronic money institutions, insurance undertakings and investment firms whether on an individual or a group-wide basis;
- Article 1(1)(aa), which defines the relevant competent authorities as:
 - 1) Member States' competent authorities which are empowered by law or regulation for the sectoral group-wide supervision of any of the regulated entities in a financial conglomerate;
 - 2) the coordinator if different from the authorities referred to in (1);
 - 3) other competent authorities concerned, where relevant, in the opinion of the authorities referred to in (1) and (2);
- Article 1(1)(bb), which defines the Italian supervisory authorities as the competent authorities over the banking, the insurance and the investment services sectors
- Article 3, which defines the criteria and quantitative thresholds for identifying a financial conglomerate;
- Article 4, under which the competent authorities that have authorized the regulated entities belonging to a group must determine whether the group is a financial conglomerate and collaborate closely with one another to that end;

- Article 5(3), which lays down the criteria for identifying the supervisory authority responsible for coordination and the exercise of supplementary supervision over regulated entities belonging to a financial conglomerate (hereinafter, the “coordinator”);
- Article 5(7), which establishes that the coordinator, the other relevant competent authorities and where necessary the other competent authorities involved shall conclude coordination agreements to facilitate supplementary supervision and that such agreements may assign additional tasks to the coordinator and may specify the procedures for the decision-making process among the relevant competent authorities and for coordination with the other competent authorities;
- Article 7(1), which provides that the coordinator, after consulting the other relevant competent authorities and the financial conglomerate itself, shall identify the method to use for assessing supplementary capital adequacy;

WHEREAS pursuant to Article 2(1) of the Decree supplementary supervision over regulated entities belonging to a financial conglomerate has the purpose of safeguarding the stability of the conglomerate as a whole and of the entities that form it, and that therefore the role of coordinator must be assigned to an Italian supervisory authority that, having taken part in the authorization proceeding for the regulated entity, under the present legal framework is competent for the stability of the entity belonging to the conglomerate;

RECOGNIZING the need, in the initial implementation of the Decree, to conclude a coordination agreement concerning in particular:

- the identification of the financial conglomerates for which one of the Italian supervisory authorities could play the role of coordinator;
- the definition of a shared methodology for calculating the supplementary capital adequacy requirement to be applied to the financial conglomerates;

HAVING REGARD TO the notes of 2 September 2005 and 27 September 2005 with which ISVAP and the Bank of Italy constituted a joint technical working group for the purpose of practical implementation of the Decree and on a priority basis of the provisions therein relating to the identification of financial conglomerates, the coordinators involved and the method for assessing the conglomerates’ supplementary capital adequacy;

CONSIDERING the orientation that issued from the aforesaid technical working group, and in particular:

- its analysis of the sectoral rules for calculating capital adequacy and their application, which found that consolidation is the reference method for the supervision of banking groups and the most common method used in the insurance industry, at both national and Community level;
- the evaluation that consolidation is a suitable method for calculating the capital adequacy of financial conglomerates in that it eliminates multiple use of elements eligible for the calculation of own funds and also any intra-group creation of own funds

HAVING REGARD TO the note of 29 November 2005 in which the Consob expressed its adhesion to the coordination agreement concluded on 16 November 2005 between ISVAP and the Bank of Italy and to the fact that the contents of the said agreement are maintained, the three authorities consider it appropriate to formalize the said adhesion of the Consob with a new signature of the Agreement

conclude the following agreement:

Article 1

(Identification of financial conglomerates)

1. For the purposes of identifying the financial conglomerates in whose regard the Bank of Italy or ISVAP could act as coordinator, the authorities party to the present agreement undertake:
 - a. to consult with one another annually, once balance-sheet figures are available, to verify the thresholds laid down in Article 3 of the Decree for the conglomerates already identified and for new ones. The consultation will also bear on the possible application of Articles 3(6) and 4(2)(d) of the Decree;
 - b. to consult with one another also subsequent to the annual check referred to in (a) to examine any corporate events that might entail the creation or significant modification of the structure of a group or a conglomerate during the period between the two annual checks;
 - c. to consult with one another in all cases in which they have received from other (supervisory authorities relevant communications for the verification of the structure of a group or the identification of a conglomerate;
 - d. to utilize, in calculating the thresholds provided for in Article 3 of the Decree, the data, databases and operating procedures specified in Annex A to the present agreement; in particular, to calculate the thresholds relating to the group's assets, the data will be drawn from the balance sheets for the years considered, while in calculating capital requirements reference will be made to the data at the disposal of the competent authorities;
 - e. to publish annually the list and composition of the financial conglomerates identified pursuant to this article.
2. When the identification of a financial conglomerate is undertaken, the competent authorities of the Member States of the European Union will be kept informed.
3. The coordinator notifies the group that it has been identified as a financial conglomerate, also informing the group of its own appointment as coordinator, and transmits this notification for information purposes also to the other competent authorities that have authorized the regulated entities belonging to the conglomerate
4. In the implementation of the foregoing, with reference to the balance-sheet data for the financial year 2004, the financial conglomerates listed in Annex B to this agreement have been identified. Subsequent updates or additions do not imply the modification of the agreement and will be made by an exchange of correspondence, without prejudice to the provisions of paragraph 2.

Article 2

(Method of calculating supplementary capital adequacy requirements)

1. The signatory authorities agree on the choice of "accounting consolidation" as described in point 1(a) of the Annex to the Decree as the best method for calculating supplementary capital adequacy requirements for the financial conglomerates referred to in Article 1 of the present agreement.
2. In particular, the method of consolidation:

- eliminates “multiple gearing” of capital, i.e. the multiple use for the purposes of sectoral prudential rules of the same elements eligible for the calculation of own funds to cover the risks of more than one entity belonging to the conglomerate;
- by automatically eliminating reciprocal ties between components, provides an accounting representation of the conglomerate as a single unit in its dealings with third parties and in this way limits the constitution of own funds by means of. intra-group transactions;
- makes it possible to detect situations which, even if highly diversified in terms of group organization and characterized by heterogeneous risk profiles, are nevertheless configured from the economic standpoint as a single unit;
- is consistent with the evolution of Italian accounting rules and with the adoption of the IAS/IFRS at Community level starting with the balance sheets for the financial year beginning on 1 January 2005.

3. The signatory authorities further agree that in compliance with Article 7(1) of the Decree, if specific features of a group are detected that could make the consolidation method unsuitable, the coordinator for that conglomerate, after consulting all the relevant competent authorities and the conglomerate, shall devise correctives for the calculation of capital adequacy by that method or else use one of the other methods envisaged in the Decree. In particular, correctives or alternative methods may be adopted when the degree of integrated management and internal control of the entities included in the consolidation is not satisfactory or when the effective transferability and availability of own funds between the various entities of the group is lacking.

Article 3

(Other arrangements for supplementary supervision)

The signatory authorities may conclude one or more coordination agreements governing the other supervisory instruments envisaged by the Decree for the exercise of supplementary supervision.

Article 4

(Effectiveness and modification of the agreement)

This agreement can be modified in the event of substantial changes in the legal framework or when, on the basis of the experience acquired in its implementation, the signatory authorities deem modifications or additions to be necessary.

Rome, 31 March 2006

For the Bank of Italy

The Governor

Mario Draghi

For Consob

The President

Lamberto Cardia

For ISVAP

The President

Giancarlo Giannini

Processes and procedures for identifying a financial conglomerate

The process leading to the identification of financial conglomerates pursuant to Article 1 is described in synthesis below.

A preliminary selection of potential conglomerates is made by cross-checking of the data on regulated entities in the possession respectively of the Bank of Italy and of ISVAP taken from the databases specified below.

The data thus obtained are submitted to the other competent authorities, for confirmation and for the inclusion of any additional information.

Bank of Italy databases used in calculating the thresholds pursuant to Article 3 of the Decree:

1. for identifying the shareholders in parent undertakings of conglomerates, the databases used are those on shareholders of banks and intermediaries containing the communications received pursuant to Title II, Chapter III of the Consolidated Law on Banking and Part II, Title I of the Consolidated Law on Financial Intermediation.
2. For **calculating the shares of participation** within conglomerates, the data for banks are taken from the database on Ownership of Credit Institutions (see Supervisory Instructions, Title IV, Chapter 9, Section VII and Annex C) and the Register of Banking Groups referred to in Article 64 of the Consolidated Law on Banking; for non-bank intermediaries, reference is made to the balance sheets and prudential reports transmitted pursuant to Bank of Italy Circulars 148, 189 and 217.
3. For **calculating the total assets** of banking groups, the balance-sheet total of the consolidated balance sheet is used. Where necessary, analogous items referring to individual data are used.
4. For **calculating capital requirements** the consolidated supervisory capital report for the end of the year is used, or where necessary the report on a solo basis.
5. For **calculating weights in terms of assets and solvency requirements of the various sectors**, holdings smaller than 20 per cent are not considered; those from 20 to 50 per cent are assigned weights according to the percentage held; and those larger than 50 per cent (or in any case controlling interests) are assigned a weight of 100 per cent.

ISVAP databases used in calculating the thresholds pursuant to Article 3 of the Decree

1. For identifying the shareholders in parent undertakings of conglomerates and for **calculating the shares of participation** within conglomerates, the following databases are used:
 - communications on shareholdings in insurance companies received pursuant to Law 20/1991;
 - interests held by insurance companies at the end of the year, drawn from balance sheets and supervisory reporting forms;
 - communications received pursuant to ISVAP Circular 456/2001 on entities subject to supplementary supervision over insurance companies.

2. For **calculating total assets**, the total assets of the consolidated balance sheet of the parent company is used, where available. Otherwise, the comparable items with reference to solo balance sheets are used.
3. For **calculating capital requirements** the marginal solo end-of-year solvency requirements taken from the table of solvency margins and from supervisory reporting forms are used.
4. For **calculating weights in terms of assets and solvency requirements of the various sectors**, holdings smaller than 20 per cent are not considered; those from 20 to 50 per cent are assigned weights according to the percentage held; and those larger than 50 per cent (or in any case controlling interests) are assigned a weight of 100 per cent.

Financial conglomerates identified pursuant to Article 1(4)

With reference to the balance-sheet data for 2004, the following financial conglomerates have been identified:

Conglomerate	Main sector	Coordinator
Carige	Banking	Bank of Italy
Intesa	Banking	Bank of Italy
Mediolanum	Insurance	ISVAP
Monte dei Paschi	Banking	Bank of Italy
San Paolo-IMI	Banking	Bank of Italy
Unicredito	Banking	Bank of Italy
Unipol	Insurance	ISVAP