

Bank of England PRA

SECOND WRITTEN NOTICE

To: Société Générale International Ltd
Of: One Bank Street, London E14 4SG
Firm Reference Number: 538896
Date: 7 December 2023

1. ACTION

- 1.1. For the reasons set out in Section A below, and pursuant to Regulation 3 of the Financial Services and Markets Act 2000 (PRA-regulated Activities) Order 2013/556 (the "PRA RAO"), the Prudential Regulation Authority ("the PRA") has decided to designate Société Générale International Ltd ("the Firm") as a designated investment firm regulated by the PRA.
- 1.2. The PRA has decided that the designation of the Firm will take effect on 30 September 2024.

2. PROCEDURAL MATTERS

The procedural matters set out in Section B are important.

3. RELEVANT STATUTORY AND REGULATORY PROVISIONS

The relevant statutory and regulatory provisions are set out in Section C.

4. DEFINITIONS

The definitions below are used in this Notice.

"the Act" means the Financial Services and Markets Act 2000

"CCP" means central clearing counterparty

"the CRR" means the Capital Requirements Regulation (Regulation of the European Parliament and of the Council 575/2013EU on prudential requirements for credit institutions) as applied in the UK in accordance with the European Union (Withdrawal) Act 2018 and as amended

"the FCA" means the Financial Conduct Authority

"the Firm" means Société Générale International Ltd

"the Notice" means this Second Written Notice, including Section A, Section B and Section C

“the PRA” means the Prudential Regulation Authority

“the PRA RAO” means the Financial Services and Markets Act 2000 (PRA-regulated Activities) Order 2013/556

“SRPC” means the PRA's Supervision, Risk and Policy Committee

“the Statement of Policy” means the PRA’s Statement of Policy entitled “Designation of investment firms for prudential supervision by the Prudential Regulation Authority” published March 2013, updated December 2021

“the Tribunal” means The Upper Tribunal, Tax and Chancery Chamber

Rebecca Jackson
For and on behalf of
Supervision, Risk and Policy Committee

SECTION A OF THE SECOND WRITTEN NOTICE ISSUED BY THE PRUDENTIAL REGULATION AUTHORITY TO SOCIETE GENERALE INTERNATIONAL LTD (FRN 538896) ON 7 DECEMBER 2023

SUMMARY OF REASONS

1. The PRA has concluded, on the basis of the facts and matters described below, that it is desirable that the activity of dealing in investments as principal, when carried on by the Firm, should be a PRA-regulated activity.
2. The Firm is an authorised person with permission to deal in investments as principal.
3. The PRA has made this decision in line with the Statement of Policy: Designation of investment firms for prudential supervision by the Prudential Regulation Authority. Specifically, the Firm has total assets over the indicative threshold of £15 billion average over four quarters. The PRA is also mindful of the Firm's significant clearing activity and potential market disruption in the event the firm failed.
4. As a result of the above, the PRA considers it desirable to designate the Firm as a PRA-regulated designated investment firm.
5. The PRA has decided that the designation of the Firm will take effect on 30 September 2024. This follows discussions between the Firm, the PRA and the FCA on an appropriate transition period, taking into account the need to meet the CRR and that the Statement of Policy indicates that, whilst a firm may be designated with immediate effect, the PRA will usually set an effective date six months after the decision to designate. In this case, the PRA considers it appropriate to set an effective date of 30 September 2024.

FACTS AND MATTERS RELIED UPON

The Firm

6. The Firm is a subsidiary of Société Générale, with its business focused on providing execution and clearing services for a range of financial contracts. The Firm is regulated by the FCA and has, amongst other things, permission to deal in investments as principal.

The PRA's approach to the designation of investment firms

7. Pursuant to Article 3 PRA RAO, the PRA has the power to designate a firm as a "designated investment firm" with the effect that the firm becomes a dual-regulated firm subject to the regulatory requirements applicable to PRA regulated firms, including the Capital Requirements Regulation (CRR) part of the PRA Rulebook. The PRA can only designate a firm which has, or has applied for, permission under Part 4A of the Act to deal in investments as principal.
8. When deciding whether to designate a firm under Article 3 PRA RAO, the PRA must have regard to its statutory objectives and certain matters set out in the PRA RAO which are, in summary:
 - a. the assets of the firm;
 - b. where a firm is a member of a group, (i) the assets of other investment firms within the group, (ii) whether any other members of the firm's group have been designated, and (iii) whether the firm's activities have, or might have, a material impact on the ability of the PRA to advance any of its objectives in relation to PRA-authorised persons in its group.

9. The PRA must also have regard to the Statement of Policy, which sets out factors to which the PRA will have regard when determining whether a firm should be designated. These include whether the firm's balance sheet exceeds an average of £15 billion total gross assets over four quarters. The Statement of Policy states that the impact of an individual firm on the financial system is not only a function of its size, but the size threshold of £15 billion is indicative as to likely systemic relevance of a firm. The PRA will also take account of a firm's substitutability, interconnectedness and complexity using a range of metrics, such as its market share in key markets, legal structure, intra-financial system assets and liabilities, and leverage ratio.
10. In addition to balance sheet size, the PRA will consider a firm's business model, including whether or not the firm is a clearing member of a CCP providing clearing services to other financial institutions who are not clearing members themselves. Whilst a firm's clearing activities will not in itself be a determining factor as to whether a firm should be designated, the PRA considers that a firm providing services to other financial institutions is likely to be more interconnected to the financial system.

Reasons for the proposed designation of the Firm

11. The Firm's total gross assets have been consistently above the indicative four-quarter £15bn threshold for multiple years. The PRA also notes that the Firm's significant clearing activity makes its balance sheet susceptible to material changes during market volatility. The Firm carries out significant clearing activity. As a result of its clearing activities, the Firm is not only exposed to its own clients and to CCPs but also is indirectly exposed to other clearing members. It is therefore highly interconnected to the financial system. Given the materiality of the Firm's activity and its levels of interconnection, the PRA considers that a default by the Firm could trigger a market stress or exacerbate an existing one and that the Firm has some capacity to cause some disruption to the UK financial system were it to fail or carry on business in an unsafe manner.
12. Taking into account the Firm's balance sheet size and its significant clearing activity, the PRA considers that it is desirable that the activity of dealing in investments as principal, when carried on by the Firm, should be a PRA-regulated activity. In reaching this conclusion, the PRA has had regard to its statutory objectives. In particular, the PRA considers that the designation of the Firm will advance its general objective of promoting safety and soundness, noting the Firm's potential to impact on the UK financial system. The PRA has therefore decided to designate the Firm as a PRA-regulated designated investment firm.

Reasons for the proposed effective date

13. For the reasons below, the PRA has decided that the designation of the Firm will take effect on 30 September 2024.
14. The effective date has been set following discussions between the Firm, the PRA and the FCA, to allow the Firm sufficient time to transition to the CRR and meet PRA rules and requirements. This is consistent with the PRA's Statement of Policy which states the PRA will usually not designate with immediate effect and will, by setting a date in the future on which the designation takes effect, allow a transition period to a firm designated as a designated investment firm. In the circumstances of this case, the PRA considers it appropriate to set an effective date of 30 September 2024.

SECTION B OF THE SECOND WRITTEN NOTICE ISSUED BY THE PRUDENTIAL REGULATION AUTHORITY TO SOCIETE GENERALE INTERNATIONAL LTD (FRN 538896) ON 7 DECEMBER 2023

PROCEDURAL MATTERS

Decision-Maker

1. The decision which gave rise to the obligation to give this Notice was made by the Director of Authorisations, Reg Tech and International Banks Supervision by delegation from the SRPC.
2. This Notice is given to the Firm under Article 4(7) of the PRA RAO and is being served on the Firm by email.
3. The following statutory rights are important.

The Tribunal

4. The Firm has the right to refer the matter to which this Notice relates to the Tribunal which, amongst other things, hears references arising from decisions of the PRA. Under paragraph 2(2) of Schedule 3 of the Tribunal Procedure (Upper Tribunal) Rules 2008, the Firm has 28 days from the date on which this Notice is given to the Firm to refer the matter to the Tribunal.
5. A reference to the Tribunal can be made by way of a reference notice (Form FTC3) signed by the Firm and filed with a copy of this Notice. The Tribunal's contact details are:

The Upper Tribunal (Tax and Chancery Chamber), 5th Floor, Rolls Building, Fetter Lane, London EC4A 1NL (telephone: 020 7612 9700; email: uttc@hmcts.gsi.gov.uk).
6. The Firm should note that a copy of the reference notice (Form FTC3) must be sent to the PRA at the same time that a reference is filed with the Tribunal. A copy of the reference notice should be sent to SRPC Secretariat at the PRA, 20 Moorgate, London EC2R 6DA.

PRASecretariat-Representations@bankofengland.co.uk

PRA contacts

7. For more information concerning this matter generally, the firm should contact SRPC Secretariat (**PRASecretariat-Representations@bankofengland.co.uk**) at the PRA.

SECTION C OF THE SECOND WRITTEN NOTICE ISSUED BY THE PRUDENTIAL REGULATION AUTHORITY TO SOCIETE GENERALE INTERNATIONAL LTD (FRN 538896) ON 7 DECEMBER 2023

RELEVANT STATUTORY AND REGULATORY PROVISIONS

1. Under section 2B of the Act, in discharging its general functions the PRA must, so far as is reasonably possible, act in a way which advances its general objective.
2. Under section 2B(2) of the Act, the PRA's general objective is: promoting the safety and soundness of PRA-authorized persons.
3. Article 2(d) of the PRA RAO provides that the activity of dealing in investments as principal is a PRA-regulated activity where carried on by a person designated by the PRA under Article 3 of the PRA RAO.
4. Article 3 of the PRA RAO provides that the PRA may designate a person ("P") for the purposes of Article 2(d) PRA RAO if:
 - (a) the condition in Article 3(2) is met in relation to P;
 - (c) having regard to the objectives of the PRA and to the matters mentioned in paragraph (4), the PRA considers that it is desirable that the activity of dealing in investments as principal, when carried on by P, should be a PRA-regulated activity.
5. The condition in Article 3(2) is that P is either an authorized person with permission to carry on the activity of dealing in investments as principal, or is a person who has applied under Part 4A of the Act for permission to carry on that activity.
6. Article 3(4) PRA RAO sets out the following matters to which the PRA must have regard:
 - (a) the assets of P;
 - (b) where P is a member of a group: (i) the assets of the members of that group who satisfy the condition in paragraph (2), regardless of whether they have been designated under Article 3; (ii) whether a person who has been designated under this article is a member of P's group, (iii) whether P's activities have, or might have, a material impact on the ability of the PRA to advance any of its objectives in relation to PRA-authorized persons in the group.
7. Article 8(6) PRA RAO provides (amongst other things) that, in exercising or deciding whether to exercise its powers under Article 3 in any particular case, the PRA must have regard to any statement published under Article 8 and for the time being in force.
8. Under Article 4(4), where the PRA proposes to designate a person, it must give the person concerned a written notice which satisfies the requirements set out in Article 4(5) and 4(10).
9. Under Article 4(2) PRA RAO, the PRA's designation of a firm takes effect either immediately, if the notice given under Article 4(4) states that this is the case, or on such date as is specified in the notice.

10. Article 4(7) PRA RAO provides that if, having considered any representations made by the person proposed to be designated, the PRA decides to designate the person then it must give the person a written notice which satisfies the requirements set out in Article 4(9) and 4(10).
11. Article 4(11) PRA RAO provides that a person who is aggrieved by the exercise of the PRA's power to designate under Article 3 PRA RAO may refer the matter to the Tribunal.