



TERMS OF REFERENCE FOR THE PRUDENTIAL REGULATION COMMITTEE

Revised with effect from 16 March 2018

The Prudential Regulation Committee (PRC) is created by the Bank of England Act 1998 (as amended by the Bank of England and Financial Services Act 2016).

The PRC has responsibility within the Bank for exercising the Bank's functions as the Prudential Regulation Authority as set out in the Bank of England Act 1998 and the Financial Services and Markets Act 2000.

Membership

The members of the PRC are: the Governor; Deputy Governors for Financial Stability, Markets and Banking, and Prudential Regulation; the Chief Executive of the Financial Conduct Authority; a member appointed by the Governor with the approval of the Chancellor; and at least 6 members appointed by the Chancellor.

Statutory responsibilities of the PRC

The PRC sets the PRA levy - by way of rules - and adopts the budget of the PRA, with the approval of Court. It has a number of non-delegable responsibilities, as listed in Annex A, which include the PRA's high-level strategy and policy-making functions.

Chief Executive

The Deputy Governor for Prudential Regulation is the Chief Executive for prudential regulation within the PRA. The PRC has delegated various responsibilities to the Chief Executive, recorded in Annex B.

Chair

The Governor chairs the PRC. If the Governor is not present, the PRC is to be chaired by the Deputy Governor for Financial Stability or, if not possible, the Deputy Governor for Markets and Banking.

Calling meetings

The Governor or any Deputy Governor who is a member of the PRC may summon a meeting at any time by giving such notice as he or she thinks the circumstances require.

Quorum

The quorum of the PRC has been determined by the PRC as being 3 members, which must include:

- (1) the Governor, the Deputy Governor for Financial Stability or the Deputy Governor for Markets and Banking;
- (2) unless both the Governor and the Deputy Governor for Financial Stability are present: the Deputy Governor for Prudential Regulation; and
- (3) a member appointed by the Chancellor.

Members joining remotely

The Committee has determined that members who are not present at a meeting, but are in communication by telephone or any form of video-conferencing, are to be treated as present for the purposes of the meeting (including calculating the quorum).

Decisions at meetings

The Chair must seek to ensure that decisions of the PRC are reached by consensus wherever possible. Where the Chair is of the opinion that consensus cannot be reached, a decision is to be taken by a vote of all those present at the meeting who are eligible to vote. In the event of a tie, the person chairing the meeting is to have a second casting vote.

Chief Executive of the FCA

The Chief Executive of the Financial Conduct Authority must not take part in any discussion or decisions of the PRC which relates to (a) the exercise of any functions of the PRA in relation to a particular person, or (b) a decision not to exercise those functions.

Conflicts of interest

A member of the Committee that has any direct or indirect interest (including any reasonably likely future interest) in any dealing or business which falls to be considered by the PRC must disclose that interest to the PRC before it considers the dealing or business. The PRC must decide whether this member is to be permitted to participate in any proceedings of the PRC relating to any question arising from its consideration of the dealing or business, and if so to what extent and subject to what conditions (if any). The Bank has issued a Conflicts of Interest Code of Practice as required by the Bank of England Act 1998 describing how members and the PRC are to comply with these requirements.

Written procedure

The PRC may take a decision on a matter without a meeting. Any eligible member¹ can request an item circulated by written procedure be considered at a meeting. A decision is reached by written procedure if:

- A majority of eligible members indicate in writing² their agreement to the decision
- Those members who agree would have constituted a quorum at a meeting³; and
- No eligible members have either disagreed or requested the item be considered at a meeting.

Court's oversight function

The Court of Directors is to have access in the discharge of its oversight functions to documents considered, or to be considered, by the PRC. One or two members of the Court of Directors may attend any meeting of the PRC for the purpose of exercising its oversight functions (but may not speak unless invited to do so by the Chair).

Reporting obligations

Table 1 shows various reporting obligations on the PRA or PRC, with details of certain obligations on the Bank and HMT included for convenience.

Meeting arrangements

The PRA Secretariat functions, reporting to the Chair, will be responsible for organising the logistics of Board meetings, including maintaining agendas, circulating papers, identifying and managing Matters Arising, and arranging for minute taking. Minutes will be produced in line with general Bank policies. Papers will be made available by electronic means no later than 2 days prior to the meeting, with hard copies sent by courier where needed and as appropriate. The Chair may decide to defer papers that do not meet this deadline.

¹ "Eligible members" are PRC members who would have been entitled to vote on the matter if the matter had been proposed for decision at a meeting of the PRC.

² 'In writing' includes by email or other electronic means.

³ This means that at least 6 members must vote in favour of the decision and those 6 must form an eligible quorum.

Annex A

Statutory responsibilities of the PRA and PRC

The PRA's objectives

The Bank of England (the Bank) is the Prudential Regulation Authority (PRA).

The PRA's general objective is to promote the safety and soundness of PRA-regulated firms, and in advancing that objective the PRA must seek to ensure that firms carry out their business in a way which avoids any adverse impact on the stability of the UK financial system, in particular seeking to minimise such an impact from a firm's failure; and its insurance objective is to contribute to securing an appropriate degree of protection to those who are or may become policyholders⁴.

The PRA has a secondary objective to facilitate, insofar as reasonably possible, effective competition in the markets for services provided by PRA-authorized persons in carrying on regulated activities⁵.

The PRA Strategy

The PRA must determine a prudential regulation strategy in relation to its objectives, publish it and keep it under annual review⁶.

Supervision

The PRA must maintain arrangements for supervising PRA-authorized persons⁷.

The Prudential Regulation Committee (PRC)

The Bank's functions as the PRA are exercised by the Bank acting through its Prudential Regulation Committee (the PRC)⁸ - a committee of the Bank established under the Bank of England Act 1998⁹.

The members of the PRC are:

- The Governor of the Bank,
- The Deputy Governor for Financial Stability,
- The Deputy Governor for Markets and Banking,
- The Deputy Governor for Prudential Regulation (the Chief Executive for Prudential Regulation "the CEO"),
- The Chief Executive of the Financial Conduct Authority (FCA),
- One member appointed by the Governor of the Bank with the approval of the Chancellor,
- At least six members appointed by the Chancellor.

⁴ FSMA S2B and 2C

⁵ FSMA S2H

⁶ FSMA S2E

⁷ FSMA S2K

⁸ FSMA S2A(2)

⁹ BoE Act 1998 Part 3A. All references to the Bank of England Act include amendments which came into force during 2016.

The PRC's non-delegable statutory responsibilities

The PRC has non-delegable responsibility for:

- (a) Annually reporting to the Chancellor on the adequacy of resources allocated to the Bank's functions as the PRA and the extent to which the exercise of these functions is independent of the Bank's other functions (para 19 of Schedule 6A to the BoE Act).
- (b) Making rules under FSMA.
- (c) Determining, reviewing and revising the PRA's strategy (under s.2E of FSMA).
- (d) Giving, reviewing and revising the PRA's statutory guidance about how it intends to advance its objectives in discharging its general functions in relation to different categories of PRA authorised persons or PRA-regulated activities (s.2I of FSMA).
- (e) Giving and revoking certain statutory directions as below:

FSMA

- s.3I PRA directions to the FCA to refrain from exercising regulatory powers or insolvency powers relation to PRA-authorized firms (e.g. on the basis of financial stability)*
 - s.3J PRA directions to the FCA not to exercise powers in relation to with-profits insurers, (e.g. about discretionary financial benefits under with-profits policies) where desirable for the PRA's general objective or insurance objective*
 - s.3M PRA directions related to the consolidated supervision of groups*
 - s.316 PRA directions applying the FSMA 'general prohibition' or certain core provisions of FSMA to a member of the Society of Lloyds (or the members taken together).*
 - s.318 PRA directions to the Council or the Society of Lloyds (also, underwriting agents) in relation to their powers for the purpose of the PRA's general objective or the insurance objective.*
- (f) Issuing certain statutory statements of policy as below:

FSMA

- s.63ZD Statement of policy: conditional/time-limited approvals of significant influence functions.*
- s.63C Statement of penalty policy: controlled functions.*
- s.69 Statement of penalty policy: misconduct actions (breach of conduct rules).*
- s.142V Statement of penalty policy: group restructuring powers, qualifying parent undertakings.*
- s.192H Statement of policy: directions to qualifying parent undertakings.*
- s.192N Statement of penalty policy: qualifying parent undertakings.*
- s.210 Statement of penalty policy: PRA-regulated firms.*
- s.345D Statement of penalty policy: auditors and actuaries.*

Financial Services Act 2012

- s.80 Statement of policy: investigating and reporting possible regulatory failures*

- (g) With the approval of Court, adopting the annual budget for the PRA's functions

Table 1: Reporting Obligations

Relevant reporting requirements			
What	Who reports	To whom	Publication
PRA Annual Report	PRA, acting with the PRC ¹⁰	Chancellor	Publication required
PRA Statement of Account	Bank	Chancellor	Publication required
PRC reports on adequacy of resources and independence of functions	PRC	Chancellor	Publication not required
PRA report on its secondary competition objective	PRA, acting with the PRC ¹¹	Chancellor	Publication required
PRA budget or variations to it	Bank	N/A	Publication required
PRA strategy	PRC	N/A	Publication required
Remit letter from Treasury	HMT	PRC	Published by HMT

¹⁰ The PRA and PRA **CEO** will work with the PRC as set out in the agreed delegations document approved by the PRC on 21 February 2017.

¹¹ See footnote 10.

Annex B

Delegations to the CEO of the PRA

The PRC delegates to the CEO the following functions¹²:

- preparing for consideration by the PRC, drafts of the prudential regulation strategy and any proposed revisions to that strategy;
- preparing for consideration by the PRC, drafts of the annual budget for PRA functions and any proposed variations of that budget;
- the day to day management of the Bank's functions as the PRA;
- the day to day implementation of the prudential regulation strategy.

Terms, conditions and exceptions

The delegation of functions to the CEO is on the following terms and subject to the following conditions and exceptions:

The PRC should be provided with sufficient information in advance on supervisory processes and outcomes, in the PRC's view, to:

- ensure it can carry out its functions, including consideration of the draft prudential regulation strategy and the draft annual budget (and proposed variations of that budget); and
- inform the PRC's reports to the Chancellor on the adequacy of the PRA's resources.

The PRC should have an opportunity, where appropriate in advance, to consider matters or review decisions that, in the view of the CEO, could:

- set a precedent for policy matters;
- involve a departure from the prudential regulation strategy;
- involve material change to the PRA's supervisory approach;
- involve a risk outside the PRC's agreed risk tolerance statement;
- have a material impact on the PRA's ability to meet its statutory objectives;
- have material financial, legal or operational implications for the PRA including a material re-allocation of resources; or
- affect the PRA's domestic or international reputation.

For clarity, the delegation excludes:

- approving (or material changes to) the PRA's Annual Report;
- approving (or material changes to) the PRA's risk tolerance statement;
- approving (or material changes to) the PRA's supervisory approach documents;
- approving (or material changes to) the PRA's control framework;
- approving (or material changes to) the FSCS Management Expenses Levy Limit;
- appointing members of the PRA Practitioner Panel;
- appointing the Complaints Commissioner;
- responding to HM Treasury's s.30B letter of recommendations;¹³
- agreeing the strategic direction of policy proposals designed to meet the PRA's objectives;
- approving the authorisation and adoption each year of a supervisory strategy in relation to any Category 1 Firm;¹⁴

¹² BoE Act 1998 Sch 6A para 17(2)

¹³ BoE Act 1998, s.30C.

- approval of the appointment of its Chairman and Chief Executive, including any conditions and/or time limitations imposed, for the following firms:
 - Barclays; HSBC; RBS; LBG; SCB; San UK; Prudential; Society of Lloyd's; Aviva and L&G;
 - any other Category 1 firm with a PIF score 3 or 4;
 - any other firm escalated by the CEO / requested by PRC.
- Any decision in relation to any Category 1 Firm¹⁵ and any firm or group of firms as determined by the PRC from time to time, as to whether Condition 1 (for the exercise of a stabilisation power) in section 7 of the Banking Act 2009 is satisfied or as to how the PRA should respond to a consultation:
 - on whether Condition 2 (for the exercise of a stabilisation power) in that section is satisfied;
 - required under section 6C(6) of that Act before the making of a mandatory reduction instrument.

¹⁴ Category 1 firms are those whose size, interconnectedness or business type give them capacity to cause significant disruption to the UK financial system by failing or carrying on their business in an unsafe manner; or in the case of insurers to cause disruption to the interests of a significant number of policy holders, in each case as determined by the PRC from time to time.

¹⁵ As defined in footnote 14.