

Memorandum of Understanding between the Financial Reporting Council (FRC) and the Prudential Regulation Authority (PRA)

Purpose and scope

1 This Memorandum of Understanding (MoU) concerns the arrangements for co-operation and co-ordination between the Financial Reporting Council (FRC) and the Prudential Regulation Authority (PRA) in carrying out their respective regulatory responsibilities, under the Financial Services and Markets Act 2000 (FSMA), the Financial Services Act 2012 – for the PRA – and various responsibilities including statutory responsibilities under the Companies Act 2006 and the Companies (Audit, Investigations and Community Enterprise) Act 2004 for the FRC.

2 Its purpose is to assist co-operation and co-ordination between the FRC and PRA by setting out:

- i. the respective statutory regulatory responsibilities of the FRC and PRA; and
- ii. arrangements for co-operation and the exchange of relevant information.

Its purpose is also to aid, through clarity and transparency, understanding of the above by firms, Parliament and the public.

3 The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. The PRA is responsible for the safety and soundness of firms for which it is the prudential supervisor and for securing an appropriate degree of protection for insurance policyholders. Each has a role in working with the Financial Policy Committee (FPC) to support the identification of, monitoring of, and taking action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system.

Roles and responsibilities of the FRC and the PRA

4 The FRC is the independent UK regulator responsible for promoting high quality corporate governance and reporting to foster investment. The FRC (and where applicable, its Conduct Committee) sets codes and standards for governance, accounting, auditing, assurance and actuarial work; reviews bank, building society, insurer or other listed entity reports and accounts for compliance with the applicable financial reporting framework, and reviews the quality of their audits; oversees the regulation of accountants, auditors and actuaries by their professional bodies and of auditors based outside the EU; and investigates misconduct by accountants, auditors and actuaries.

5 The FRC has powers relating to the setting and monitoring of accounting standards and the conduct of audit in the UK, as well as powers to impose sanctions for poor quality audit and impose directions and financial penalties on recognised qualifying and supervisory bodies. Many of its functions are recognised in statute, including the Companies Act 2006 and the Companies (Audit, Investigations and Community Enterprise) Act 2004, which covers its functions in relation to codes and standards for corporate reporting, auditing and actuarial work, and overseeing or directing any associated monitoring, supervision, investigation, enforcement or discipline. Other FRC functions e.g. the oversight of regulation of the actuarial profession, are exercised on a voluntary basis and rely on the co-operation of the professional bodies.

6 The PRA is responsible under FSMA for the authorisation, in conjunction with the Financial Conduct Authority (FCA), and prudential supervision of individual deposit takers (including banks, building societies and credit unions), insurers (including friendly societies) and certain designated investment firms. Its objective is to promote the safety and soundness of the firms it supervises, and it is required to advance this objective primarily by seeking to minimise any adverse effects of firm failure on the UK financial system and to ensure that firms carry on their business in a way that avoids adverse effects on the system. In the case of insurers, the PRA has the additional objective of contributing, through its prudential supervision of insurers, to securing an appropriate degree of protection for policyholders. The PRA under section 339A of FSMA must also maintain arrangements for sharing information and exchange of opinions with auditors of the firms it supervises.

7 The PRA places reliance on the integrity of corporate governance, accounting, auditing, actuarial, and other information about the firms it supervises for which codes are set and/or conduct is monitored by the FRC. If the quality of corporate governance and reporting is impaired, or the PRA's supervisory judgements are based on incorrect information, then there could be material adverse effects for the safety and soundness of firms, protection of policyholders and the UK financial system. The PRA also obtains information and intelligence from its supervisory activities which may be relevant to the work of the FRC.

Information-sharing

8 The FRC and the PRA will ensure the timely and focused exchange of relevant information that enables effective co-ordination and co-operation in the necessary areas.

9 Exchange of information will take place at many levels. Information available to one regulator that is relevant to the responsibilities of the other regulator will be shared where requested. In addition, if one regulator considers that information it has gathered will be materially relevant to the other, it will offer such information to the other. In particular,

information sharing will support the effective identification of risks to each other's objectives, improving the effectiveness of prudential supervision, corporate reporting, corporate governance, professional oversight, policy development and, where appropriate, agreeing a common UK position in relevant international discussions.

10 The exchange of information is subject to such legal or other constraints that apply to either the FRC or the PRA in relation to the sharing of information. The FRC and the PRA will seek to minimise the extent that disclosure to the other is constrained by agreements with third parties, and where these occur will take reasonable steps to secure any necessary consents. In addition, the FRC and the PRA will have regard to the information-sharing gateways set out below that exist to facilitate the exchange of information that is subject to statutory controls because it is obtained in the exercise of their statutory functions:

- the FRC may share with the PRA any information obtained in the exercise of its statutory functions for any relevant purpose without contravening the statutory restrictions on its disclosure;
- the PRA may share confidential information (within the meaning of Part 23 of FSMA) with the FRC for the purpose of enabling or assisting (i) the PRA to discharge any of its public functions or (ii) the FRC to discharge any of its functions relating to the matters specified in sections 14 and 16(2) of the Companies (Audit, Investigations and Community Enterprise) Act 2004.

Confidentiality

11 The FRC and the PRA will protect the confidentiality and sensitivity of all unpublished regulatory and other confidential information received from the other, and maintain effective controls designed to minimise the risk of inappropriate disclosures being made to individuals who may have a conflict of interest.

12 Where one regulator has received information from the other, it may use the information internally for any relevant purpose as described above, but it will obtain consent from the other before (i) passing the information to a third party (or an individual employee or director with an identified potential conflict of interest); and/or (ii) using the information in enforcement, disciplinary proceedings or other legal proceedings.

Co-operation in the area of standard-setting

13 The PRA's ability to advance its objectives is affected by the standards set by the FRC in the areas of actuarial, audit and assurance, and accounting. The PRA's rules and policy materials make reference to FRC codes and standards. Domestically, the FRC is responsible for setting the UK Corporate Governance and Stewardship Codes and standards which

include UK financial reporting standards and UK auditing and actuarial standards. Where international standards apply, the FRC contributes to the setting of those standards which include IFRS, and takes the lead in determining a converged UK policy view on these standards.

14 The FRC and the PRA will co-operate in respect of:

- the development of FRC codes and standards applicable to PRA-authorized firms - in the area of corporate governance, actuarial work, auditing, assurance and accounting;
- the development of PRA rules and policy materials which reproduce (with or without modifications), interact with or make reference to FRC codes and standards, or implementation of corresponding international standards or requirements; and
- the development of standards in conjunction with the relevant European and international organisations including those specified in paragraph 24.

15 Co-operation will include, where relevant, sharing research, draft consultations and responses, and seeking each other's views, prior to publication. The PRA will have observer status on the FRC's Audit and Assurance Council and Actuarial Council.

16 The FRC and the PRA will consult each other about proposals for codes and standards relating to the conduct of professional accountants, auditors and actuaries where relevant to the PRA's objectives.

Co-operation on monitoring and enforcement

17 The FRC and the PRA both have an interest in monitoring and, where necessary, enforcing compliance with standards by accountants, auditors, actuaries as well as banks, building societies, insurers or other listed entities in the area of corporate governance and reporting. The FRC and PRA will:

- discuss general concerns to inform the scope of and arising out of the FRC's monitoring activity;
- co-operate to inform the exercise by the FRC of its professional disciplinary function in relation to actuarial, accounting and auditing professionals working with or for PRA-authorized firms;
- co-operate in monitoring the quality of professional accounting, actuarial, and auditing services provided to or in respect of PRA-authorized firms; and
- exchange views on matters concerning the behaviour and performance of accounting, actuarial, and auditing professionals working with and for PRA-authorized firms.

18 The FRC and the PRA will inform each other of any relevant investigation in relation to a PRA-authorized firm which is also a bank, building society, insurer or other listed entity or in relation to the conduct of the firm's accountants, actuaries or auditors at an early stage, and in any case before enforcement action (including informal action) is taken.

19 The FRC has the capacity to undertake supervisory inquiries into the reasons for the collapse or near collapse of bank, building society, insurer or other listed entity or other issue affecting confidence in corporate governance or reporting. Under section 74 of the Financial Services Act 2012, there are circumstances in which the PRA must carry out an investigation and report on a possible regulatory failure. Where one or both of the PRA and the FRC is or are undertaking a report or inquiry of such a nature (particularly in relation to the same firm) they will co-operate as necessary.

Co-operation in the area of FRC's oversight responsibilities

20 The FRC is responsible for oversight of the professional regulation of accountants and actuaries by their professional bodies, including statutory oversight of the regulation of auditors by recognised qualifying and supervisory bodies. The FRC is also responsible for the registration of third country auditors, namely auditors of issuers of securities from outside the EEA that have issued securities admitted for trading in the UK.

21 The PRA will alert the FRC to any material concerns it may have about the way in which one or more professional bodies are regulating their members and the way in which their members are carrying on their activities. In some cases, it may be appropriate for the FRC and the PRA to co-ordinate public statements intended to encourage behavioural changes or the exercise of their respective enforcement powers.

22 The FRC and the PRA will:

- share information and work closely together to support discussions with the professional accounting and actuarial bodies in the UK and internationally; and
- co-ordinate and liaise, as appropriate, in respect of the FRC's role in overseeing the professional actuarial bodies and the PRA's role in approving actuaries to undertake certain Significant Influence Functions.

International co-ordination

23 An MoU on international organisations¹ between the Bank (including the PRA), the FCA and HM Treasury sets out a framework for consultation and co-ordination to support the ability of the UK authorities to take a coherent and consistent position, wherever possible, in discussions with international partners and for the UK to be an effective participant. Paragraph 5 of the international organisations MoU states that the principles in it should apply to the management of mutual interests between the UK authorities and other independent domestic bodies (including the FRC). As such, the FRC and the PRA will apply the principles set out in the MoU wherever possible.

24 In particular, the FRC and the PRA will, where permitted, on an ad hoc basis exchange information in connection with:

- The International Association of Insurance Supervisors (IAIS), the European Insurance and Occupational Pensions Authority (EIOPA) and the European Banking Authority (EBA); any Committee or group of the IFRS Foundation body² of which the FRC is a member and the European Financial Reporting Advisory Group (EFRAG).
- Actuarial Standards and regulation of actuarial work where the PRA is a member of the IAIS and EIOPA; and with the Groupe Consultatif and the International Actuarial Association (IAA) of which the FRC is a member of the standard-setters round table.
- Auditing and assurance standards and regulation where the PRA is a member of the BCBS and EBA; and the FRC participates in the activities of the International Auditing and Assurance Standards Board (IAASB).

Maintaining the MoU

25 The general co-operation arrangements detailed in this MoU (including any specific commitments) may include appropriate multilateral arrangements with other regulators. In particular quarterly meetings between the Bank of England, the FRC, the PRA and the FCA have been established to brief the FRC on FPC discussions and to discuss each other's views on these and other emerging issues of significance to the work of the FPC, the FRC and other bodies. The Chief Executive of the PRA is a member of the FPC and will, where appropriate, co-operate with respect to recommendations made by the FPC to the FRC, and other recommendations that may require discussion with the FRC.

¹ <http://www.bankofengland.co.uk/about/Documents/mous/mouintorg.pdf>

² For matters relating to International Financial Reporting Standards (IFRS), the UK's Department for Business, Innovation and Skills (BIS) and the Treasury (HMT) will also be included.

26 The FRC and the PRA will appoint senior directors (who will for the first year be the Chief Executives of the FRC and the PRA) to be responsible for the co-ordination set out in this MoU. They will meet at least twice a year to review the effectiveness and efficiency of coordination and co-operation.