

**PRA RULEBOOK: CRR FIRMS: REVERSE STRESS TESTING (AMENDMENT TO ICAA)
INSTRUMENT [YEAR]**

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
 - (1) section 137G (The PRA’s general rules);
 - (2) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Pre-conditions to making

- C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Rulebook: CRR Firms: Reverse Stress Testing (Amendment to ICAA) Instrument [Year]

- D. The PRA makes the rules in the Annex to this instrument.

Commencement

- E. This instrument comes into force on [DATE].

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Reverse Stress Testing (Amendment to ICAA) Instrument 2015.

By order of the Board of the Prudential Regulation Authority
[DATE]

Annex

Amendments to the Internal Capital Adequacy Assessment Part

In this Annex new text is underlined.

Part

INTERNAL CAPITAL ADEQUACY ASSESSMENT

Chapter content

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15 REVERSE STRESS TESTING

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1 APPLICATION AND DEFINITIONS

1.1 ...

1.2 In this Part, the following definitions shall apply:

...

third country sub-group

means a group of undertakings identified in Article 22 of the CRR which are required to be supervised on a consolidated basis under Article 22 of the CRR.

...

15 REVERSE STRESS TESTING

Application

15.1 This Chapter applies to a CRR firm.

Reverse stress testing

15.2 As part of its business planning and risk management obligations, including under the Risk Control Part of the PRA Rulebook, a firm must reverse stress test its business plan; that is, it must carry out stress tests and scenario analyses that test its business plan to failure. To that end, the firm must:

- (1) identify a range of adverse circumstances which would cause its business plan to become unviable and assess the likelihood that such events could crystallise; and
- (2) where those tests reveal a risk of business failure that is unacceptably high when considered against the *firm's* risk appetite or tolerance, adopt effective arrangements, processes, systems or other measures to prevent or mitigate that risk.

15.3 Where the *firm* is a member of:

- (1) a *UK consolidation group*; or
- (2) a *third country sub-group*;

it must conduct the reverse stress test on an individual basis as well as on a consolidated basis in relation to the *UK consolidation group* or the *third country sub-group*, as the case may be.

15.4 The design and results of a *firm's* reverse stress test must be documented and reviewed and approved at least annually by the *firm's senior management or governing body*. A *firm* must update its reverse stress test more frequently if it is appropriate to do so in the light of substantial changes in the market or in macroeconomic conditions.

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