



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Addendum to Consultation Paper | CP38/15

Ensuring operational continuity in resolution

December 2015

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Ensuring operational continuity in resolution

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This addendum sets out the PRA's proposed framework to facilitate continuity of firms' critical shared services in resolution.

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Responses are requested by Friday 11 March 2016.

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1 Overview

1.1 This addendum clarifies the scope of application of the Prudential Regulation Authority (PRA) proposals in Consultation Paper (CP) 38/15 'Ensuring operational continuity in resolution', published in October 2015.¹

1.2 The PRA did not define an exact scope of application in CP38/15 pending an assessment of which firms should ensure continuity of critical economic functions.² This assessment was also required for the calibration of the minimum requirement for own funds and eligible liabilities (MREL) by the Bank of England (the Bank) as resolution authority. Consequently, this addendum is being published on the same day as the Bank's consultation on its approach to setting MREL.³ While the addendum and the Bank's consultation are intended to capture broadly the same firms, the exact thresholds proposed differ due to the legal bases of the two proposals. The PRA is proposing rules of general application and has therefore proposed financial metrics, based on data available in regulatory returns, to define the scope of its rules. By contrast, the Bank will be exercising its powers to set MREL, based on a firm-specific judgement of the appropriate resolution strategy, as required under the Bank Recovery and Resolution Directive.⁴

1.3 Together this addendum and CP38/15 set out the PRA's framework for requiring firms to ensure continuity of critical shared services to facilitate recovery actions, orderly resolution and post-resolution restructuring.

Scope of application

1.4 This consultation is relevant to PRA-authorised banks, building societies and investment firms (hereinafter 'firms'). The proposals are also likely to be of interest to policymakers and practitioners involved in the resolution of failed firms. The precise application of the rules is set out in chapter 2 of this addendum.

Responses and next steps

1.5 This addendum completes CP38/15 published on 15 October 2015. The consultation period for CP38/15 and this addendum closes on Friday 11 March 2016. The PRA invites feedback on the proposals. Respondents are requested to structure their responses by chapter. Please address any comments or enquiries to CP38_15@bankofengland.co.uk.

1.6 The PRA plans to publish a policy statement with feedback, finalised rules, and a supervisory statement in mid-2016. The PRA intends final rules to apply from 1 January 2019.

1 CP38/15 is available at: www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp3815.aspx.

2 The PRA published CP38/15 in October 2015 to enable firms, particularly, ring-fenced bodies (RFBs), to start planning their approaches to operational continuity.

3 The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL), December 2015, is available at: www.bankofengland.co.uk/financialstability/Pages/role/risk_reduction/srr/planning.aspx.

4 Directive 2014/59/EU of the European Parliament and the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012 of the European Parliament and of the Council.

2 Additions to CP38/15

2.1 This chapter sets out additions to the PRA's proposals set out in CP38/15.

Scope of application

2.2 The PRA has defined the scope of firms caught by the proposed operational continuity rules (see rules 1.1 to 1.4 in Appendix 2). The PRA proposes to apply the proposed rules to CRR firms that fulfil any of the following conditions on 1 January of any year:

- the firm's total assets averaged over the previous 36 months exceeds £10 billion;
- the total value of safe custody assets the firm holds averaged over the previous 36 months exceeds £10 billion; or
- the total value of sight deposits the firm holds averaged over the previous 36 months exceeds £350 million.

2.3 The PRA intends the scope of the rules to capture those firms that have or receive critical shared services supporting functions that are critical to the economy, such as retail deposit taking. The PRA has designed the conditions to capture those firms that undertake functions that need to be continued in resolution and therefore likely to be resolved through the use of stabilisation powers. For example, if a firm has critical shared services supporting retail deposit-taking and the proposed resolution strategy involves the use of stabilisation powers, such as bail-in, the PRA would expect the firm to be in scope of the proposed operational continuity rules. In this example, the retail deposit taking function would need to be continued during resolution.

2.4 As the thresholds are based on financial metrics, it is possible that some firms will meet the thresholds even though they do not receive critical shared services supporting functions that are critical to the economy. The PRA has a discretionary power to waive or modify rules under section 138A of the Financial Services and Markets Act 2000 (FSMA) where the application of rules would be unduly burdensome or would not achieve the purposes for which the rules were made, and so long as the waiver or modification would not adversely affect the advancement of the PRA's objectives.

2.5 If a firm does not meet any of the conditions in rule 1.1 on 1 January in each of two consecutive years the operational continuity rules cease to apply to the firm.

2.6 Where necessary, the PRA may use its power under section 55M of Financial Services and Markets Act 2000 (FSMA) to require a firm to meet the proposals. For example, if a firm has been authorised for less than 3 years but exceeds one of the conditions in rule 1.1, the PRA will assess on a case-by-case basis whether the firm should comply with policy proposals.

Approach to non-EEA firms operating in the United Kingdom

2.7 The PRA has set out its operational continuity expectations on non-EEA firms operating in the United Kingdom in the draft supervisory statement (see Appendix 2).

2.8 For non-EEA firms with branches operating in the United Kingdom, the PRA intends to follow the same supervisory approach as that set out in SS10/14, 'Supervising international

banks: the Prudential Regulation Authority's approach to branch supervision'.¹ In this regard, when the PRA is assessing the risk appetite around the critical economic functions that the UK branch of a non-EEA firm performs or intends to perform in the United Kingdom, the PRA will consider the operational continuity requirements imposed by the home authority as a factor of determining equivalence. In making that assessment, the PRA would look for standards that largely achieve the same outcome as the PRA proposals. UK subsidiaries of non-EEA firms are PRA authorised firms and therefore the proposals in this CP apply to any UK subsidiary that falls into the scope of the rules. The PRA has introduced new paragraphs 1.5 and 1.6 in the draft supervisory statement, in Appendix 2, to this effect.

Amendments to defined terms

2.9 The PRA has made amendments to the defined terms in the Operational Continuity Part.

2.10 Two new defined terms have been added in rule 1.5 as a result of rules 1.1 to 1.4 – 'safe custody assets' and 'ITS on supervisory reporting'.

2.11 The definition of 'recovery plan' is moved from the Recovery Plans Part of the PRA Rulebook into the Central Glossary.

1 SS10/14 'Supervising international banks: the Prudential Regulation Authority's approach to branch supervision', available at: www.bankofengland.co.uk/pru/Documents/publications/ss/2014/ss1014.pdf

3 The PRA's statutory obligations

3.1 The PRA must ensure the proposals are compatible with its statutory objectives under FSMA to promote the safety and soundness of PRA-authorized firms.¹

3.2 This includes an assessment of the costs and benefits of proposals and having regard to the regulatory principles as set out in FSMA, including proportionality. In addition, when consulting on draft rules, the PRA is required to consider the impact on mutuals. The PRA has a duty to facilitate competition as a secondary objective subordinate to its general safety and soundness objective. Finally, the PRA must consider the equality and diversity impact of its proposals. The PRA's assessment against these obligations is set out in CP38/15, published in October 2015.

3.3 The PRA has had further regard to its statutory obligations under FSMA in developing the proposals in this addendum and considers the only change to the initial assessment set out in CP38/15 affected by the addendum is the scope of firms caught by the proposals. The proposals will affect banks, building societies and PRA-authorized investment firms above the proposed eligibility conditions set out in Rule 1.1 of the proposed Operational Continuity Part. The PRA estimates that based on year-end regulatory data from 2014/2015, that at least 65 firms might be affected by the proposals. Some of these firms are part of larger groups, and may receive services from the same critical shared services provider. There are no further amendments to the assessment set out in CP38/15. In particular, the cost benefit analysis remains the same as it provided an upper estimate of the cost of introducing the rules associated with operational continuity: clarifying the scope of application of the rules does not change this upper estimate.

3.4 The PRA must also have regard to the eight regulatory principles as set out in section 3B of FSMA². The PRA does not consider the addendum impacts the assessment of the regulatory principles set out in CP38/15.

¹ See s.2B(1) and s.2B(2).

² See s.2H and s.3B of FSMA.

Appendices

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- 1 Update to draft supervisory statement – Ensuring operational continuity in resolution**
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- 2 Updated Draft Operational Continuity Part**
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Appendix 1 – Update to draft supervisory statement - Ensuring operational continuity in resolution

1 Introduction

1.1 This supervisory statement is relevant to UK banks, building societies and PRA-authorized investment firms (hereinafter ‘firms’) to which the Operational Continuity Part of the PRA Rulebook applies.

1.2 The purpose of this supervisory statement is to set out the PRA’s expectations on firms to ensure operational continuity of critical shared services to facilitate recovery actions, orderly resolution and post-resolution restructuring.

1.3 Providing clarity on the PRA’s expectations in this area supports the PRA’s general objective of promoting the safety and soundness of firms by reducing the adverse effect that the disorderly failure of a firm can have on the UK financial system.

1.4 Where necessary, the PRA may use its power under section 55M of Financial Services and Markets Act 2000 (FSMA) to require a firm to meet these expectations. For example, if a firm has been authorised for less than 3 years but exceeds one of the conditions in rule 1.1, the PRA will assess on a case-by-case basis whether the firm should comply with the rules and this supervisory statement.

1.5 For non-EEA firms operating in the United Kingdom through a branch, the PRA intends to follow the same supervisory approach as that set out in SS10/14 ‘Supervising international banks: the Prudential Regulation Authority’s approach to branch supervision’.¹ In assessing the risk appetite around the critical economic functions the UK branch of the non-EEA firm intends to perform or is performing in the United Kingdom, the PRA will consider the operational continuity requirements as imposed by the home authority as a factor for determining equivalence.

1.6 UK subsidiaries of non-EEA firms are PRA-authorized persons and those UK subsidiaries that fall within the application conditions of Rule 1.1 of the Operational Continuity Part of the PRA Rulebook are expected to comply with the proposals in this supervisory statement.

2 Operational arrangements for critical shared services

2.1 Critical shared services are those services that need to be available to one or more business unit of a firm or entity of a group in order to provide functions critical to the economy.

2.2 A firm can receive critical shared services in a number of ways:

- a firm can outsource critical shared services to another entity within its group (group provider) or to an external party (non-group provider);
- a firm can operate a business unit within the firm that provides critical shared services to one or more of its business units or firms of the group; or

¹ See www.bankofengland.co.uk/pru/Documents/publications/ss/2014/ss1014.aspx.

- a firm can use a combination of the above.¹

2.3 This supervisory statement should be read alongside the PRA Rulebook, and does not replace the PRA's rules. The firms to which this supervisory statement is relevant will continue to be required to comply with the existing PRA rules, including Fundamental Rule 8, the General Organisational Requirements Part, the Risk Control Part and the Outsourcing Part of the PRA Rulebook.

3 Facilitating recovery and resolution

3.1 Irrespective of operational structure, the PRA expects a firm to be able to demonstrate how its operational arrangements supporting critical shared services facilitate recovery and resolution as required by Chapter 2 of the Operational Continuity Part.

3.2 This may include demonstrating how its operational arrangements support separability and restructuring. If a firm cannot demonstrate how its operational arrangements support separability or restructuring the PRA will expect the firm to make changes to achieve this.

3.3 Where a firm has identified the disposal of business units or legal entities as part of its recovery strategy, the PRA expects it to be able to demonstrate how its operational arrangements improve the execution of recovery options by shortening the disposal timeline.

3.4 The PRA also expects a firm to be able to demonstrate how its operational arrangements facilitate any post-resolution restructuring. For example, a firm should be able to evidence how the arrangements facilitate separability of group entities while ensuring operational continuity.

3.5 The PRA expects a firm subject to ring-fencing to demonstrate how its proposed arrangements support separability of the ring-fenced body (RFB) and its sub-group from the other entities in the wider group.

4 Financial resilience

4.1 The PRA expects a firm to ensure that the critical shared services provider has sufficient financial resources to ensure continuity of provision of critical shared services to receiving entities during stress or resolution, and after resolution, as part of the post bail-in restructuring of any group entities. Firms should also manage the risks associated with the liabilities of critical shared services providers. See Rule 2.6 of the Outsourcing Part and Rule 2.5 of the General Organisational Requirements Part of the PRA Rulebook.

4.2 The PRA considers that financial resources may be necessary to manage the risks that critical shared services providers are exposed to in a stressed scenario or resolution event, including:

- temporary loss of revenue due to suspension of payments from clients during the resolution period;
- expense-revenue mismatch during resolution, related to reduced demand for services from entities in resolution but constant fixed overheads for the service provider;

¹ These organisational arrangements are referred to in this supervisory statement as critical shared services providers.

- employee costs, for example, retention and redundancy payments;
- restructuring and wind-down costs; and
- write down of intangible and relationship-specific assets.

4.3 The method by which a firm may seek to ensure the critical shared services provider is financially resilient may vary depending on whether the critical shared services provider is an unregulated group provider, a PRA-regulated provider or a non-group provider.

Critical shared services provided from within the group

4.4 The PRA expects firms to ensure there is sufficient capital and liquidity to cover all risks, including the critical shared services provider's financial resilience.

4.5 For a critical shared services provider located in a group, the PRA expects that, as a minimum, the critical shared services provider should be supported by capital resources (or positive net assets, as appropriate) equivalent to 25% of annual fixed overheads and liquidity resources equivalent to 50% of annual fixed overheads. This is a minimum expectation only and the PRA expects a firm to analyse and establish the adequate level of capital and liquidity resources needed to ensure a critical shared services provider can manage the risks it is exposed to in stress or resolution event.

4.6 The PRA expects the critical shared services provider to calculate its annual fixed overheads, using figures resulting from the applicable accounting framework. The following may be excluded:¹

- a) fully discretionary staff bonuses;
- b) employees', directors' and partners' shares in profits, to the extent that they are fully discretionary;
- c) other appropriations of profits and other variable remuneration, to the extent they are fully discretionary;
- d) shared commission and fees payable which are directly related to the commission and fees receivable, which are included within the total revenue and where the payment of commission and fees payable is contingent upon the actual receipt of the commission and fees receivable;
- e) fees, brokerage and other charges paid to clearing houses, exchanges and intermediate brokers for the purposes of executing, registering or clearing transactions;
- f) fees to tied agents in the sense of point 25 of Article 4 of the Directive 2004/39/EC of the European Parliament and of the Council;
- g) interest paid to customers; and
- h) non-recurring expenses from non-ordinary activities.

¹ Based on the calculation of fixed overheads set out in Commission Delegated Regulation EU 2015/488 of 4 September 2014 amending Delegated Regulation (EU) No 241/2014 as regards own funds requirements for firms based on fixed overheads.

Unregulated provider

4.7 The PRA expects recipient firms to ensure that liquidity resources for the critical shared services provider are segregated from other group assets. The resources will need to be available to the critical shared services provider regardless of the failure or resolution of other group entities. This may involve holding liquid assets outside the group or making deposits with third parties. The PRA expects recipient firms to be able to explain how and where such assets are held.

PRA-regulated provider

4.8 Where critical shared services are located within a business unit of a PRA-regulated firm, the PRA expects the firm to ensure that it has sufficient liquid assets to support the provision of those critical shared services. The PRA expects a firm to ensure that liquidity resources to support critical shared services are segregated from other group assets. The resources will need to be available to the critical shared services provider regardless of the failure or resolution of other group entities. This may involve holding liquid assets outside the group or making deposits with third parties. The PRA expects the firm to be able to explain how and where such assets are held.

Critical shared services provided from outside the group

4.9 If the critical shared services a firm receives are provided by a non-group provider, the PRA expects a firm to comply with the requirements set out in the Outsourcing Part of the PRA Rulebook. Firms should consider the service provider's ability and capacity to perform the outsourced service reliably and professionally before the firm enters into the outsourcing contract.

5 Operational resilience

5.1 In ensuring that the critical shared services provider has sufficient operational capability, under Rule 2.6 of the Outsourcing Part and Rule 2.5 of the General Organisational Requirements Part of the PRA Rulebook, the PRA expects a firm to ensure the services will remain operational despite the failure of any group entities. The PRA views the following as examples of how a firm could achieve this:

- ensuring that the operating division of a firm or group provider has change capabilities and operational contingency arrangements;
- demonstrating that operational resilience is not affected by the loss of key business clusters or entities post-resolution; and
- ensuring the operational division of a firm or the group provider has sufficient staff and expertise dedicated to the critical shared services provision to carry out post-restructuring activity if necessary.

6 Contractual service provisions

6.1 In accordance with Rule 3.2 of the Operational Continuity Part of the PRA Rulebook, a critical shared services provider, whether a group provider or a non-group provider, should not be able to change the arrangements of provision as a result of a firm or a member of the group entering into a period of stress or resolution.

6.2 It is expected that steps to achieve this could include:

- clauses in contracts or agreements for critical shared services provided by group providers and non-group providers that allow for continued use of services, and that contracts or agreements remain valid after the firm or a group member has entered stress or resolution, provided there is no default on payment obligations (this does not apply if the contract ends due to an upcoming maturity date);
- clauses in contracts or agreements that allow for the continued use of such products or receipt of such services, by entities following their disposal by a group for a reasonable period of time in order to support group restructuring; and
- agreements with group providers and non-group providers that are enforceable pre and post-resolution.

7 Objective service level agreements

7.1 The PRA expects firms, irrespective of their business model, to demonstrate that they have identified and documented the critical shared services they receive. The PRA's expectations are different depending on what type of entity is providing the service.

7.2 The PRA expects that under Rule 2.7 of the Outsourcing Part, the General Organisational Requirements Part and Fundamental Rules 8, service level agreements from group providers or non-group providers are objective and on third party terms. Objective service level agreements help to identify operational interdependencies and may guide restructuring efforts.

7.3 The PRA expects agreements for critical shared services between legal entities to be well documented and include the following considerations as a minimum:

- clear parameters against which service provision can be measured;
- quantifiable and qualitative metrics and performance indicators;
- the provider and recipient(s) of the service;
- the nature of service and its pricing structure;
- any onward provision to other entities or sub-contracting to third party providers; and
- provisions that terms and pricing should not change as result of a party to the contract entering stress or resolution.

7.4 Under Rule 3.1 of the Operational Continuity Part of the PRA Rulebook, the PRA expects firms to document the details of the critical shared services provided from one business unit to another. The minimum information expected to be documented includes details of the business area receiving and providing the services as well as the transition arrangements in resolution. This information should form the basis of transitional service agreements to facilitate the services being easily identified and transferable to another provider in resolution without interruption, should this be the preferred resolution strategy.

8 Access to operational assets

8.1 The PRA expects, under Rule 3.4 of the Operational Continuity Part of the PRA Rulebook, that firms should articulate clearly how access to operational assets supporting critical shared

services will be guaranteed at the point of stress or resolution of a firm, another group entity or the critical shared services provider itself. Types of operational assets the PRA considers should meet this expectation include but are not limited to: data, intellectual property, premises, licences and leases.

8.2 This is particularly important for subsidiaries, where a subsidiary's parent company negotiates contractual arrangements at a group level.

8.3 In some cases, the PRA may expect operational assets essential to performing critical shared services to be owned or leased by the same firm that receives the critical shared services.

9 Charging structures

9.1 In meeting Rule 3.3 of the Operational Continuity Part of the PRA Rulebook, the PRA expects charges for critical shared services to be predictable, transparent and set on an arm's length basis, irrespective of a firm's operating model. If critical shared services are located in a group provider, arm's length terms can help to ensure that the contract can more easily be transferred to another service provider if needed.

9.2 If the critical shared services are located within a business unit of a firm, similar internal charging structures are necessary to ensure that corresponding documentation could form the basis of an external contract if the critical shared services provider is restructured following resolution. The PRA expects that critical shared services are on terms which could be readily substituted with another service provider, such that critical shared services could be provided on an uninterrupted basis.

10 Prevention of preferential treatment

10.1 Under Rule 4.3 of the Operational Continuity Part of the PRA Rulebook, the PRA expects all firms to be able to demonstrate that they have taken the necessary steps to ensure a group critical shared services provider treats all group members according to existing arrangements.

10.2 Firms should ensure that organisational structures and agreements do not require the critical shared services provider to prioritise its resources to support certain group entities over others.

11 Governance arrangements

11.1 The PRA expects firms to ensure a critical shared services provider located within the group, either a business unit of a firm or a group provider, has its own governance structure in place for the provision of critical shared services to the firm as set out in Rule 4.2 of the Operational Continuity Part of the PRA Rulebook. A firm should be able to articulate to the PRA the governance and oversight arrangements the critical shared services provider has in place.

11.2 The PRA expects the critical shared services provider within the group not to rely excessively on management remunerated externally to it. The PRA expects firms to demonstrate that the provider has sufficient governance oversight in place to ensure that critical shared services can be provided without relying on senior staff that may be dismissed or that may no longer form part of the same group after resolution.

11.3 Where there are multiple reporting lines within the group, the PRA expects firms to ensure that there is clarity on reporting lines in the event of resolution, prioritising operational continuity for critical shared services.

11.4 If critical shared services are received from external non-group providers, the PRA expects that the provider will have suitable governance and oversight arrangements as set out in the Outsourcing Part of the PRA Rulebook. This includes properly supervising and adequately managing the risk associated with the outsourced critical shared services.

12 Outsourcing

12.1 The PRA expects firms to refer to the rules in the Outsourcing Part of the PRA Rulebook when considering their operational arrangements supporting critical shared services. The Outsourcing Part of the PRA Rulebook (Rules 2.1 to 2.4) permit the outsourcing of critical or important operational functions only if the outsourcing of such activities does not result in:

- a transfer of responsibility from the PRA-authorised firm to the outsource provider;
- an increase in operational risk;
- an impairment of the quality of the firm's internal control; or
- an alteration to the conditions with which the firm must comply in order to be authorised.

12.2 The PRA expects that a consequence of the outsourcing rules will be that a firm that outsources critical shared services will continue to remain responsible for functions that require senior management judgement or decision-making that could affect the prudential soundness or risk appetite of the regulated firm. For this reason, the PRA expects these functions to be retained within the regulated firm. This reflects the principles set out in Outsourcing Part of the PRA Rulebook.

APPENDIX 2 - Operational Continuity Part

PRA RULEBOOK: CRR FIRMS: OPERATIONAL CONTINUITY INSTRUMENT [DATE]

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: Operational Continuity Instrument [DATE]

- D. The PRA makes the rules in Annexes A to D of this instrument.

Commencement

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

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Operational Continuity Instrument [DATE].

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

Annex A

In this Annex, the text is all new and is not underlined.

Part

OPERATIONAL CONTINUITY

Chapter content

1. APPLICATION AND DEFINITIONS
2. FACILITATION OF EFFECTIVE RECOVERY AND RESOLUTION PLANNING
3. DETAILS OF OPERATIONAL CONTINUITY ARRANGEMENTS
4. GROUP ARRANGEMENTS FOR OPERATIONAL CONTINUITY

Links

1 APPLICATION AND DEFINITIONS

- 1.1 This Part applies to a *CRR firm* that receives *critical shared services* if it fulfils any of the following conditions on 1 January of any year:
- (1) the average of the *firm's* total assets it was required to report in the previous 36 months in accordance with Chapters 7 and 9 of the Regulatory Reporting Part of the *PRA Rulebook* exceeds £10bn;
 - (2) the average of the *firm's safe custody assets* it was required to report in the previous 36 months in accordance with SUP 16.14 of the *FCA Handbook* as amended from time to time exceeds £10bn; or
 - (3) the average total amount of received sight deposits it was required to report in the previous 36 months in accordance with the *ITS on supervisory reporting*, or that it would have had to report if the *ITS on supervisory reporting* had been in force, exceeds £350m.
- 1.2 This Part ceases to apply to a *CRR firm* to which it applies under 1.1 if the *firm* does not meet any of the conditions in 1.1 on 1 January in each of two consecutive years.
- 1.3 1.2 does not prevent this Part applying to a *CRR firm* on a subsequent occasion if one of the conditions in 1.1 is met again.
- 1.4 A firm must calculate the averages in 1.1 by adding the values the *firm* was required to report and dividing the total by the number of reports.
- 1.5 In this Part, the following definitions shall apply:
- critical functions*
- has the meaning in Article 2(1) of the *BRRD*.
- critical shared services*
- means activities, functions or services performed for one or more business units of the *firm* or for the *firm* and another member of its *group*, whether by the *firm* itself, any other *group* member or a person outside the *firm's group*, the failure of which would lead to the collapse of or present a serious impediment to the performance of the *firm's critical functions*.
- safe custody asset*
- has the meaning in the *FCA Handbook* as amended from time to time.
- group provider*
- in relation to a *firm*, means a member of its *group* that provides *critical shared services* to it.
- ITS on supervisory reporting*¹

¹ This Regulation is still in draft form but is expected to be in force before 1 January 2019.

Commission Implementing Regulation (EU) No .../... amending Commission Implementing Regulation (EU) No. 680/2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

2 FACILITATION OF EFFECTIVE RECOVERY AND RESOLUTION PLANNING

- 2.1 A *firm* must ensure the operational arrangements for the *critical shared services* it receives facilitate the effective execution of:
- (1) its *recovery plan*; and
 - (2) the *group recovery plan* of its *group*.
- 2.2 A *firm* must ensure the operational arrangements for the *critical shared services* it receives facilitate the effective planning for and effective taking of actions in the event of:
- (1) circumstances in which all or part of its business is likely to fail; or
 - (2) the failure of all or part of its business.
- 2.3 A *firm's* operational arrangements must ensure the continuity of the *critical shared services* it receives in the event of:
- (1) circumstances in which all or part of the business of any other member of its *group* is likely to fail; or
 - (2) the failure of all or part of the business of any other member of its *group*.

3 DETAILS OF OPERATIONAL CONTINUITY ARRANGEMENTS

- 3.1 If a *firm* receives *critical shared services* from one of its business units, it must document:
- (1) the details of the *critical shared services*; and
 - (2) the transition arrangements for these *critical shared services* in the event of the *firm* being restructured or resolved.
- 3.2 If a *firm* receives *critical shared services* from another party, it must ensure the agreement governing the provision of these services:
- (1) does not permit the other party to terminate, suspend or materially alter the services or facilities or the agreement as a result of the deterioration in the financial circumstances or the resolution of the *firm* or any of its *group* members; and
 - (2) entitles the *firm* to continue to receive those services during the *firm's* resolution or restructuring as long as the *firm* fulfils its obligations under the agreement.
- 3.3 A *firm* must ensure the charging structure for the *critical shared services* it receives is predictable, transparent and set on arm's length terms.

- 3.4 A *firm* must ensure access by the *firm*, the service provider and the *PRA* to the operational assets supporting *critical shared services* is not disrupted in the event of a *group* member being restructured or resolved.

4 GROUP ARRANGEMENTS FOR OPERATIONAL CONTINUITY

- 4.1 This chapter applies to a *firm* that receives *critical shared services* from a *group provider*.
- 4.2 A *firm* must ensure the *group provider* has a governance structure in place for the provision of *critical shared services* to the *firm* that does not depend on senior staff of the *firm* or other members of its *group* that might not be available if a *group* member is restructured or resolved.
- 4.3 A *firm* must ensure the *group provider* does not deal with a *group* member or business unit in the *group* in any other way than set out in its agreement with that *group* member or business unit as a result of the deterioration of the financial circumstances of another *group* member.

Annex B

In this Annex, deleted text is struck through.

Part

RECOVERY PLANS

...

1.2 In this Part, the following definitions shall apply:

...

~~group recovery plan~~

~~means a group recovery plan drawn up by a BRRD undertaking in accordance with Chapter 3.~~

...

~~recovery plan~~

~~means a recovery plan drawn up by a firm in accordance with 2.~~

Annex C

In the Glossary Part of the Rulebook, insert the following definition.

group recovery plan

means a group recovery plan drawn up by a *BRRD undertaking* in accordance with Recovery Plans 3.

Annex D

In the Glossary Part of the Rulebook, amend the following definition

*recovery plan*²

means:

- (1) (except in the Group Supervision Part of the *PRA* Rulebook, the Recovery Plans Part of the *PRA* Rulebook and the Operational Continuity Part of the *PRA* Rulebook), the recovery plan required to be provided by a firm to the *PRA* under Undertakings in Difficulty 3.1(2); ~~and~~
- (2) (in the Group Supervision part of the *PRA* Rulebook), the recovery plan required to be provided by a *relevant insurance group undertaking* to the *PRA* under Group Supervision 4.4(2)-; and
- (3) (in the Recovery Plans Part of the *PRA* Rulebook and the Operational Continuity Part of the *PRA* Rulebook) a recovery plan drawn up by a *firm* in accordance with Recovery Plans 2.

² This Annex is amending a rule that will come into force on 1 January 2016: *PRA* Rulebook: Solvency II Glossary Amendments Instruments (PRA 2015/31).