



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP36/16

Occasional Consultation Paper

October 2016

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Responses are requested by:

Tuesday 25 October 2016 for the administration instrument (Appendix 12);

Monday 12 December 2016 for Chapter 5; and

Wednesday 11 January 2017 for Chapters 2, 3, 4, 6 and 7.

Please address any comments or enquiries to:

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1 Overview

1.1 This Occasional Consultation Paper (OCP) sets out proposed changes to the following Parts of the Prudential Regulation Authority (PRA) Rulebook, existing and new supervisory statements (SS):

- Regulatory Reporting Part and draft SS ‘Supervising international banks: the Prudential Regulation Authority’s approach to branch supervision – liquidity reporting’ (Chapter 2);
- Own Funds, Group Supervision, and Insurance Company – Capital Resources Parts (Chapter 3);
- SS13/13 ‘Market Risk’¹ (Chapter 4);
- Ring-fenced Bodies and Notifications Parts, and the Rulebook Glossary (Chapter 5);
- Credit Unions Part and SS2/16 ‘The prudential regulation of credit unions’² (Chapter 6); and
- External Audit Part (Chapter 7).

1.2 This OCP also consults on an administration instrument (see Appendix 12).

1.3 This consultation is relevant to all PRA-authorised firms.

1.4 The policy contained in this OCP has been designed in the context of the current UK and EU regulatory framework. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including changes arising once any new arrangements with the European Union take effect.

The PRA’s statutory obligations

1.5 The PRA must comply with a number of statutory and public law obligations when making rules and determining the general policy and principles by which it performs its functions. Each chapter in this OCP will separately address the following obligations:

- The Financial Services and Markets Act 2000 (FSMA)³ requires the PRA, so far as reasonably possible, to act in a way that advances its objectives:
 - the general objectives to promote the safety and soundness of PRA-authorised persons, and for insurance, to contribute to ensuring that policyholders are appropriately protected; and
 - the secondary objective to facilitate effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities.
- To have regard to the regulatory principles⁴ and certify that the policy proposals accord with these.

1 July 2016; www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss1313update2.aspx.

2 February 2016; www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss216.aspx.

3 Section 2B(2), 2C(2) and 2H(1) FSMA.

4 Section 2H(2) FSMA.

- To provide an analysis of the costs together with an analysis of the benefits that will arise if the proposed rules are made or if, in the opinion of the PRA the costs or benefits cannot reasonably be estimated or it is not reasonably practicable to produce an estimate, and include a statement of the PRA's opinion and an explanation of it.
- Where the PRA proposes a rule which would apply both to mutual societies, and other authorised persons, to prepare a statement setting out its opinion whether or not the impact of the proposed rule on mutual societies will be significantly different.¹
- The requirement of the Equalities Act 2010 to have due regards to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

1.6 The PRA has consulted the Financial Conduct Authority (FCA) on the proposals in this OCP.

Administration instrument

1.7 An administration instrument is used to make minor corrections to PRA Rulebook provisions. The corrections are not substantive and are not intended to change PRA policy. The corrections will result in rule amendments.

1.8 In making this instrument, the PRA aims to ensure that rules are correct, presented clearly and contain up-to-date references. Accurate Rulebook provisions allow the PRA to act in a way that advances the safety and soundness of PRA firms, and regarding insurers, contributes to policyholder protection. For these reasons, the PRA believes that administration instruments are compatible with the requirement on the PRA to act in a way that advances its objectives.

1.9 The PRA consults with the FCA prior to undertaking consultations on administration instruments and ensures that proposed corrections are consistent with the regulatory principles. Such minor corrections are unlikely to impact on competition or on mutual societies, or give rise to any equality or diversity issues. Minor proposals are also unlikely to result in costs for firms, who will benefit from a more accurate Rulebook.

Responses and next steps

1.10 The consultation will close on:

- Tuesday 25 October 2016 for the administration instrument (Appendix 12);
- Monday 12 December 2016 for Chapter 5; and
- Wednesday 11 January 2017 for Chapters 2, 3, 4, 6 and 7.

The PRA invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to OCP.responses@bankofengland.co.uk.

¹ Section138K(2) FSMA.

2 Liquidity reporting for UK branches of third-country firms

2.1 This chapter proposes changes to PRA rules, and a new SS on liquidity reporting by PRA-regulated UK branches of third-country, and non-EU European Economic Area (EEA),¹ credit institutions and designated investment firms (relevant third-country firms).

2.2 Firms with a whole-firm liquidity modification (WFLM) are required by rule 7.1 of the Regulatory Reporting Part of the PRA Rulebook to submit FSA047 and FSA048 returns.

2.3 In Policy Statement (PS) 11/15² the PRA stated that it is appropriate to collect liquidity data at the whole-firm level based on data reported to a firm's home state supervisor (HSS) in respect of those firms with a WFLM and those previously deemed self-sufficient. The PRA indicated it would confirm specific details at a future date.

Proposals

2.4 The PRA proposes to remove the requirement in Regulatory Reporting 7.1 for relevant third-country firms with a WFLM to report the FSA047 and FSA048 returns with effect from 1 July 2017. The PRA is not proposing a transitional period and proposes the final reference reporting date of the FSA047 and FSA048 returns for relevant third-country firms to be the 30 June 2017 reporting period.

2.5 The PRA also consults on an SS which will be applicable to all relevant third-country firms.

2.6 The proposed changes to the PRA's rules and the proposed SS can be found in Appendices 1 and 2 respectively.

The PRA's statutory obligations

2.7 The proposals in this chapter are compatible with the PRA's statutory objectives under FSMA to promote the safety and soundness of firms by helping the PRA supervise the liquidity risk management of relevant third-country firms. The PRA does not consider that the proposed rule change or draft SS will either hinder or promote effective competition. The proposed rules will align reporting requirements across all relevant UK branches of third-country firms, removing the PRA reporting requirement variations between branches who were previously self-sufficient and those who operate under WFLM.

2.8 The PRA does not expect that the discontinuation of reporting of the data items FSA047 and FSA048, and, the proposals set out in the draft SS will lead to any material increase in cost for firms. The proposed approach utilises information already produced for the HSS of firms and should be readily available. It is anticipated that there is little additional cost to firms to translate the reports into English.

2.9 The PRA considers that the regulatory principles are of particular relevance to the proposals set out above are:

- The principle that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction. The PRA

¹ Until the EEA agreement is amended by the EEA joint committee with a view to permitting simultaneous application of the EU liquidity standards in all EEA states.

² 'CRD IV: Liquidity', June 2015; www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps1115.aspx.

has followed this principle when developing the proposals outlined in this OCP, and has indicated in the OCP the key areas of its judgements. The PRA's proposed approach to its liquidity regime for UK branches of third-country firms is consistent with taking a proportionate approach.

- The need to use the resources of each regulator in the most efficient and economical way. The PRA's proposed approach to reporting will allow for an efficient allocation of supervisory resources in line with SS10/14 'Supervising international banks: the PRA's approach to branch supervision'.¹
- The principle that the PRA should exercise its functions as transparently as possible. In this OCP, the PRA sets out the key information relevant to its proposals, and gives respondents the opportunity to comment.

2.10 The PRA does not consider that the impact of the proposals on mutual societies will be significantly different from the impact on other firms.

2.11 The PRA considers that the proposals in this consultation do not raise any concerns with regards to equality and diversity issues.

¹ September 2014; www.bankofengland.co.uk/pr/Pages/publications/ss/2014/ss1014.aspx.

3 Pre-Issuance Notification rules - clarifications and corrections

3.1 This chapter consults on the PRA's proposals to make clarifications and corrections to the PRA Pre- Issuance Notification (PIN) rules within the Own Funds, Group Supervision, and Insurance Company – Capital Resources Parts of the PRA Rulebook, which are applicable, and therefore relevant, to insurers.¹

3.2 The PRA has undertaken a review of the PIN rules for insurers that are published in PS2/16, 'Amendments to the Pre-Issuance Notification regime'.² The PRA proposes minor changes to the rules to fully reflect the policy intent.

Proposals

3.3 The PRA proposes to make changes to the Own Funds, the Group Supervision, and the Insurance Company – Capital Resources Parts of the PRA Rulebook as set out below. The draft rules are set out in Appendices 3 to 5.

Provision of documentation post-issuance

3.4 For capital issuances that make use of the debt securities programme drawdown exemption or previous issuance exemptions, the proposed rules clarify that Solvency II firms are required to provide, as soon as practicable after issuance of the instrument: final terms and conditions, final opinions, a reasoned basis for coupon structure, and any other provision that might suggest an incentive to redeem. Similarly, the PRA proposes to clarify that for such issuances, non-Solvency II firms (excluding non-directive friendly societies) are required to provide a finalised legal opinion and a copy of the instrument's final terms and conditions.

3.5 The PRA proposes to amend the relevant rules to clarify that firms are required to provide these finalised documents as soon as practicable after issuance of the instrument.

Clarifications for programme drawdown exemptions

3.6 For capital issuances that make use of the debt securities programme drawdown exemption, the PRA does not expect firms to confirm that the terms of the item have not changed since a previous issuance. The PRA proposes to amend the PIN rules to clarify that this requirement does not apply in such situations.

3.7 The PIN rules also currently require firms to notify the PRA of the establishment of a debt securities programme and provide the relevant documentation at least one month 'before the proposed drawdown'. The PRA proposes to amend the relevant rule to allow for the practice of updating such programmes before a drawdown has been proposed.

The PRA's statutory obligations

3.8 The PRA considers that the proposals in this chapter are compatible with the PRA's general, and insurance-specific objectives (see paragraph 1.3 above). The purpose of the proposed rule is to enhance the quality of firms' PIN submissions and to improve the quality of data received by the PRA. The PRA does not consider that the proposed amendments will either hinder or promote effective competition.

¹ Includes Solvency II Firms and Non-Solvency II Firms.

² January 2016: www.bankofengland.co.uk/pr/Pages/publications/ps/2016/ps216.aspx.

3.9 The PRA has had regard to the regulatory principles when developing the proposals in this consultation. It considers that the regulatory principles of most relevance are the:

- need to use resources in the most efficient and economic way – the proposals remove ambiguity in the PRA Rulebook and reflect current practice, thereby making firms' PIN submissions more efficient; and
- principle that the PRA should exercise its functions as transparently as possible – the proposals are clearly set out for scrutiny in this consultation.

3.10 The PRA considers that the costs to firms associated with these proposals will be negligible. Therefore, a full cost benefit analysis has not been provided.

3.11 In the PRA's opinion, the impact of the proposed rule changes on mutuals is expected to be no different from the impact on other firms.

3.12 The PRA considers that the proposals in this consultation do not raise any concerns with regards to equality and diversity issues.

4 Internal Model Approach approvals – clarifications for reporting and analysis

4.1 This chapter sets out proposed amendments to SS13/13, 'Market Risk'¹ in relation to the PRA's expectations on information requests to firms with an Internal Model Approach (IMA) approval. It is relevant to all firms with an IMA approval, or firms either currently applying or considering applying for approval.

4.2 The PRA has reviewed the expectations in SS13/13, and proposes changes to make the process more proportionate while providing the necessary information to maintain supervision of these models. The draft amendments to SS13/13 are set out in Appendix 6.

Proposals

4.3 The PRA proposes the following amendments to SS13/13:

- replace the expectation in 6.1 that, where a firm believes that an 'overshooting' should not be taken into account for the purpose of the calculation of addends, it applies for a variation of its VaR model permission, with an expectation that the firm contacts the PRA to obtain its agreement;
- clarify in 9.17, 9.18 and 10.5 that the analysis referred to in these paragraphs should be undertaken as a part of firms' periodic validation, as opposed to a one off or quarterly analysis;
- include a new paragraph (9.19) to provide the PRA's definition of what constitutes a 'trading location', as referred to in Delegated Regulation (EU) 529/2014 as amended by Delegated Regulation (EU) 2015/942,² when applying for IMA approval; and
- updated the PRA's expectations in 10.6 of the information that IMA firms should submit quarterly, namely:
 - removing the expectation of a quarterly capital equivalence analysis of up-scaled one-day VaR and sVaR, which is now included in 9.18 (and to be addressed through periodic model validation);
 - removing the expectation that firms submit a graphed history of the sVaR/VaR ratio, which the PRA proposes to include as reporting requirement in firms' IMA permissions, where required;
 - adding the expectation that the firm reports its 10 day 99% standalone VaR and sVaR by asset class, which is intended to enhance the proportionality of the supervision of firms' IMA risk exposures; and
 - removing the expectation that firms submit risk committee minutes or other evidence to reflect governance and senior management oversight of the sVaR methodology.

¹ July 2016; www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss1313update2.aspx.

² http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_2015.154.01.0001.01.ENG.

The PRA's statutory obligations

4.4 These proposals advance the PRA's general objective by clearly setting out its expectations on firms in relation to market risk. The PRA does not anticipate that there will be an impact on competition as a result of the proposed amendments.

4.5 The proposals in this chapter mostly streamline reporting and application processes for firms. The PRA considers that any resulting increase in costs will be minimal (in relation to firms' periodic model validation and quarterly reporting activities) and therefore has not produced a full cost benefit analysis.

4.6 In developing the amendments to the SS, the PRA has had regard to the regulatory principles as set out in FSMA. The principle of most relevance to these proposals is that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction. The PRA is taking a proportionate approach by proposing to simplify existing processes, thereby increasing efficiency.

4.7 The impact of the proposed amendments on mutual societies will not be significantly different from the impact on other firms.

4.8 The PRA considers that the proposals in this consultation do not raise any concerns with regards to equality and diversity issues.

5 Ring-fencing – consequential and reporting amendments

5.1 This chapter proposes consequential amendments to the PRA’s ring-fencing rules within the Ring-fenced Bodies and Glossary Parts of the PRA Rulebook and to the requirements within the Notifications Part for monitoring the use of the exceptions in the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 (the EAPO).¹

5.2 This chapter is relevant to those banking groups that will be required by FSMA, as amended by the Financial Services (Banking Reform) Act 2013 (‘the Act’) to ring-fence their core activities (‘ring-fenced body’ (RFB)). This includes groups with ‘core’ deposits – broadly those deposits from individuals and small businesses – in excess of £25 billion. The chapter is also relevant to those groups which expect to exceed this threshold by 1 January 2019, and those that may approach this threshold over time. This chapter will also be of interest to financial and other institutions, and customers who have dealings with these banking groups.

Background

5.3 The PRA is required under the Act to make rules to implement the ring-fencing of core UK financial services and activities.

5.4 The PRA made rules and published an SS on ring-fencing in PS20/16 ‘The implementation of ring-fencing: prudential requirements, intragroup arrangements and use of financial market infrastructures’.² Alongside PS20/16, the PRA also published proposals on reporting and some other aspects of ring-fencing policy in Consultation Paper (CP) 25/16, ‘The implementation of ring-fencing: reporting and residual matters’, which closed on 7 October 2016.³⁴

5.5 On 21 July 2016, HM Treasury laid an Order⁵ before Parliament using its powers under the Act.⁶ The Order (the amending Order) contains a number of amendments to the ring-fencing secondary legislation.⁷

5.6 The PRA has analysed the amending Order, and has identified a need for consequential changes to the PRA’s ring-fencing regime which are set out in this chapter.

Proposals

5.7 In this chapter, the PRA is consulting on two sets of proposals that it believes necessary as a result of the legislative changes:

- consequential amendments to the ring-fencing rules; and
- amendments to reporting templates and instructions for monitoring the use of the exceptions in the EAPO.

1 www.legislation.gov.uk/ukdsi/2014/2080/contents/made.

2 July 2016; www.bankofengland.co.uk/pr/Pages/publications/ps/2016/ps2016.aspx.

3 July 2016; www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp2516.aspx.

4 The PRA has a dedicated webpage on ring-fencing and structural reform, which includes background, key changes, a table summarising policy development and updates on implementation, see www.bankofengland.co.uk/pr/Pages/supervision/structuralreform/default.aspx.

5 The Financial Services and Markets Act 2000 (Ring-fenced Bodies, Core Activities, Excluded Activities and Prohibitions (Amendment) Order) 2016; www.legislation.gov.uk/ukdsi/2016/9780111148822/pdfs/ukdsi_9780111148822_en.pdf.

6 See sections 142B, 142D, 142E, 142F and 428(3) of the Act.

7 The amending Order makes amendments to the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions Order 2014) and the Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities Order) 2014.

Consequential amendments to the ring-fencing rules

5.8 The Act and the EAPO set out that, for an RFB, dealing in investments (or commodities) as principal is an 'excluded activity' and that an RFB is prohibited from incurring a financial institution exposure.¹ The EAPO also provides several exceptions to this excluded activity and this prohibition. The amending Order amends the extent or definition of some of these exceptions and, furthermore, creates several new exceptions.

5.9 In several instances, changes made by the amending Order impact on definitions or provisions which are relevant for the Ring-fenced Bodies Part of the PRA Rulebook. Where this is the case, the PRA proposes to make the relevant consequential amendments to the Ring-fenced Bodies Part to ensure consistency with the EAPO as amended by the amending Order. In particular, proposed amendments have been identified to Ring-fenced Bodies 17 – the rules that require an RFB to have policies in place regarding its use of exceptions. Therefore the PRA proposes to:

- amend two rules that relate to the policies an RFB must maintain on its use of exceptions (Ring-fenced Bodies 17.1 and 17.3) to reflect the amending Order's addition of other RFBs in the same group and 'related undertakings' to the list of entities on whose behalf an RFB may hedge; and
- add a definition of 'related undertaking' (in line with the amending Order definition) and update the definition of 'liquid asset exception' (to cover the new Article 14(3A) which will be introduced by the amending Order)² in the Ring-fenced Bodies Part.

5.10 Proposed amendments to PRA rules are set out in Appendix 7.

Monitoring the use of the exceptions in the EAPO

5.11 In CP25/16, the PRA consulted on proposals to require an RFB to report upon its use of the exceptions contained in the EAPO.³ This was intended to:

- (a) enable the PRA to monitor an RFB's use of exceptions; and
- (b) help the PRA meet its obligation to include in its Annual Report information as to the extent to which RFBs are making use of the exceptions, as required by the Act.⁴

The PRA also proposed to collect data from each RFB at an individual (rather than sub-group) level, consistent with the restrictions in the legislation.

5.12 The amending Order creates several new exceptions in addition to those already set out in the EAPO. Therefore, the PRA has considered whether new reporting requirements are necessary to monitor the use of these new exceptions.

1 The EAPO also prohibits an RFB from indirect access to inter-bank payment systems, subject to several exceptions and maintaining or establishing non-EEA branches and subsidiaries.

2 Article 14(3A) permits a ring-fenced body to incur a financial institution exposure where the exposure arises as a result of the acquisition of liquid assets for the purposes of managing the ring-fenced body's liquidity risk.

3 www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp2516.aspx, pp 18-19.

4 The requirement for the PRA to report on ring-fencing matters is set out in paragraph 19(1A) to schedule 12B of the Act.

Amendments to reporting requirements proposed in CP25/16

5.13 The consultation period for CP25/16 closed on Friday 7 October 2016 with final policy to follow. The proposals set out in this section are based on the draft SS and rules from CP25/16, so will be subject to change pending consideration of responses to that CP.

5.14 The PRA proposes to add a new template, PRA116ⁱ to data item PRA116¹ to cover the new exception in the amending Order which allows an RFB to incur a financial institution exposure where the exposure is in relation to an RFB's intra-group pension arrangements.

5.15 The PRA also proposes several further changes to the reporting requirements consulted on in CP25/16:

- an amendment to the template and instructions for PRA116(h) on conduit lending to accommodate a new exception to enable lending to infrastructure vehicles; and
- amendments to templates and instructions for PRA114² and the proposed PRA116a, c, and f to make all references to the secondary legislation consistent with the amended EAPO. For example, the PRA proposes to update references to the 'position risk requirement' (PRR) to 'relevant risk requirement' (RRR) as per the amending Order.

Notification requirements

5.16 The PRA believes it necessary to monitor usage of several other new exceptions, but it does not anticipate that these will be regularly used. In these cases imposing a regular structured reporting requirement would be disproportionate to the benefits sought. Instead, it is proposed that an RFB must notify the PRA when it uses the relevant exception(s).

Table 1 summarises the additional reporting and notification requirements that the PRA proposes in order to monitor an RFB's use of new exceptions in the amending Order. See Appendix 7 for the proposed notification rules and Appendix 8 for the amendments to the PRA reporting templates and instructions.

¹ www.bankofengland.co.uk/pradocuments/publications/cp/2016/cp25appendix3_116.pdf.

² www.bankofengland.co.uk/pradocuments/publications/cp/2016/cp25appendix3_114.pdf.

Table 1: Summary of new proposed reporting and notification requirements to enable PRA monitoring of use of exceptions

Exception	Type of requirement	Data collected	Relevant article from the EAPO as amended by the amending Order
An RFB has incurred a relevant financial institution exposure due to change in status of a counterparty	Notification	An RFB must notify the PRA when it becomes aware, or has information which reasonably suggests, that it has incurred the exposure An RFB must notify the PRA when the exposure is closed	Article 19B
Dealing in shares of companies that operate financial market infrastructures and financial messaging systems	Notification	An RFB must notify the PRA when it buys/sells shares in: operators of inter-bank payment systems companies providing electronically transmitted secure financial messaging systems central counterparties recognised clearing houses	Article 6(4)(e)
Dealing in investments when necessary to satisfy central counter-party (CCP) membership criteria	Notification	An RFB must notify the PRA if it deals as principal in relation to CCP membership obligations such as a default fund auction process	Article 6(4)(f)
Financial institution exposures related to an RFB's intragroup pension arrangements	Annual reporting	Whether an RFB is using the exception Counterparty Amount Type of exposure	Article 14(4)(b)(iii-iv)

The PRA's statutory obligations

5.17 The PRA considers that the proposals set out in this chapter will assist the PRA in advancing its safety and soundness objective as augmented in relation to ring-fencing. Reporting on the use of exceptions will assist the PRA in identifying risks to the continuity of provision of core services by RFBs, or to the group ring-fencing purposes.

5.18 The PRA has assessed the impact of the proposals in this chapter on effective competition, and has concluded that while these proposals are only applicable to groups subject to ring-fencing, the minimal expected costs mean there is no expected impact on competition.

Cost benefit analysis

5.19 The PRA's proposal to make consequential amendments to the Ring-fenced Bodies Part to make it consistent with the EAPO as amended by the amending Order does not impose significant additional requirements on firms over and above the existing exceptions in the ring-fencing rules. Therefore the PRA does not expect any significant costs to firms as a result of these proposals.

5.20 As mentioned above, the PRA consulted more broadly on reporting and ring-fencing in CP25/16. For an overall cost benefit analysis of these reporting proposals please see

Chapter 11 of CP25/16.¹ The proposals in this chapter make minor amendments and additions to the monitoring proposed in that CP.

5.21 The benefit of the additional reporting and notification requirements proposed in this chapter is that they will ensure the PRA has sufficient information to supervise the use of exceptions by RFBs, and to fulfil its reporting obligations under the Act in respect of RFBs' use of exceptions. Given that these exceptions are new, they may not align to existing firm systems and reporting. Therefore, firms may incur set-up costs for monitoring their usage and making necessary reporting or notifications.

5.22 Nevertheless, the PRA does not expect any significant incremental costs as a result of these proposals. The PRA is only proposing one additional reporting template and three additional notification requirements in addition to those proposed in CP25/16. Therefore, the volume of new data required from firms is not expected to be significant, and, furthermore, firms are already required under existing PRA rules to introduce policies and procedures to monitor compliance with their regulatory obligations.²

Regulatory principles

5.23 In developing the proposals in this chapter, the PRA has had regard to the regulatory principles set out in section 3B of the Act. Two are of particular relevance:

- The principle that the PRA should exercise its functions as transparently as possible: in this chapter, the PRA sets out the key information on its policy proposal, and gives respondents the opportunity to comment.
- The principle that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction: the policy proposals in this chapter are designed to avoid unnecessarily burdensome reporting by firms.

Impact on mutuals

5.24 The PRA does not believe that the proposals set out in this chapter will have an impact on mutual societies since they do not fall within the scope of ring-fencing.

Equality and diversity

5.25 The PRA considers that the proposals in this consultation do not raise any concerns with regards to equality and diversity issues.

¹ www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp2516.aspx.

² See 2.1 of the Compliance and Internal Audit Part of the PRA Rulebook.

6 Credit unions – lending and additional investments

6.1 This chapter proposes amendments to the Credit Unions Part of the PRA Rulebook and SS2/16 ‘The prudential regulation of credit unions’,¹ in order to clarify the PRA’s rules and expectations relating to the application and effect of the rules governing additional lending and additional investment.

6.2 This chapter is relevant to credit unions.

6.3 Following a review of the rules relating to Credit Unions published in PS4/16, ‘Reform of the legacy Credit Unions sourcebook’,² and feedback received from credit unions and their representative trade bodies, the PRA proposes changes to clarify the policy intention of the regulatory framework for Credit Unions. The proposed amendments are set out in the section below.

6.4 This chapter also proposes revisions to SS2/16 to clarify the application of the new rules in practice.

Proposals

6.5 The PRA proposes to amend Credit Unions 3.3 to make it clear that maximum lending periods of ten years for unsecured loans and 25 years for secured loans apply to a credit union that satisfies Rule 10.3. The PRA also propose a minor revision to Credit Unions 3.2 to add clarity by better-distinguishing its provisions from Rule 3.3.

6.6 The PRA proposes an amendment to the definition of ‘additional activities’ to include a reference to Credit Unions 3.3, to make it clear that a credit union that makes a loan in accordance with that rule is carrying out additional activities.

6.7 The PRA proposes to delete Credit Unions 6.4(1), as the provision governing cash deposits held as investments is covered in 6.3(1).

6.8 For avoidance of doubt, the PRA proposes to revise Credit Unions 6.3 to make it clear that a credit union holding an investment specified in 6.3 is not thereby required to comply with Credit Unions 10.3.

6.9 Proposed amendments to the Credit Unions Part are set out in Appendix 9.

6.10 The PRA proposes to add clarity to SS2/16 by including a table setting out the definitions used in the calculation of ratios. The draft amendments to SS2/16 are set out in Appendix 10.

The PRA’s statutory obligations

6.11 The PRA believes these proposals will advance its general objective, as the proposed amendments address points in the Credit Unions Part that require clarification.

6.12 The PRA has given due weight to the interests of effective competition in evaluating and developing the proposals in this CP, both within the credit union sector and with other deposit-takers. The PRA does not anticipate that there will be an impact on competition as a result of the proposed amendments.

¹ February 2016; www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss216.aspx.

² February 2016; www.bankofengland.co.uk/pr/Pages/publications/ps/2016/ps416.aspx.

6.13 The proposed amendments will remove a number of ambiguities in the Credit Unions Part and will provide additional clarity on the regulatory framework applicable to credit unions. The proposed amendments to SS2/16 will assist credit unions in applying the rules that apply to their individual businesses. The PRA expects no costs of any significance, and no material changes in the effectiveness of competition.

6.14 In developing the proposals in this CP, the PRA has had regard to the regulatory principles. Of these, proportionality and transparency are of particular relevance to the current proposals.

- The principle of proportionality requires that the burden or restriction imposed by a measure should be proportionate to the benefits which are expected as a result. The PRA has followed this principle when developing the proposals outlined in this chapter, which do not impose any significant burdens on firms.
- The principle of transparency requires that the PRA should exercise its functions transparently. In this CP, the PRA sets out all the key information relevant to its proposals, and gives respondents the opportunity to comment on the proposals, and the specific rules reflecting those proposals.

6.15 The proposals in this CP are limited to credit unions, which are mutual societies, and consequently there is no comparison to be made in compliance with the requirement to assess the difference in impact of the proposals between mutuals and other firms. The proposals are intended to support the development of the sector, alongside other firms carrying out deposit-taking.

6.16 The PRA has considered the equality and diversity issues that may arise from the proposals in this consultation. The PRA considers that the proposals in this consultation do not raise any concerns with regards to equality and diversity issues.

7 Corrections to the External Audit Part

7.1 This chapter proposes minor corrections to the External Audit Part of the PRA Rulebook. The proposals do not represent a change in PRA policy.

7.2 The proposals in this chapter are relevant to firms in scope of Solvency II including the Society of Lloyd's, auditors and those individuals or firms who are likely to use the Solvency and Financial Condition Report (SFCR).

7.3 The rules in the External Audit Part were published in PS24/16, 'Solvency II: external audit of the public disclosure requirement',¹ following CP23/16, 'Solvency II: external audit of the public disclosure requirement'.²

Proposals

7.4 The PRA proposes to add a definition for 'group supervisor' to External Audit 1.1. When PS24/16 was published no definition for group supervisor was provided. Adding the definition will align the application of the External Audit Part with that of the Group Supervision Part of the PRA Rulebook.³

7.5 In PS24/16, paragraph 2.3, the PRA stated: "The PRA has made some wording changes in the rules and supervisory statement to conform to International Standards on Auditing."⁴ The change indicated in that paragraph was not made in one part of External Audit 4.1(3). The PRA proposes to amend External Audit 4.1(3) so that the rule fully conforms to the ISA.

7.6 The PRA also proposes a typographical correction to External Audit 4.2.

The PRA's statutory obligations

7.7 The proposals in this chapter are compatible with the PRA's statutory objectives under FSMA to promote the safety and soundness of PRA- authorised firms and, in the context of insurance, to contribute to policyholder protection. The purpose of the proposed rules is to remove an inconsistency with the ISA thereby making the audit more efficient and, by providing a definition of 'Group Supervisor' to provide certainty of meaning regarding the use of that term in the rules.

7.8 The proposal is expected to contribute to market discipline, a key driver of effective competition.

7.9 The PRA considers that the proposals in this chapter are minor corrections and will not have a significant impact on the cost benefit analysis as presented in CP23/16.

7.10 The PRA considers that two of the regulatory principles are of particular relevance to the proposal:

- (i) the need to use resources in the most efficient and economic way. By clarifying the definition of 'group supervisor' in External Audit 3.1 the proposal provides certainty of meaning. By fully conforming the External Audit Part to the ISA (see paragraph 7.5), the

¹ September 2016; www.bankofengland.co.uk/pr/Pages/publications/ps/2016/ps2416.aspx.

² July 2016; www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp2316.aspx.

³ Rule 1.2; www.prarulebook.co.uk/rulebook/Content/Part/213031/01-01-2019.

⁴ International Standard on Auditing (UK) 720 (Revised June 2016) The Auditor's Responsibilities Relating to Other Information (the 'ISA').

proposal removes inconsistency with the ISA, thereby making the audit more efficient;
and

- (ii) the principle that the PRA exercises its functions as transparently as possible by drawing the proposed amendment to External Audit 1.3 and 4.1(3) to firms' attention in this consultation.

7.11 The PRA does not consider that the impact of the proposals on mutual societies will be significantly different from the impact on other firms.

7.12 The PRA has performed an assessment of the policy proposals and does not consider that the proposals give rise to equality and diversity implications.

Appendices

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| 1 | Draft Regulatory Reporting Branch Liquidity (Amendment) Instrument |
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| 2 | Draft Supervisory Statement – Supervising international banks: the Prudential Regulation Authority’s approach to branch supervision – liquidity reporting |
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| 3 | Draft Own Funds (Notification of Issuance – Amendments) (NO.2) Instrument |
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| 4 | Draft Group Supervision (Notification of Issuance – Amendments) (NO.2) Instrument |
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| 5 | Draft Insurance Company – Capital Resources (Notification of Issuance – Amendments) (NO.2) Instrument |
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| 6 | Draft amendments to Supervisory Statement 13/13 – Market Risk |
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| 7 | Draft Second Ring-fencing Instrument |
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| 8 | Draft amendments to reporting templates and instructions for ring-fenced bodies |
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| 9 | Draft credit unions amendment instrument |
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| 10 | Draft amendments to Supervisory Statement 2/16 – The prudential regulation of credit unions |
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| 11 | Draft External Audit Amendments Instrument |
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| 12 | Draft Administration Instrument |
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Appendix 1: Draft Regulatory Reporting Branch Liquidity (Amendment) Instrument

PRA RULEBOOK: REGULATORY REPORTING BRANCH LIQUIDITY (AMENDMENT) 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); and
 - (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 instrument) 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: Regulatory Reporting Branch Liquidity (Amendment) Instrument [YEAR]

- D. The Regulatory Reporting Part of the PRA Rulebook is amended in accordance with the Annexes A and B to this instrument.

Commencement

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

Citation

- F. This instrument may be cited as the PRA Rulebook: Regulatory Reporting Branch Liquidity (Amendment) Instrument [YEAR]

By order of the Board of the Prudential Regulation Authority

[DATE]

Annex

Amendments to the Regulatory Reporting Part

In this Annex new text is underlined and deleted text is struck through.

...

7 REGULATED ACTIVITY GROUP 1

7.1 The applicable *data items* referred to in the table in 6.1 are set out according to *firm* type in the table below:

RAG 1

Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (1)						
	<i>UK bank</i>	<i>Building society</i>	<i>Non-EEA bank</i>	<i>EEA bank that has permission to accept deposits and that has its registered office (or, if it has no registered office, its head office) outside the EU</i>	<i>Credit union</i>	<i>Dormant account fund operator (12)</i>
...						
Daily Flows	FSA047 ((13), (16) and (18))	FSA047 ((13), (16) and (18))	FSA047 ((13), (15), (16) and (18))	FSA047 ((13), (15), (16) and (18))		
Enhanced Mismatch Report	FSA048 ((13), (16) and (18))	FSA048 ((13), (16) and (18))	FSA048 (Notes 13, 15, 16 and 18)	FSA048 (Notes 13, 15, 16 and 18)		

...

(13) A *firm* must complete this item separately on each of the following bases that are applicable.

- (a) It must complete it on an individual basis ~~(including on the basis of the firm's UK branch)~~. Therefore even if it has an *individual consolidation permission* it must complete the item on an unconsolidated basis by reference to the *firm* alone.

...

- (15) (a) If the *firm* has a ~~whole firm liquidity modification~~ it must complete this item on the basis of the whole *firm* (or at any other reporting level the ~~whole firm liquidity modification~~ may require) and not just its *UK branch*.

(b) If the *firm* does not have a ~~whole firm liquidity modification~~, there is no obligation to report this item. ~~[deleted]~~

...

- (18) Unless otherwise stated in the relevant modification, any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* ~~or a whole firm liquidity modification~~ (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the *data item* in question if the *firm* receives that *intra-group liquidity modification*, ~~whole firm liquidity modification~~ or variation part of the way through such a period. If the change is that the *firm* does not have to report a particular *data item* or does not have to report it at a particular *reporting level*, the *firm* must nevertheless report that item or at that *reporting level* for any reporting period that has already begun.

...

7.2 The applicable reporting frequencies for submission of *data items* and periods referred to in 7.1 are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

...

- (4) (a) If the report is on an individual basis (and the *firm* is not a *UK firm*) the reporting frequency is as follows:
- (i) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and
 - (ii) monthly if the *firm* is a *low frequency liquidity reporting firm*.
- (b) ~~If the firm has a whole firm liquidity modification (a) does not apply and instead the frequency of individual reporting is quarterly (or whatever other frequency the whole firm liquidity modification requires).~~

...

7.3 The applicable due dates for submission referred to in the table in 6.1 are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in 7.2, unless indicated otherwise.

...

- (1) Applicable to *UK banks* and *dormant account fund operators*.
- (2) Applicable to *non-EEA banks*.
- (3) Applicable to unconsolidated and individual consolidated reports.
- (4) Applicable to *UK consolidation group reports*.
- (5) It is one *month* if the report relates to a *non-UK DLG by modification* ~~or the firm has a whole firm liquidity modification~~.

Appendix 2: Draft Supervisory Statement ‘Supervising international banks: the Prudential Regulation Authority’s approach to branch supervision – liquidity reporting’

1 Introduction

1.1 This supervisory statement (SS) outlines the Prudential Regulation Authority (PRA)’s expectations for liquidity reporting by PRA-regulated UK branches of third-country, and non-EU EEA,¹ credit institutions and designated investment firms (‘relevant third-country firms’).

1.2 This SS should be read in conjunction with the Regulatory Reporting Part of the PRA Rulebook.

2 Reporting for relevant third-country firms

2.1 The PRA expects relevant third-country firms to submit liquidity information at the whole-firm level, based upon data which is reported to the firm’s home state supervisor (HSS). Data should be provided in a single, consolidated currency and where this is provided to the HSS, also on a significant currency basis. In particular, this should include data reported to the firm’s HSS that relates to the liquidity coverage ratio (LCR),² and in particular the completed LCR template and any other additional liquidity reports submitted to the HSS.³

2.2 Where liquidity information is not provided to the HSS in English, firms are expected to translate this prior to submission to the PRA.

2.3 Data should be submitted to the PRA on a semi-annual basis, based on 30 June and 31 December end of reporting periods (EORP).

2.4 The PRA expects that some relevant third-country firms will need to submit liquidity information on a more frequent basis than semi-annually. In determining whether or not a relevant third-country firm would report on a more frequent basis, the PRA will have regard, among other factors, to a firm’s potential impact on UK financial stability taking into account the frequency of reporting under the HSS, and will be proportionate to the nature, scale and complexity of the firm’s activities.

2.5 The PRA expects liquidity information to be provided within the HSS’s submission timescales or within 30 calendar days from the EORP, whichever is longer.

2.6 The PRA requests firms to submit the information, via their usual secure email system to LCRBranchData@bankofengland.gsi.gov.uk.

2.7 The PRA expects most relevant third-country firms to be able to comply with the PRA’s approach outlined above. Where a relevant third country firm can demonstrate that this is not

1 Until the EEA agreement is amended by the EEA joint committee with a view to permitting simultaneous application of the EU liquidity standards in all EEA states.

2 Based on the HSS’ implementation of the Basel Committee on Banking Supervision’s’ introduction of Liquidity Coverage Requirement (LCR) in 2013.

3 Examples of additional liquidity reports that may be submitted to HSS include contractual maturity ladder, concentration of funding by counterparty/product type, available unencumbered assets, and net stable funding ratio (NSFR).

the case, the PRA will work with the firm to determine suitable, alternative reporting arrangements on a case-by-case basis.

2.8 Circumstances which may mean the normal reporting approach is not appropriate could include where the format of reporting provided to the HSS is such that it cannot be sent in a readable format, or where a branch's home jurisdiction does not currently have an LCR regime. Suitable arrangements may include branches providing information based on the HSS own liquidity regime, internal liquidity management information and internal LCR ratios at the whole-firm level.

2.9 Relevant third-country firms should also be able to provide liquidity information on a daily basis when necessary during a stress. When requesting any additional or more frequent reporting from a branch during a stress, the PRA will be proportionate and take into account the liquidity data available pursuant to the requirements of the HSS.

Appendix 3: Draft Own Funds (Notification of Issuance – Amendments) (NO.2) Instrument

PRA RULEBOOK: SOLVENCY II FIRMS: OWN FUNDS (NOTIFICATION OF ISSUANCE – AMENDMENTS) (NO.2) 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); and
 - (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 instrument) 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: Solvency II Firms: Own Funds (Notification of Issuance – Amendments) (NO.2) Instrument [DATE]

- 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: Solvency II Firms: Own Funds (Notification of Issuance – Amendments) (NO.2) Instrument [DATE].

By order of the Board of the Prudential Regulation Authority

[DATE]

Annex

Amendments to the Own Funds Part

In this Annex new text is underlined and deleted text is struck through.

...

5 NOTIFICATION OF ISSUANCE OF OWN FUNDS ITEMS

...

5.4 If a *firm* proposes to establish or amend a debt securities programme for the issue of an item for inclusion within its *basic own funds*, it must:

- (1) notify the *PRA* of the establishment of the programme or of the proposed amendment to the programme; and
- (2) provide the information required by 5.2(2)

at least one *month* before ~~the~~any proposed drawdown. The *PRA* must be notified of any changes in accordance with 5.3.

...

5.6 A *firm* must notify the *PRA* in writing, no later than the date of issue, of its intention to issue an item listed in 5.5 which it intends to include within its *basic own funds*. When giving notice, a *firm* must:

- (1) provide the information set out in 5.2 other than 5.2(2)(c) (draft terms and conditions), 5.2(2)(d) (draft legal opinion) and 5.2(2)(e) (draft accounting opinion); and
- (2) for issuance of an item pursuant to 5.5(1) or 5.5(3), confirm that the terms of the item have not changed since the previous issue by the *firm* of that type of item of *basic own funds*.

...

5.8 A *firm* must provide to the *PRA* as soon as practicable after the issuance of an item of *basic own funds* to which ~~5.2, or 5.4, 5.5(2) or 5.5(3)~~ applies:

- (1) a finalised copy of the draft legal opinion referred to in 5.2(2)(d);
- (2) a finalised copy of the draft accounting opinion referred to in 5.2(2)(e) if applicable;
- (3) a copy of the instrument's final terms and conditions; and
- (4) a reasoned basis for the choice of coupon structure and any other provision that might suggest an incentive to redeem.

Appendix 4: Draft Group Supervision (Notification of Issuance – Amendments) (NO.2) Instrument

PRA RULEBOOK: SOLVENCY II FIRMS: GROUP SUPERVISION (NOTIFICATION OF ISSUANCE – AMENDMENTS) (NO.2) INSTRUMENT [DATE]

Powers exercised

- (1) 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); and
 - (2) section 137T (General supplementary powers).
- (2) The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

- (3) 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: Solvency II Firms: Group Supervision (Notification of Issuance – Amendments) (NO.2) Instrument [DATE]

- (4) The PRA makes the rules in the Annex to this instrument.

Commencement

- (5) This instrument comes into force on [DATE].

Citation

- (6) This instrument may be cited as the PRA Rulebook: Solvency II Firms: Group Supervision (Notification of Issuance – Amendments) (NO.2) Instrument [DATE].

By order of the Board of the Prudential Regulation Authority

[DATE]

Annex

Amendments to the Group Supervision Part

In this Annex new text is underlined and deleted text is struck through.

...

6 GROUP SOLVENCY: NOTIFICATION OF ISSUANCE OF OWN FUNDS ITEMS BY GROUP MEMBER

...

6.6 A *firm* must notify the *PRA* in writing, no later than the date of issue, of the intention of the *undertaking* in the *group* to issue an item listed in 6.5 which it intends to include within the *basic own funds* forming the *own funds eligible for the group SCR*. When giving notice, a *firm* must:

- (1) provide the information set out in 6.2(2) other than 6.2(2)(c) (draft terms and conditions), 6.2(2)(f) (draft legal opinion) and 6.2(2)(g) (draft accounting opinion); and
- (2) for the issue of an item pursuant to 6.5(1) or 6.5(3), confirm that the terms of the item have not changed since the previous issue of that type of item of *basic own funds* by that *undertaking*.

...

6.8 A *firm* must provide to the *PRA* as soon as practicable after it becomes aware of the issuance of an item of *basic own funds* by an *undertaking* in its *group* to which 6.2, ~~or 6.4,~~ 6.5(2) or 6.5(3) applies:

- (1) a finalised copy of the draft legal opinion referred to in 6.2(2)(f);
- (2) a finalised copy of the draft accounting opinion referred to in 6.2(2)(g) if applicable;
- (3) a copy of the instrument's final terms and conditions; and
- (4) a reasoned basis for the choice of coupon structure and any other provision that might suggest an incentive to redeem.

Appendix 5: Draft Insurance Company – Capital Resources (Notification of Issuance – Amendments) (NO.2) Instrument

PRA RULEBOOK: NON-SOLVENCY II FIRMS: INSURANCE COMPANY - CAPITAL RESOURCES (NOTIFICATION OF ISSUANCE – AMENDMENTS) (NO.2) 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); and
 - (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 instrument) 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: Non-Solvency II Firms: Insurance Company – Capital Resources (Notification of Issuance – Amendments) (NO.2) Instrument [DATE]

- 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: Non-Solvency II Firms: Insurance Company – Capital Resources (Notification of Issuance – Amendments) (NO.2) Instrument [DATE].

By order of the Board of the Prudential Regulation Authority

[DATE]

Annex

Amendments to the Insurance Company – Capital Resources Part

In this Annex new text is underlined and deleted text is struck through.

...

3 NOTIFICATION OF ISSUANCE OF CAPITAL INSTRUMENTS

...

3.7 *A firm must provide to the PRA as soon as practicable after the issuance of a capital instrument to which 3.2 or 3.4(2) applies:*

(1) a finalised copy of the draft legal opinion referred to in 3.2(4); and

(2) a copy of the instrument's final terms and conditions.

Appendix 6: Draft amendments to Supervisory Statement 13/13 'Market Risk'

New text is underlined and deleted text is struck-through

...

6 Exclusion of overshootings when determining multiplication factor addends

6.1 The PRA's starting assumption will be that all overshootings should be taken into account for the purpose of the calculation of addends. If a firm believes that an overshooting should not count for that purpose, then it should ~~seek a variation of its VaR model permission in order to~~ contact the PRA in order to obtain its agreement to exclude that particular overshooting. The PRA will then decide whether to agree to such a ~~variation~~ an exclusion.

...

9 Expectations relating to internal models

...

Bias from overlapping intervals for ten-day VaR and sVaR **Ten-day VaR and sVaR calculation**

...

9.17 The use of overlapping intervals of ten-day holding periods for the purposes of CRR Article 365 introduces an auto-correlation into the data that would not exist should truly independent ten-day periods be used. This may give rise to an underestimation of the volatility and the VaR at the 99% confidence level. To obtain clarity on the materiality of the bias, a firm that uses overlapping returns should measure the bias arising from the use of overlapping intervals for ten-day VaR and sVaR when compared to using independent intervals as a part of its periodic model validation. ~~A report on the analysis, including a proposal for a multiplier on VaR and sVaR to adjust for the bias, should be submitted to the PRA for review and approval.~~

9.18 A firm that scales its one-day VaR and SVaR measures to ten-days should ensure that the up-scaled VaR and SVaR measures do not underestimate risk when compared to the corresponding full ten-day VaR and sVaR measures. The firm should perform this analysis as a part of its periodic model validation.

Trading locations

9.19 In accordance with Delegated Regulation (EU) 529/2014 as amended by Delegated Regulation (EU) 2015/942, firms must seek pre-approval from the PRA if they wish to extend the use of their Internal Models Approach (IMA) to a trading desk located in another jurisdiction or time zone that is not listed as a trading location in the existing permission. For clarity the PRA takes the view that a 'trading desk' in this context may be defined as a group of traders or trading accounts that has a well-documented business strategy, a revenue target and clear trading limits. The PRA takes the view that sub-desks that are set up for internal operation purposes only (such as for the booking and transmission of trades to another trading desk with IMA approval) should not be 'trading desks' for this purpose.

...

10 Stressed VaR calculation

...

Absolute and relative shifts

Risk factor shifts

10.5 The PRA expects firms to be able to justify on an ongoing basis explain the rationale for the choice of absolute or relative shifts for both VaR and sVaR methodologies risk factor shift methodologies (eg absolute or relative shifts). In particular, statistical processes driving the risk factor changes need to the consistency of the assumed risk factor dynamics with those observed in practice should be evidenced for both VaR and sVaR as a part of the firm's periodic model validation.

10.6 The following information is expected to be submitted quarterly:

- analysis to support the equivalence of the firm's current approach to a VaR-maximising approach on an ongoing basis;
- the rationale behind the selection of key major risk factors used to find the period of significant financial stress (where relevant);
- summary of ongoing internal monitoring of stressed period selection with respect to current portfolio;
- ~~analysis to support capital equivalence of up-scaled one-day VaR and sVaR measures to corresponding full ten-day VaR and sVaR measures;~~
- ~~graphed history of sVaR/VaR ratio;~~
- a breakdown of the firm's 10-day 99% standalone VaR and sVaR by asset class; and
- analysis to demonstrate the accuracy of ~~partial~~ any approximate revaluation approaches specifically for sVaR purposes (for firms using revaluation ladders or spot/vol matrices) used within its model (eg for firms using sensitivities, revaluation ladders or spot/vol matrices), with a particular emphasis on sVaR suitability. This should include a review of the any ladders/matrices or spot/vol matrices, ensuring to ensure that they are extended

to include accommodate wider shocks ~~to risk factors that incur in stress scenarios associated with the firm's selected 1-year sVaR period.~~ ; and

- ~~minutes of Risk Committee meeting or other form of evidence to reflect governance and senior management oversight of stressed VaR methodology.~~

Appendix 7: Draft Ring-fencing Instrument

PRA RULEBOOK: CRR FIRMS: SECOND RING-FENCING INSTRUMENT 2017

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); and
 - (3) section 142H (Ring-fencing rules).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) 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: Second Ring-Fencing Instrument 2017

- D. The PRA makes the rules in Annexes A to C 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: Second Ring-Fencing Instrument 2017.

By order of the Board of the Prudential Regulation Authority

[DATE]

Annex A

Amendments to the Ring-fenced Bodies Part

In this Annex, deleted text is struck through and new text is underlined.

1 APPLICATION AND DEFINITIONS

...

~~Excluded Activities and Prohibitions Order~~

means the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 (SI 2014/2080).

...

liquid asset exception

means:

- (1) in relation to an *excluded activity*, the exception provided for in Article 6(3)(a) of the *Excluded Activities and Prohibitions Order*, or
- (2) in relation to a *prohibition*, the exceptions provided for in Article 14(3A) and Article 18(b) of the *Excluded Activities and Prohibitions Order*.

...

related undertaking

has the meaning in Article 1 of the *Excluded Activities and Prohibitions Order*.

...

17 POLICIES REGARDING USE OF EXCEPTIONS TO EXCLUDED ACTIVITIES AND PROHIBITIONS

17.1 For each *exception* separately, a *ring-fenced body* must establish, implement and maintain an effective policy that sets out at least the following:

...

- (3) how the *ring-fenced body* determines that the sole or main purpose of an *exception transaction* is:
 - (a) for a *hedging exception transaction*, to limit the extent to which:
 - (i) the *ring-fenced body*,
 - (ii) any *subsidiary undertaking* of the *ring-fenced body*,
 - (iii) any *sponsored structured finance vehicle* of the *ring-fenced body*,
 - (iv) any *conduit vehicle* of the *ring-fenced body*, ~~or~~
 - (v) another *ring-fenced body* within the same *group* as the *ring-fenced body*,
 - (vi) a *related undertaking* within the same *group* as the *ring-fenced body*, or
 - ~~(vii)~~ any combination of the *undertakings* referred to in (i) to ~~(vi)~~

will be adversely affected by the *specified factor*;

...

17.3 In addition to 17.1, a *ring-fenced body* must set out in its *hedging exceptions policy* separately for each *specified factor*:

(1) how the business of:

(a) the *ring-fenced body*;

(b) any *subsidiary undertaking* of the *ring-fenced body*;

(c) any *sponsored structured finance vehicle* of the *ring-fenced body*;

(d) any *conduit vehicle* of the *ring-fenced body*; ~~or~~

(e) another *ring-fenced body* within the same *group* as the *ring-fenced body*;

(f) a *related undertaking* within the same *group* as the *ring-fenced body*; or

~~(g)~~ any combination of the *undertakings* referred to in (a) to ~~(d)~~

results in exposures to the *specified factor*;

...

Annex B

Amendments to the Notifications Part

This Annex sets out amendments to rules consulted on in Consultation Paper 25/16, 'The implementation of ring-fencing: reporting and residual matters'.

New text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

exposure

has the meaning in Article 1 of the *Excluded Activities and Prohibitions Order*.

...

financial institution exposure

has the meaning in Article 1 of the *Excluded Activities and Prohibitions Order*.

...

12 RING-FENCING NOTIFICATIONS

...

12.4 A ring-fenced body must notify the PRA within 30 days after acquiring shares under an exception in Article 6(4)(e) of the *Excluded Activities and Prohibitions Order* or after disposing of shares held under one of those exceptions.

12.5 A ring-fenced body must notify the PRA within 30 days after using the exception provided for in Article 6(f) of the *Excluded Activities and Prohibitions Order*.

12.6 The notification in 12.5 must specify the product type and the value of any relevant investments.

12.7 A ring-fenced body must notify the PRA within 30 days after the date on which it becomes aware, or has information which reasonably suggests, that an exposure is a financial institution exposure which would be prohibited but for the exception provided for in Article 19B of the *Excluded Activities and Prohibitions Order*.

12.8 The notification in 12.7 must specify:

- (a) the date on which the exposure became a financial institution exposure; and
- (b) the value of the financial institution exposure.

12.9 A ring-fenced body must notify the PRA within 30 days after closing a financial institution exposure which would be prohibited but for the exception provided for in Article 19B of the *Excluded Activities and Prohibitions Order*.

Annex C

Amendments to the Glossary

In the Glossary Part of the PRA Rulebook, insert the following new definition:

Excluded Activities and Prohibitions Order

means the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 (SI 2014/2080).

Externally defined glossary terms

Term	Definition source
EEA central counterparty	Section 285(1)(c) FSMA
recognised clearing house	Section 285(1)(b) FSMA
third party central counterparty	Section 285(1)(d) FSMA

Appendix 8: Draft amendments to reporting templates and instructions for ring-fenced bodies

PRA114 and PRA116 were consulted on as part of CP25/16 'The implementation of ring-fencing: reporting and residual matters' available at: www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp2516.aspx.

1. Draft amendments to template PRA114 – Excluded activity entities, available at:

www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp3616pra114.xlsx

2. Draft amendments to templates for data item PRA116 – Excluded activities and prohibitions, available at:

www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp3616pra116.xlsx

3. Draft amendments to PRA114 - Excluded activity entities reporting instructions

Underlining indicates new text and striking through indicates deleted text.

PRA114 Excluded activity entities

...

Section 2

...

Columns – Dealing in investments as principal and commodities trading: derivative transactions

- **c010: Entity name**

1. Report the full name of the *sub-consolidation group* entity

- **c020, c030, c040, c050: Amount at end-period *net* of use of exceptions**

2. Report the ~~position~~ relevant risk requirement (PRRR), notional amount and carrying amount as at the end of the reporting period as per the definitions given in template PRA116a (Risk Management). Report these totals net of any transactions which meet the conditions for the exceptions specified in the Order.

4. Draft amendments to PRA116 - Excluded activities and prohibitions reporting instructions

Underlining indicates new text and striking through indicates deleted text.

PRA116 Excluded activities and prohibitions

...

Overview

This *data item* consists of nine separate templates:

- PRA116a: Risk management transactions
- PRA116b: Collateral transactions

- PRA116c: Dealing in shares and debentures
- PRA116d: Exposures relating to own originated securitisation and covered bonds, and third-party issued covered bonds
- PRA116e: Transactions with central banks
- PRA116f: Customer derivatives
- PRA116g: Trade finance
- PRA116h: Exposures to Conduits and infrastructure finance vehicles
- PRA 116i: Exposures to relevant financial institutions relating to pension liability

These templates collect data on the extent to which firms conduct excluded activities and incur prohibitions under exceptions set out in the Excluded Activities and Prohibitions Order (the Order)¹.

Where a particular transaction in investments or in commodities is permitted under more than one of the exemptions outlined in articles 5(1) – 12, and article 21, of the Order, firms should treat this as if it were permitted under one exemption only. Similarly, where a ring fenced body's (RFB) exposure to a relevant financial institution is permitted under more than one of the exemptions outlined in articles 14 – 19B, and article 21, of the Order, firms should treat this as if it were permitted under one exemption only.

...
PRA 116a Risk management transactions

...

Columns

...

- **c010, Parts 2-3**

Firms to report the current ~~position~~ relevant risk requirements (PRRR) for market risk based on standardized rules.

...

Rows - Data

- **r040 and r050 (Part 2)**

Firms to report PRRR, notional amount and carrying amount (both financial assets and liabilities) for any commodity transactions while using the exemptions specified within article 5(1) of the Order.

- **r060 to r230 (Part 2)**

Firms to report PRRR, notional amount and carrying amount (both financial assets and liabilities) for any transactions carried out to hedge market risk while using the exemptions specified within articles 6(1) and 6(2) of the Order.

¹ SI 2014/2080 The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014; www.legislation.gov.uk/ukSI/2014/2080/pdfs/uksi_20142080_en.pdf.

...

PRA116c: Dealing in shares and debentures**Overview**

This template consists of two parts:

- Overview

This section allows firms to indicate that they have not made use of the relevant exemptions within the Order during the reporting period, meaning there is no need for them to report the remainder of the template.

- Transactions

This section seeks to capture firms' usage of the exceptions to the exclusion on ring-fenced bodies' dealing in investments as principal contained in Article 6(4)(a-d) and 6(5) in relation to the investments described in 6(4)(a), 6(4)(b) and 6(4)(d) of the Order.

For definitions, firms should refer to the relevant definitions in Article 1 of the Order.

...

PRA116f: Customer derivatives**Overview**

...

This template consists of four parts:...

- Overview

This section allows firms to indicate that they have not made use of the relevant exemptions within the Order during the reporting period, meaning there is no need for them to report the remainder of the template.

- Excluded activities : Derivatives allowed under articles 9, 10 and 11 of the Order

This section is designed to capture data related to derivative products being transacted with account holders within RFB.

- General (PRRR) conditions under article 12(1) (a,b,c) of the Order

This section is designed to capture data related to the general conditions to be met as specified by article 12(1)(a,b,c) of the Order.

- Reporting requirements under 12(1d) and 12(1e) of the Order

This section is designed to capture data regarding any breaches of general conditions given by articles 12(1d) and 12(1e) of the Order.

...

Rows - Data

- **r020 to r050 (Part 2)**

Firms to report PRRR, notional amount and carrying amount (both financial assets and liabilities) for any transactions such as sales to account holders while using the exemptions specified within articles 9 and 10 of the Order.

- **r060 to r100 (Part 2)**

Firms to report PRRR, notional amount and carrying amount (both financial assets and liabilities) for any transactions such as sales to account holders while using the exemptions specified within articles 9 and 11 of the Order.

- **r110 to r130 (Part 3)**

Firms to report total own funds and PRRR for any transactions carried out while using the exemptions specified within articles 9, 10 and 11 and hedging risks under articles 6(1) and 6(2) of the Order. Submitted data will be checked for adherence to the general condition given under article 12 (1a) of the Order.

- **r140 and r150 (Part 3)**

Firms to report credit risk capital requirements and PRRR for any transactions carried out while using the exemptions specified within articles 9, 10 and 11 of the Order. Submitted data will be checked for adherence to the general condition given under article 12 (1b) of the Order.

- **r160 and r170 (Part 3)**

Firms to report PRRR for any transactions carried out while using the exemptions specified within articles 9, 10 and 11 of the Order and PRRR for any transactions carried out while using the exemptions specified within article 11 of the Order. Submitted data will be checked for adherence to the general condition given under article 12 (1c) of the Order.

- **r180 and r190 (Part 4)**

Firms to report number of breaches of the general conditions specified within articles 12(1d) and 12(1e) of the Order.

...

PRA116h: Exposures to Conduits and infrastructure finance vehicles

Overview

This template consists of two parts:...

- Overview

This section allows firms to indicate that they have not made use of the relevant exemptions within the Order during the reporting period, meaning there is no need for them to report the remainder of the template.

- Exposures to conduits

This template is to be used for reporting RFB's exposures to conduits and infrastructure finance vehicles. In the case of syndicated loans, RFBs are required to input only the RFB's share of the total loan.

...

Data elements

...

Columns – Part 2

...

- **070: Industry**

Firms should enter one of the following industry types to describe the industry of the institution that is not a RFI, or in the case of project finance exposures, the project industry:

- Oil and Gas
- Basic Materials
- Industrials
- Consumer Goods
- Health care
- Consumer Services
- Telecommunications
- Utilities
- Financials
- Technology
- Other
- Insurance
- Aerospace and Defence
- Automobile
- Housing
- Educational facilities
- Court or prison facilities

- Railway facilities, roads or other transportation facilities

...

PRA 116i: Exposures to relevant financial institutions relating to pension liability

Overview

This template consists of two parts:

- Overview

This section allows firms to indicate that they have not made use of the relevant exemptions within the Order during the reporting period, meaning there is no need for them to report the remainder of the template.

- Exposures relating to pension liability

This template is to be used for reporting an RFBs' exposures to relevant financial institutions that occur in relation to shared liability or other pension arrangements.

Data elements

Columns – Part 1

- **c010**

Firms should enter 'yes' if they have not used the relevant exemptions during the period; otherwise they should enter 'no'.

- If firms enter a 'yes' in r010, there is no need to report the remainder of this template.

Columns – Part 2

- **010: Type of exposure**

Firms should enter one of the following arrangements from which the exposure arises:

- guarantee;
- bond;
- contract of indemnity;
- a shared liability arrangement within the meaning of regulation 1 of the Financial Services and Markets Act 2000 (Banking Reform) (Pensions) Regulations 2015; or
- other (please state).

- **020: Amount of exposures**

The exposure value of the exposure at the reporting date, as defined in under the relevant article of the CRR.

- **030: Relevant financial institution to whom the RFB has an exposure**

The RFB should provide the name of the counterparty to which it has the exposure being reported.

Appendix 9: Draft credit unions amendment instrument

PRA RULEBOOK: NON CRR FIRMS: CREDIT UNIONS AMENDMENTS (NO. [X]) 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); and
 - (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 instrument) 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: Non CRR Firms: Credit Unions Amendments (No. [X]) Instrument [DATE]

- 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: Non CRR Firms: Credit Unions Amendments (No. [X]) Instrument [DATE].

By order of the Board of the Prudential Regulation Authority

[DATE]

Annex

Amendments to the Credit Unions Part

In this Annex, underlining indicates new text and striking through indicates deleted text.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

additional activity

means an additional activity carried out or additional service provided by a *credit union* as described in 3.3, 3.5, Chapter 4, 6.4 or Chapter 7.

...

3 LENDING

...

3.2 Subject to 3.3, a *credit union* must not ~~hold~~ make:

- (1) an *unsecured loan* that is repayable within more than five years from the date of its provision; or
- (2) a *secured loan* that is repayable within more than ten years from the date of its provision.

3.3 ~~A *credit union* must not make a loan that is repayable within more than ten years from its provision, in relation to an *unsecured loan*, and 25 years, in relation to a *secured loan*, unless the *credit union* complies with 10.3.~~

If a *credit union* complies with 10.3, it may make:

- (1) an *unsecured loan* that is repayable within ten years from the date of its provision; or
- (2) a *secured loan* that is repayable within 25 years from the date of its provision.

...

6 INVESTMENT

...

6.3 ~~Subject to 6.4, a~~ A *credit union* must not hold *investments*, save that it may hold an *investment* that is:

...

- (3) a sterling-denominated security issued by the government of an *EEA State*, with a *maturity* of up to twelve months from the date on which that *investment* is made; ~~or~~
- (4) a fixed-interest sterling-denominated security guaranteed by the government of an *EEA State*, with a *maturity* of up to twelve months from the date on which that *investment* is made, provided that such guarantee is unconditional in respect of the payment of both principal and interest on the security; or
- (5) described in 6.4, where the *credit union* meets the conditions set out therein.

6.4 ~~If a *A-credit union* complies with 10.3, it may hold an *investment* that is that holds an *investment* set out below must at all times while holding such *investment* comply with 40.3:~~

- (1) ~~a *deposit* placed with a *credit institution* which is authorised in an *EEA State* to *accept deposits* on terms that the *deposit* shall be repayable within at most twelve months from the date on which that *investment* is made; [deleted]~~

...

Appendix 10: Draft amendments to Supervisory Statement 2/16 ‘The prudential regulation of credit unions’

Insert new paragraph 4.5 and table 2 as indicated below

...

4 Additional activities

...

4.5 Table 2 sets out the PRA’s definitions of the terms set out in Table 1 for the purposes of the ratio calculations.

Table 2: Definitions for ratio calculations

Term	Definition
Capital	Regulatory capital as defined in Chapter 8 of the Credit Union Part, particularly 8.2.
Total assets	The total assets of a credit union that appear on its balance sheet.
Borrowings	The total closing balances of all loans received by a credit union (excluding any subordinated loans), authorised overdrafts, and committed lines of credit.
Total shares	The total amount of money held by a credit union, at the relevant date, relating to shares paid in by members, including money held for deferred shares.
Net loans	The total amount outstanding at the relevant date on all loans to members (irrespective of when such loans were made) less provision for bad and doubtful debt.
Net liquid assets	Assets which can be realised for cash at short notice, and within at most eight days, less any liabilities payable within 30 days.
Bad debt	Total amount of loans to members where the loan is more than three months in arrears.
Total loans	The total amount outstanding at the relevant date on all loans to members (irrespective of when such loans were made). This includes any loans written off during the period.
Net assets	Total assets less liabilities (excluding members’ shares).
Juvenile deposits	The total amount due to juvenile depositors.
Non-earning assets	The total amount of cash, current account balances (excluding any balances earning interest), pre-paid expenses and fixed assets.
Net zero cost funds	The total sum of a credit union’s capital and liabilities excluding any liabilities that are not subject to interest payable by or charges to the credit union. In practical terms, this is likely to constitute a credit union’s reserves.
Loan income	The total amount of interest received on loans made to members during the 12 month period preceding the relevant date.

Appendix 11: Draft External Audit (Amendment) Instrument

PRA RULEBOOK: SOLVENCY II FIRMS AND NON-AUTHORISED PERSONS: EXTERNAL AUDIT AMENDMENTS 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); and
 - (3) section 340 (rules regarding appointment of and duties on Actuaries and Auditors).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) 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: Solvency II Firms and Non-Authorised Persons: External Audit Amendments Instrument [DATE]

- 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: Solvency II Firms and Non-Authorised Persons: External Audit Amendments Instrument [DATE].

By order of the Board of the Prudential Regulation Authority

[DATE]

Annex

Amendments to the External Audit Part

In this Annex, new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.3 In this Part, the following definitions shall apply:

...

group supervisor

means (in relation to a *group*) the authority designated as group supervisor in relation to that *group*, in accordance with Article 247 of the *Solvency II Directive*.

...

4 DUTIES ON THE EXTERNAL AUDITOR

4.1

...

(3) read and consider all information disclosed by the firm in its *SFCR* that is not a *relevant element of the SFCR* to identify material inconsistencies with the *relevant elements of the SFCR* and any knowledge obtained ~~and other information to which the auditor has had access~~ during the course of the audit of the *SFCR* engagement and (where applicable) audit of the financial statements.

...

4.2

...

the external auditor shall state in the report under 4.1:(2) that the information has been properly compiled in accordance with the relevant PRA rules and EU instruments relating to that undertaking from information provided by undertakings in the group and the relevant insurance group undertaking.

...

Appendix 12: Draft Administration Instrument

PRA RULEBOOK: ADMINISTRATION INSTRUMENT (No. [X]) [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 137H (general rules about remuneration);
 - (3) section 137T (general supplementary powers); and
 - (4) section 142H (Ring-fencing rules).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) 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: Administration Instrument (No. [X]) [YEAR]

- D. The rules in the Parts of the PRA Rulebook listed in column (1) below are amended in accordance with the Annexes to this instrument listed column (2).

(1)	(2)
AUDIT COMMITTEE	A
REMUNERATION	B
NOTIFICATIONS	C
RING-FENCED BODIES	D
FITNESS AND PROPRIETY	E

Commencement

- E. Annexes A, C, D, and E to this instrument come into force on [DATE]. Annex B to this instrument comes into force on [DATE].

Citation

- F. This instrument may be cited as the PRA Rulebook: Administration Instrument (No. [X]) [YEAR].

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

Annex A

Amendments to the Audit Committee Part

In this Annex deleted text is struck through.

...

1.4 In this Part, the following definitions shall apply:

~~*audit committee*~~

~~means a committee established in accordance with 2.1.~~

...

Annex B

Amendments to the Remuneration Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.3 ...

(2) In this Chapter, references to rules in 15 in relation to a *firm* shall be read on the basis that references to employment with or the provision of services to the *firm*, include references to employment with or the provision of services to a previous *firm* to which the ~~buy-out~~ buy-out relates.

...

15A BUY-OUTS

Application

15A.1 Rules 15A.2 to 15A.11 apply where:

~~(3)~~ (1) a *firm* agrees with an *employee* to pay or provide a *buy-out*;

~~(4)~~ (2) the *buy-out* relates to employment with a previous *firm* that was subject to the *remuneration requirements*; and

~~(5)~~ (3) the *employee* was a *material risk taker* in that previous *firm*.

...

Annex C

Amendments to the Notifications Part

In this Annex, new text is underlined.

2 GENERAL NOTIFICATION REQUIREMENTS

- 2.1 A *firm* must notify the *PRA* immediately if it becomes aware, or has information which reasonably suggests, that any of the following has occurred, may have occurred or may occur in the foreseeable future:

...

Annex D

Amendments to the Ring-fenced Bodies Part

In this Annex, deleted text in the Ring-fenced Bodies Part is struck through.

...

17 POLICIES REGARDING USE OF EXCEPTIONS TO EXCLUDED ACTIVITIES AND PROHIBITIONS

17.1 For each *exception* separately, a *ring-fenced body* must establish, implement and maintain an effective policy that sets out at least the following:

...

(3) how the *ring-fenced body* determines that the sole or main purpose of an *exception transaction* is:

...

(b) for a *liquidity asset exception transaction*, to manage the liquidity of the *ring-fenced body*; and

...

Annex E

Amendments to the Fitness and Propriety Part

In this Annex, new text is underlined>.

...

4 NOTIFIED NON-EXECUTIVE DIRECTORS - NOTIFICATIONS

...

- 4.3 If the notification referred to in 4.2 is in respect of a *person* who, on becoming a *notified non-executive director*, ceases to perform a *PRA senior management function* or an *FCA-designated senior management function*, the firm is not required to provide information needed to assess the fitness and propriety of that person unless there has been a change in the information provided in respect of that person regarding fitness and propriety provided to the *PRA* or the *FCA* at the time the application for the approval for performance of *the PRA senior management function* or the *FCA-designated senior management function* was made.