

PRA RULEBOOK: CRR FIRMS: STEP-IN RISK INSTRUMENT 20xx

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 192XA (Rules applying to holding companies).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

PRA Rulebook: CRR Firms: Step-in Risk Instrument 20xx

- C. The PRA makes the rules in the Annexes to this instrument.

Part	Annex
Glossary	A
Step-in Risk	B
Groups	C
Reporting Pillar 2	D
Regulatory Reporting	E

Commencement

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

Citation

- E. This instrument may be cited as the PRA Rulebook: CRR Firms: Step-in Risk Instrument 20xx.

By order of the Prudential Regulation Committee

[DATE]

Annex A

Amendments to the Glossary Part

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

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Article 18(8) relationship

means:

a subsidiary of the firm or an undertaking in which the firm holds a participation, other than an institution, financial institution or ancillary services undertaking, where all the following conditions are met:

- (1) the undertaking is not a UK Solvency II firm, a third country branch undertaking, an insurance holding company or an undertaking within Article 4(1)(27)(k) of the CRR; and
- (2) there is a substantial risk that the firm provides financial support to that subsidiary or undertaking in stressed conditions, in the absence of, or in excess of any contractual obligations to provide such support.

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excluded entity

means:

- (1) a UK Solvency II firm;
- (2) a third country insurance undertaking;
- (3) an insurance holding company;
- (4) a credit institution;
- (5) a designated investment firm;
- (6) a non-directive firm; and
- (7) where the firm is part of a consolidation group, an undertaking included within the scope of the firm's prudential consolidation on a full consolidation basis.

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ICAAP assessment

means a firm's written record of the assessments required under the Internal Capital Adequacy Assessment Part.

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immaterial step-in entity

means a step-in entity which, when step-in risk is considered both individually and in combination with other similar entities, would not, given its size relative to the firm, materially impact the firm's liquidity or capital positions.

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material step-in entity

means a step-in entity other than an immaterial step-in entity.

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step-in entity

means an unconsolidated entity identified in accordance with 6.1(1) of the Step-in Risk Part.

step-in risk

means the risk that the firm provides financial support to a step-in entity in stressed conditions, in the absence of, or in excess of any contractual obligation to do so.

step-in risk assessment

means the assessment carried out in accordance with Chapters 5, 6 and 7 of the Step-in Risk Part and data items SI0, SI1 and SI2.

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unconsolidated entity

means an undertaking other than an excluded entity, including, but not limited to:

- (1) SSPEs;
- (2) asset management companies;
- (3) financial institutions;
- (4) ancillary services undertakings;
- (5) suppliers under material outsourcing arrangements; and
- (6) where the firm is a member of a consolidation group, undertakings that have been included within the scope of prudential consolidation on a proportional consolidation basis and those that have been consolidated using the equity method.

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Annex B

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

Part

STEP-IN RISK

Chapter Content

- 1. APPLICATION AND DEFINITIONS**
- 2. LEVEL OF APPLICATION**
- 3. MANAGING STEP-IN RISK**
- 4. STRATEGIES, PROCESSES AND SYSTEMS**
- 5. STEP-IN RISK ASSESSMENT**
- 6. IDENTIFICATION OF STEP-IN ENTITIES**
- 7. ASSESSMENT OF MATERIAL STEP-IN ENTITIES**
- 8. STEP-IN RISK POLICY**
- 9. GOVERNANCE**
- 10. REPORTING**

1. APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *firm* that is a *CRR firm* but not an *SDDT*; and
- (2) a *CRR consolidation entity* that is not an *SDDT consolidation entity*.

1.2 In this Part, the following definitions shall apply:

other contractual or non-contractual exposure

means where a *firm* is exposed to equity-like returns from the assets of an *unconsolidated entity* or risks related to that *undertaking's* performance.

sponsor

means a *sponsor* or a *firm* that manages or advises an *unconsolidated entity*, places its securities into the market or provides it with liquidity and/or credit enhancements.

step-in risk policy

means the policies and procedures established in accordance with 8.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

1.4 Interpretation 2.13 does not apply to this Part.

2. LEVEL OF APPLICATION

2.1 A *firm* must comply with this Part on an individual basis.

2.2 2.1 does not apply where the *firm* is a member of a *consolidation group*.

2.3 A *CRR consolidation entity* must comply with this Part on the basis of its *consolidated situation*.

2.4 For the purposes of 2.3, references to a *firm* in this Part (other than in 1.1, 2.1 and 2.2) means a *CRR consolidation entity*.

2.5 A *firm* that is required to comply with Parts Two and Three of the *CRR* on a *sub-consolidated basis* shall comply with this Part on the same basis.

3. MANAGING STEP-IN RISK

3.1 A *firm* must identify, monitor and manage *step-in risk*.

3.2 A *firm* must take all reasonable steps to mitigate significant *step-in risk* in respect of its *material step-in entities*.

4. STRATEGIES, PROCESSES AND SYSTEMS

4.1 A *firm* must have in place sound, effective and comprehensive strategies, processes and systems that enable it to comply with 3.

4.2 The strategies, processes and systems required by 4.1 must be proportionate to the nature, scale and complexity of the *firm's* activities.

5. STEP-IN RISK ASSESSMENT

5.1 A *firm* must prepare and regularly update its *step-in risk assessment*.

6. IDENTIFICATION OF STEP-IN ENTITIES

6.1 A *firm* must identify:

- (1) all *unconsolidated entities* with which it has one or more of the following relationships:
 - (a) *sponsor*;
 - (b) debt or equity investor (excluding investments that arise from market-making activities); or
 - (c) *other contractual or non-contractual exposure*;
- (2) *immaterial step-in entities*; and
- (3) *material step-in entities*.

7. ASSESSMENT OF MATERIAL STEP-IN ENTITIES

7.1 A *firm* must assess whether *step-in risk* in respect of its *material step-in entities* is significant.

7.2 When undertaking the assessment required by 7.1, a *firm* must consider at least:

- (1) the purpose and design of the *material step-in entity*; and
- (2) the risk indicators set out in *data item* SI2.

7.3 A *firm* must assess the potential impact on the *firm* of providing financial support to a *material step-in entity* were *step-in risk* to materialise.

8. STEP-IN RISK POLICY

8.1 A *firm* must document its policies and procedures for assessing *step-in risk*.

8.2 A *firm's step-in risk policy* must:

- (1) set out the *persons* responsible for identifying, assessing, monitoring, and managing the *firm's step-in risk*;
- (2) describe the *firm's* approach to identifying *material step-in entities* and *immaterial step-in entities*;
- (3) describe the *firm's* approach to the assessment required by 7; and
- (4) describe the process used to obtain the necessary information to conduct the *step-in risk assessment*.

8.3 The content and level of detail of a *firm's step-in risk policy* must be proportionate to the nature, scale and complexity of the *firm's* activities.

8.4 A *firm's step-in risk policy* must be reviewed:

- (1) regularly, and at least every three years; and
- (2) whenever there is any material change in the types of *step-in entity* or in the risk profile of *unconsolidated entities* to which the *firm* is, or may be, exposed.

8.5 A *firm* must be able to provide to the *PRA* on request a current version of its *step-in risk policy*, together with all versions that applied during the preceding three years.

9. GOVERNANCE

9.1 A *firm* must ensure that its *management body* approves its *step-in risk assessment*.

9.2 A *firm* must ensure that its *management body* approves its *step-in risk policy*.

10. REPORTING

- 10.1 A *firm* must submit a written record of its *step-in risk assessment* to the *PRA* in accordance with the applicable requirements in the Regulatory Reporting Part.

Annex C

Amendments to the Groups Part

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

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2 METHODS OF PRUDENTIAL CONSOLIDATION

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2.1 (1) In applying the requirements of Part One, Title II, Chapter 2 of the *CRR* for the purposes of prudential consolidation, a *CRR consolidation entity* must include the relevant proportion of an undertaking with whom it has:

(a) *a common management relationship*; ~~or~~

(b) *an Article 18(6) relationship*; or

(c) an Article 18(8) relationship.

(2) In 2.1(1), the relevant proportion is such proportion (if any) as stated in a requirement imposed on the *firm* in accordance with section 55M of *FSMA*.

[Note: Art 18(3), ~~and (6) and (8)~~ of the *CRR*]

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Annex D

Amendments to the Reporting Pillar 2 Part

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

1 APPLICATION AND DEFINITIONS

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1.6 In this Part the following definitions shall apply:

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~~ICAAP assessment~~

~~means a firm's written record of the assessments required under Internal Capital Adequacy Assessment.~~

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Annex E

Amendments to the Regulatory Reporting Part

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

Part

REGULATORY REPORTING

Chapter Content

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24. STEP-IN RISK REPORTING

1 APPLICATION AND DEFINITIONS

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1.1A Where this Part requires a *data item* to be submitted on a *consolidated* or *sub-consolidated basis* the *CRR consolidation entity* must comply with it on that basis and for this purpose, references to a *firm* in this Part, other than in 1.1(1) and 24, mean a *CRR consolidation entity*.

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2 REPORTING REQUIREMENTS – DATA ITEMS

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2.12 A *CRR firm* (other than an *SDDT*) and a *CRR consolidation entity* (other than an *SDDT consolidation entity*) must also submit *data items* as required by Chapter 24.

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24 STEP-IN RISK REPORTING

24.1 This Chapter applies only to:

- (1) a *firm* that is a *CRR firm* but not an *SDDT*; and
- (2) a *CRR consolidation entity* that is not an *SDDT consolidation entity*.

24.2 A *firm* that is required to comply with the Step-in Risk Part on an individual basis or *sub-consolidated basis* must comply with this Chapter on the same basis.

24.3 A *CRR consolidation entity* must comply with this Chapter on the basis of its *consolidated situation* and, for this purpose, references to a *firm* in this Chapter (other than in 24.1(1) and 24.2) mean a *CRR consolidation entity*.

24.4 A *firm* must complete:

- (1) *data item* SI0;
- (2) *data item* SI1 if the *firm* identifies a *step-in entity*; and
- (3) *data item* SI2 if the *firm* identifies a *material step-in entity*,

for the *step-in risk assessment* required in the Step-in Risk Part.

24.5 A *firm* must submit the *data items* it is required to complete by this Chapter to the *PRA* at the same time as the *firm* submits its *ICAAP assessment* to the *PRA*.

24.6 When submitting the required *data items*, a *firm* must use the template for the *data item* set out in 24.7.

24.7 (1) SI0 can be found here.

(2) SI1 can be found here.

(3) SI2 can be found here.

EXTERNALLY DEFINED TERMS

Term	Definition source
<i>asset management company</i>	has the meaning given in point (19) of Article 4(1) <i>CRR</i> .
<i>consolidated situation</i>	has the meaning given in point (47) of Article 4(1) of the <i>CRR</i> .
<i>financial sector entity</i>	has the meaning given in point (27) of Article 4(1) of the <i>CRR</i> .
<i>participation</i>	has the meaning given in point (35) of Article 4(1) of the <i>CRR</i> .
<i>sponsor</i> (within the part-specific definition 'sponsor' only)	has the meaning given in point (14) of Article 4(1) of the <i>CRR</i> .
<i>SSPE</i>	has the meaning given in point (66) of Article 4(1) of the <i>CRR</i> .
<i>sub-consolidated basis</i>	has the meaning given in point (49) of Article 4(1) of the <i>CRR</i> .