

**PRA RULEBOOK: CRR FIRMS: GROUP RISK SYSTEMS INSTRUMENT 2015**

**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: CRR Firms: Group Risk Systems Instrument 2015**

- D. The PRA makes the rules in the Annexes A, B, C and D to this instrument.

**Commencement**

- E. This instrument comes into force on 1 January 2016.

**Citation**

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Group Risk Systems Instrument 2015.

**By order of the Board of the Prudential Regulation Authority**

10 December 2015

**Annex A**

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

**Part**

# **GROUP RISK SYSTEMS**

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**Chapter content**

- 1. APPLICATION AND DEFINITIONS**
- 2. GROUP SYSTEMS AND CONTROLS**

**Links**

## 1 APPLICATION AND DEFINITIONS

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- 1.1 This Part applies to a *CRR firm* that is a member of a *group*.
- 1.2 This Part does not apply to a *firm* in relation to the *regulated activity* of bidding in emissions auctions (article 24A of the *Regulated Activities Order*) where it is carried on by way of business by a *MiFID investment firm* (other than a UCITS investment firm, as defined in the *FCA Handbook*) in relation to a *financial instrument*.
- 1.3 In this Part, the following definitions shall apply:
- group*
- means, in relation to a *person* ("A"), A and any *person*:
- (1) within the scope of section 421 of the *Act*;
  - (2) who has an *Article 12(1) relationship* with A;
  - (3) who has an *Article 12(1) relationship* with any *person* in (1);
  - (4) who is a *subsidiary undertaking* of a *person* in (2) or (3); or
  - (5) whose omission from an assessment of the risks to A of A's connection to any *person* coming within (1) to (4) or an assessment of the financial resources available to such *persons* would be misleading.
- 1.4 Unless otherwise defined in this Part, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

## 2 GROUP SYSTEMS AND CONTROLS

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- 2.1 A *firm* must:
- (1) have adequate, sound and appropriate risk management processes and internal control mechanisms for the purpose of assessing and managing its own exposure to *group risk*, including sound administrative and accounting procedures; and
  - (2) ensure that its *group* has adequate, sound and appropriate risk management processes and internal control mechanisms at the level of the *group*, including sound administrative and accounting procedures.
- 2.2 The internal control mechanisms referred to in 2.1 must include:
- (1) mechanisms that are adequate for the purpose of producing any data and information which would be relevant for the purpose of monitoring compliance with any prudential requirements (including any reporting requirements and any requirements relating to capital adequacy, solvency, systems and controls and large exposures):
    - (a) to which the *firm* is subject with respect to its membership of a *group*; or
    - (b) that apply to or with respect to that *group* or part of it; and
  - (2) mechanisms that are adequate to monitor funding within the *group*.

- 2.3 A *firm* must comply with 2.1(2) in relation to any *UK consolidation group* or *non-EEA sub-group* of which it is a member, as well as in relation to its *group*.

**[Note: Art 109(2) of the CRD]**

- 2.4 A *CRR firm* that is a *subsidiary* of a *mixed-activity holding company* must ensure that the risk management processes and internal control mechanisms referred to in 2.1 include sound reporting and accounting procedures and other mechanisms that are adequate to identify, measure, monitor and control transactions between the *firm's parent undertaking mixed-activity holding company* and any of the *subsidiary* of the *mixed-activity holding company*.

**[Note: Art 123 of the CRD]**

## Externally defined glossary terms

<b>Term</b>	<b>Definition source</b>
mixed-activity holding company	Article 4(1)(22) CRR
parent undertaking	Article 4(1)(15) CRR
person	Schedule 1 Interpretation Act 1978
regulated activity	section 22 FSMA
subsidiary	Article 4(1)(16) CRR

## Annex B

## Amendments to the General Organisational Requirements Part

In this Annex new text is underlined.

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**7** **GROUP ARRANGEMENTS**

- 7.1 Where a *firm* is a member of a *consolidation group*, the *firm* must ensure that the risk management processes and internal control mechanisms at the level of the *consolidation group* of which it is a member comply with the obligations set out in 2.1, 2.6, Chapter 5 and Chapter 6 of this Part on a *consolidated basis*.
- 7.2 Compliance with the obligations referred to in 7.1 must enable the *consolidation group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

**[Note: Art 109(2) of the CRD]**

## Annex C

## Amendments to the Skills, Knowledge and Expertise Part

In this Annex new text is underlined.

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**6** **GROUP ARRANGEMENTS**

**6.1** Where a *firm* is a member of a *consolidation group*, the *firm* must ensure that the risk management processes and internal control mechanisms at the level of the *consolidation group* of which it is a member comply with the obligations set out in 3.2 on a *consolidated basis*.

**6.2** Compliance with the obligations referred to in 6.1 must enable the *consolidation group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

**[Note: Art 109(2) of the CRD]**

## Annex D

## Amendments to the Risk Control Part

In this Annex new text is underlined.

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**4** **GROUP ARRANGEMENTS**

4.1 Where a *firm* is a member of a *consolidation group*, the *firm* must ensure that the risk management processes and internal control mechanisms at the level of the *consolidation group* of which it is a member comply with the obligations set out in 2.3, 2.7 and Chapter 3 on a *consolidated basis*.

4.2 Compliance with the obligations referred to in 4.1 must enable the *consolidation group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

**[Note: Art 109(2) of the CRD]**