

Policy Statement | PS8/16

Internal governance of third country branches and response to CP3/16

February 2016



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This policy statement contains the final rules, supervisory statements and responses to Chapter 4 of Consultation Paper 17/15 'The PRA Rulebook: Part 3' and CP3/16, 'Occasional Consultation Paper'.

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1 Overview

1.1 This Prudential Regulatory Authority (PRA) policy statement (PS) issues the final rules and a supervisory statement relating to the internal governance arrangements of UK branches of non-EEA banks and PRA designated investment firms, known as 'third country branches' (where singular 'third country branch'). The PRA consulted on draft rules and a supervisory statement in Consultation Paper (CP) 17/15: 'The PRA Rulebook: Part 3'.¹ This PS also publishes the final rules and a supervisory statement in response to CP3/16 'Occasional Consultation Paper'.²

1.2 Chapter 2 of this PS is relevant to all third country branches. Chapter 3 is relevant to all PRA-authorized firms. All the rules and supervisory statements set out in the appendices apply from 7 March 2016.

2 Internal governance of third country branches

2.1 The rules and supervisory statement regarding the internal governance of third country branches included in the appendices for this PS are to replace the rules and guidance respectively in chapters 4 – 9 and 21 of the Senior Management Arrangements, Systems and Controls (SYSC) section of the Handbook. The rules and supervisory statement cover the following areas:

- general organisational requirements;
- persons who effectively direct the business;
- responsibility of senior personnel;
- skills, knowledge and expertise;
- compliance and internal audit;
- risk control;
- outsourcing; and
- record keeping.

2.2 This material has been finalised separately from the main response to CP17/15 which was published in PS19/15 on 3 August 2015.³ Finalisation of these rules and the supervisory statement have been delayed to ensure amendments are included to reflect aspects of the Senior Managers and Certification regimes (SM&CR) relating to third country branches, that would have superseded or otherwise affected these proposals. In addition minor amendments have been made to ensure terminology is appropriate for third country branches.

2.3 The PRA is required by FMSA to have regard to any representations made to the proposals in a consultation, to publish an account, in general terms, of those representations and its response to them and to publish details of any significant differences in the rules as made. Very limited comments were

1 *PRA Consultation Paper 17/15 'The PRA Rulebook: Part 3'*, April 2015, www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp1715.aspx

2 *PRA Consultation Paper 3/16 'Occasional Consultation Paper'* January 2016; www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp316.aspx

3 *PRA Policy Statement 19/15 'The PRA Rulebook: Part 3 – PS19/15'*, August 2015; www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps1915.aspx

received in response to CP17/15 in relation to these proposals. One respondent asked whether third country branches are considered to be CRR firms and asked for further details on how internal governance requirements would be applied to third country branches. The language in the rules has been amended to align this definition with the term ‘third country CRR firm’ which is a defined term used elsewhere in the Rulebook. Firms in scope are not CRR firms. Supervisory Statement 4/16 ‘Internal Governance of Third Country Branch’ (Appendix 2) sets out the PRA’s expectations for the internal governance of third country branches and how they should comply with the ‘Internal Governance of Third Country Branches’ parts of the PRA Rulebook.¹

2.4 The changes the PRA has made to the supervisory statement and rules instrument are to ensure consistency with material consulted on as part of the development of the SM&CR. Minor amendments have also been made to improve clarity on the scope of the rules and the terminology in the SS. These changes do not change policy outcomes. As a result these amendments do not require further consultation.

2.5 Prior to consultation, the PRA considered the way in which the rules advance its objectives (including its secondary competition objective), impacts mutuals, is consistent with the Regulatory Principles, and impacts on equality and diversity. The PRA’s findings on these issues are unchanged following consultation and consideration of the feedback received.

3 Response to CP3/16

3.1 In CP3/16 the PRA consulted on deleting various redundant Handbook provisions and proposed moving guidance notes for Close Links and Controllers returns to a supervisory statement.

3.2 The PRA received no responses to the consultation. The final rules and updated Supervisory Statement 34/15, ‘Guidelines for completing regulatory reports’ is included in the appendices.

3.3 The rules and updates to Supervisory Statement 34/15 will take effect from 7 March 2016.

¹ PRA Supervisory Statement 4/16 ‘Internal governance of third country branches’, February 2016
www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss416.aspx

Appendices

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- 1 PRA Rulebook: CRR Firms: Internal Governance of third country branches instrument 2016, available at <http://www.bankofengland.co.uk/pr/Pages/publications/ps/2016/ps816.aspx>.

 - 2 Supervisory Statement 4/16 'Internal governance of third country branches', available at www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss416.aspx.

 - 3 Handbook (Rulebook Consequential) Instrument 2016, available at <http://www.bankofengland.co.uk/pr/Pages/publications/ps/2016/ps816.aspx>.

 - 4 Supervisory Statement 34/15 'Guidelines for completing regulatory reports' UPDATE, available at www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss3415update.aspx
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