

Policy Statement | PS10/17

Ensuring operational continuity in resolution: reporting requirements

April 2017



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1 Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback to responses to Consultation Paper (CP)28/16, 'Ensuring operational continuity in resolution: reporting requirements' ('the CP').¹ The CP set out proposals for the data the PRA intends to collect in connection with the financial resilience policy set out within Supervisory Statement (SS) 9/16 'Ensuring operational continuity in resolution'² and the General Organisational Requirements and Outsourcing Parts of the PRA Rulebook.

1.2 This PS is relevant to UK banks, building societies and PRA-authorised investment firms to which the Operational Continuity Part of the PRA Rulebook applies ('operational continuity firms') that receive critical services from one or more members of their group or from a business unit within the firm itself ('group providers').

1.3 This PS contains the final amendments to the Regulatory Reporting Part (Appendix 1), final amendments to SS34/15 'Guidelines for completing regulatory reports' (Appendix 2), and the final template PRA109 (consulted on as PRA117) and reporting instructions (Appendix 3), which implement the proposals consulted on in the CP.

Statutory obligations

1.4 Where the final rules differ from the draft in the CP in a way which is, in the opinion of the PRA, significant, the Financial Services and Markets Act 2000 (FSMA)³ requires the PRA to publish:

- (a) details of the difference (and the PRA's response to representations made to it regarding those changes) together with a cost benefit analysis; and
- (b) a statement setting out in the PRA's opinion whether or not the impact of the final rule on mutuals is significantly different to: the impact that the draft rule would have had on mutuals; or the impact that the final rule will have on other PRA authorised firms.

1.5 The PRA has made several amendments to the draft rules and documents consulted on in the CP in light of feedback received and further analysis, mainly to add further clarity, remove redundant items and improve the quality of reporting information. The changes in response to feedback to the consultation are set out in Chapter 2, and additional changes resulting from further analysis by the PRA are included in Chapter 3. Where relevant, an assessment of the costs and benefits of the changes are included in each section. The PRA does not consider the changes are significant in their impact on mutuals or will have an impact on mutuals that will be significantly different than that for other authorised firms. Therefore, the PRA has not updated the assessment of impact on mutuals or the related cost benefit analysis from the CP.

Next steps

1.6 The amendments to the Regulatory Reporting Part and updates to SS34/15 set out in this PS will take effect from 1 January 2019. Operational continuity firms are required to submit the template (PRA109) 45 business days after the first reporting period ending 31 December 2019.

1 July 2016: www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp2816.aspx.

2 July 2016: www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss916.aspx.

3 Sections 138J(5) and 138K(4).

1.7 In the CP, the PRA proposed to collect the data in the reporting templates by electronic means, as for other regulatory reporting. The PRA is aware that firms will need information on the precise mechanism by which that data will be collected to assist with implementation. The PRA will aim to provide firms with an update on this in Q4 2018.

1.8 This policy 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 those arising once any new arrangements with the European Union take effect.

2 Feedback to responses

2.1 Before making any proposed rules or establishing its general policies and practices, the PRA is required by FSMA to have regard to any representations made to it, and to publish an account, in general terms, of those representations and its response to them.¹

2.2 The PRA received eight responses to the CP. Respondents were generally supportive of the proposals but did raise a number of specific issues and questions regarding the details of the draft rules, templates and instructions. This chapter of the PS describes the most important issues raised by respondents and the main areas where the PRA has made amendments. The responses are discussed below by topic.

Scope of group service arrangements

2.3 In the CP, the PRA proposed to collect data about an operational continuity firm's individual group provider arrangement, in a single template.

2.4 Respondents sought clarity as to how to report the template when there are multiple operational continuity firms and multiple group providers within a group. In particular, whether those operational continuity firms can report on a combined basis or whether each operational continuity firm must complete a template for each group provider arrangement. Rule 21.2 of the Regulatory Reporting Part requires each operational continuity firm to complete a separate template. The PRA has amended the template so that all group service arrangements relating to an operational continuity firm are captured on a single template.

2.5 Respondents found the reference to 'a single data item' proposed in the draft rules 21.3 and 21.4 of the Regulatory Reporting Part, and the interaction with the overview section of the reporting instructions unclear. A single data item was intended to refer to a single template. The PRA has removed references to a single data item in the rules. The PRA has also amended the reporting instructions to make clear that each operational continuity firm within a group is required to prepare a separate template. The PRA has also clarified that one operational continuity firm can submit templates to the PRA on behalf of other operational continuity firms within the group.

2.6 Respondents also sought clarity on whether to include data on group providers that are located in jurisdictions outside of the UK. The reporting rules apply to operational continuity firms in the UK. Operational continuity firms are required to provide data on all group providers they use, regardless of the location of the group provider.

¹ Sections 138J(3), 2L, and 138J(4).

Operational costs

2.7 In the CP, the PRA proposed to collect data on a group provider's operational costs. Respondents sought clarity on the scope of operational costs to be reported. Specifically, whether costs only relate to providing critical services to an operational continuity firm or whether the costs of provision of services to other group entities are also required.

2.8 The PRA expects operational continuity firms to submit data on the operational costs related to the group provider's critical services provision. Following further analysis prompted by the responses, the PRA considers that data on the other operational costs related to service provision to the operational continuity firm and other group entities is also required. The PRA has amended the template and reporting instructions accordingly.

2.9 Data on other operational costs will allow the PRA to understand the total costs that could impact the group provider's ability to provide critical services to the operational continuity firm in stress or resolution. The data will also allow the PRA to determine whether the firm is meeting General Organisational Requirements 2.5 and Outsourcing 2.6 in respect of the group provider having adequate resources to perform services for the operational continuity firm.

2.10 The PRA expects the initial implementation and ongoing costs associated with producing the additional data to be limited. Operational continuity firms will need to understand the breakdown between the group provider's critical and other services costs to demonstrate that critical services can continue in stress or resolution. Firms are expected to undertake mapping of critical services to critical functions as part of implementing the expectations set out in SS9/16. When mapping is complete, the PRA expects firms to have the data required to report other operational costs on an ongoing basis.

2.11 The PRA considers that the benefits of being able to supervise the financial adequacy of the group provider outweigh the direct costs to operational continuity firms of the change.

2.12 Respondents also sought clarity on the definitions of specific operational cost categories listed in the reporting instructions. The PRA has amended the reporting instructions to clarify areas of uncertainty in the drafting.

Financial resilience

2.13 In the CP, the PRA proposed to collect data about the annual fixed overheads of the group provider and the liquidity resources it holds. This data will allow the PRA to monitor whether operational continuity firms are meeting the expectation set out in Chapter 5 of SS9/16.

2.14 Respondents sought clarity on how to calculate the annual fixed overheads of the critical services provided by the group provider in the template. The PRA has clarified in the reporting instructions that firms can exclude, where appropriate, costs listed in paragraph 5.6 of SS9/16 from the total critical services operational costs reported in c160 in part 1. The operational continuity firm should be able to explain to the PRA the assumptions it has used to determine the amount of fixed overheads. The PRA has moved the annual fixed overhead figure to the operational costs part of the template as it relates to the costs reported in that part.

2.15 Respondents also sought clarity on how to calculate the liquidity resource expectation in the template. As set out in SS9/16, the PRA considers that the 50% liquidity resource expectation is a minimum only and firms need to understand the full risks that the group provider is exposed to that could impact its ability to perform critical services in a stress or resolution event. The PRA may expect the group provider to hold more resources than the

minimum. For example, if the firm anticipates a stress or resolution event increasing the operating costs relating to the provision of critical services. This might occur following the termination of non-critical business lines that previously shared fixed costs.

2.16 Some respondents were concerned that the liquidity resource expectation and reporting requirements only apply to group providers. Respondents considered that this created model bias towards external providers. The PRA is not favouring external provision over group provision and expects operational continuity firms to consider the financial resilience of the provider it uses regardless of ownership. The PRA set out expectations regarding financial resilience for group and non-group providers in Chapter 5 of SS9/16.

Recharge cost

2.17 In the CP, the PRA proposed to collect data on how much the group provider charges for services it provides and also how much it pays for services it receives.

2.18 Respondents sought clarity on how to interpret the inwards and outwards income flows in the recharge cost part of the template. The PRA has revised the terminology used in the template and reporting instructions to provide clarity as to what income flows should be reported. 'Amount received' includes the inward flow of income to the group provider resulting from charging group entities for the provision of services. 'Amount paid' is used to describe the outward flow of income that the group provider pays to other group entities for services it receives.

3 Further amendments to the draft rules and documents

3.1 This section sets out other amendments to the template and reporting instructions consulted on in the CP, following further PRA analysis. The PRA considers that the changes do not represent a significant departure from the policy consulted on in the CP, as the changes improve clarity of reporting or remove redundant data. The amendments are discussed below by topic.

Legal entity identifiers (LEIs)

3.2 To enhance consistency of data and allow for more automated analysis of data, the PRA has amended the reporting template to require entity identification (ie LEIs, where they are available) for submitting data on the operational continuity firm, group providers, group entities or external entities. The use of LEI codes is an international initiative led by the Financial Stability Board (FSB) and LEI codes are already used in the design of Capital Requirements Regulation¹ common reporting (COREP) and financial reporting (FINREP) templates. Where LEI codes are not available for a particular entity, firms should instead report their own internal, unique identifier.

3.3 The amendments to include entity identification (through LEI codes where available) in addition to counterparty names will improve the clarity of reporting and the comparability of the data provided. The cost involved to use LEI codes, or own internal codes where LEI codes are not available, should be minimal. As the template applies from January 2019 onwards, the PRA considers that there is sufficient time for firms to include these changes as part of their implementation of the template.

¹ (575/2013) (CRR).

Template ordering

3.4 The PRA has removed part 1 of the template as set out in the CP, which identified group service arrangements, as it was duplicative and the data are captured in other parts of the template. Each operational continuity firm is required to complete the template and is identified in the general information part of the template. All group provider(s) that the operational continuity firm uses are first identified in the operational costs part of the template. Data relating to each of those group providers are required in the subsequent parts of the template.

3.5 The PRA reordered the template so that the recharge information, which was part 3 of the template in the CP, is at the end of the template. This improves comparability of the data provided, as the financial resilience and financial resilience resource parts now follow the operational costs part, from which the data in these parts are derived.

3.6 The PRA has also transposed the rows and columns in the template and created a z-axis for part 3 and part 4 of the final template, as this should improve the clarity of reporting and the comparability of the data provided.

3.7 The PRA does not expect there to be any costs to firms from these changes.

Updates to SS34/15

3.8 The PRA has updated SS34/15 to reflect the changes resulting from PS10/17. The updates include re-numbering the template from PRA117 to PRA109 and adding a new appendix (Appendix 10), which provides reporting instructions for completing PRA109.

Appendices

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- 1** **Operational Continuity Reporting Instrument, available at:**
www.bankofengland.co.uk/pr/Pages/publications/ps/2017/ps1017.aspx ¹

 - 2** **Supervisory Statement 34/15 'Guidelines for completing regulatory reports' UPDATE, available at:**
www.bankofengland.co.uk/pr/Pages/publications/ss/2017/ss3415update2.aspx ²

 - 3** **PRA109 Operational continuity - reporting template and instructions available at:**
www.bankofengland.co.uk/pr/Pages/regulatorydata/formscrdirms.aspx
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¹ This includes a link to PRA109 reporting template.

² This includes links to PRA109 reporting template and instructions.