

Policy Statement | PS19/17

Responses to CP2/17 ‘Occasional Consultation Paper’

July 2017



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY





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Contents

1	Overview	5
2	Feedback to responses	6
	Appendices	9

1 Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback to responses to Consultation Paper (CP) 2/17 'Occasional Consultation Paper' (the CP).¹ It also includes the final rules and updated Supervisory Statement (SS) 34/15 'Guidelines for completing regulatory reports' and SS9/13 'Securitisation'.

1.2 This PS is relevant to all PRA-authorized firms.

1.3 The appendices to this PS provide links to the final rules amending Parts of the PRA Rulebook, final SSs and templates and instructions, as set out in the table below:

Appendix	CP2/17 Chapter	Rulebook Part / SS
1	Chapter 3 Regulatory references – minor amendments	Fitness and Propriety Insurance – Fitness and Propriety Large Non-Solvency II Firms – Fitness and Propriety
2	Chapter 4 Non-Solvency II firms – external audit reporting and supplementary notes	Insurance Company – Reporting
3	Chapter 5 Remuneration – committees and deferral periods	Remuneration
4 ²	Chapter 6 Ring-fencing – residual reporting requirements for ring-fenced bodies	Regulatory Reporting
5		Reporting templates RFB001 -RFB008 Reporting instructions for RFB001-RFB008
6		SS34/15 UPDATE 'Guidelines for completing regulatory reports'
7	Chapter 7 Securitisations – implicit support and external credit assessment institution (ECAI) mapping	SS9/13 UPDATE 'Securitisation'

1.4 The final rules for the administration instrument proposals set out in Chapter 1 of the CP were published on 27 April 2017 as PRA Rulebook: Administration Instrument (No. 2) 2017 (PRA2017/16).³

1.5 The PRA is considering the response received to Chapter 2 'Credit risk mitigation – secured guarantees' and will provide feedback in a separate PRA publication.

1.6 The PRA is required by the Financial Services and Markets Act 2000 (FSMA) to publish a statement on the impact of the rules on mutuals where the final rules differ from the draft of the proposed rules;⁴ and a cost benefit analysis of any changes to the consultation proposals which the PRA considers to be significant.⁵ The PRA has made some minor adjustments to the final rules, details of which are set out in Chapter 2 of this PS. The PRA does not consider that these changes are significant or will have a differential impact on mutuals.

1 February 2017: www.bankofengland.co.uk/pr/Pages/publications/cp/2017/cp217.aspx.

2 Appendix 4 also includes final rules for the application of International Financial Reporting Standards 9 reporting requirements to groups subject to ring-fencing, as referred to in PS18/17 'IFRS 9: Changes to reporting requirements', July 2017: www.bankofengland.co.uk/pr/Pages/publications/ps/2017/ps1817.aspx.

3 www.bankofengland.co.uk/pr/Pages/publications/ps/2017/admin217.aspx.

4 Section 138K(4) of FSMA.

5 Section 138J(5) of FSMA.

1.7 The policy contained in this PS 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.

2 Feedback to responses

2.1 The PRA is required by FSMA 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.¹

2.2 The PRA received three responses for Chapters 2, 5 and 6 of the CP. Feedback to Chapter 2, which proposed amendments to SS17/13 'Credit risk mitigation', will be provided in a subsequent PRA publication (see paragraph 1.5 above).

2.3 The PRA's feedback to the responses and final policy decisions are set out below.

Regulatory references – minor amendments (Chapter 3)

2.4 The PRA proposed to amend the language related to the regulatory references rules in the Fitness and Propriety, Insurance – Fitness and Propriety and Large Non-Solvency II Firms – Fitness and Propriety Parts to remove superfluous language, and to align the language used in the latter Part in relation to the assessment of relevancy with the Insurance – Fitness and Propriety Part.

2.5 The PRA received no responses to the consultation, and is making the amendments as consulted.

Non-Solvency II firms – external audit reporting and supplementary notes (Chapter 4)

2.6 The PRA proposed to amend rule 2.5 of the Insurance Company - Reporting Part to exclude from the scope of external audit the reporting that is required under Insurance Company – Reporting 4.24 to 4.25. It also proposed to clarify the PRA's position on supplementary notes to a form with an amendment to Insurance Company - Reporting 6.4.

2.7 The PRA received no responses to the consultation, and is making the amendments as consulted.

Remuneration – committees and deferral periods (Chapter 5)

2.8 The CP proposed minor amendments to Remuneration 7.4 and 15.17(1)(b).

2.9 No responses were received for the change to Remuneration 7.4. The PRA has made the final rules as proposed in the CP.

2.10 The PRA proposed a minor amendment to Remuneration 15.17(1)(b) with the intention of clarifying that the five year minimum deferral period requirement would not apply to individuals who had been identified as material risk takers solely due to committee membership. The PRA proposed that these individuals should be subject to the Capital Requirements Directive² minimum deferral period of three to five years, unless they also carry out a PRA senior management function. There was one response to this proposal which

¹ Section 138J(4) and 138J(5) of FSMA.

² Capital Requirements Directive (2013/36/EU) (CRD).

indicated that it found the existing rule completely clear in its intent and that the proposed amendment did not assist clarity. The PRA has therefore decided not to amend Remuneration 15.17(1)(b).

Ring-fencing – residual reporting requirements for ring-fenced bodies (Chapter 6)

2.11 Chapter 6 of the CP proposed amendments and additions to reporting requirements for ring-fenced bodies (RFBs) and amendments to the reporting requirements set out in the Regulatory Reporting Part of the PRA Rulebook:

- (i) a requirement for an RFB to report on the use by its ring-fenced affiliates¹ of exceptions to prohibited and excluded activities under the Excluded Activities and Prohibitions Order (the Order);²
- (ii) amendments to PRA reporting templates and instructions RFB001 – RFB008 to collect legal entity identifiers (LEIs) for submitting firms, sub-group entities, counterparties and correspondents; and
- (iii) a rule requiring an RFB to comply with the reporting requirements proposed in CP46/16 'IFRS 9: changes to reporting requirements'³ on a sub-consolidated basis.

2.12 The PRA received no responses to its proposal to require an RFB to report on the use by its ring-fenced affiliates of exceptions to prohibited and excluded activities under the Order.

2.13 The PRA also received no responses on the proposed amendments to PRA reporting templates and instructions RFB001 – RFB008 to collect LEIs. The PRA will therefore implement the rules as presented in the CP with the amendments set out below.

Validation rules

2.14 Reporting templates RFB001, RFB003 and RFB004 originally included technical validation rules setting out the tests that a firm should apply to data to check its consistency. To align with other PRA reporting templates, the PRA has decided to move these validation rules from the templates into the corresponding reporting instructions.

2.15 The PRA considers that this will have no impact on firms.

RFB002 instructions clarification

2.16 The PRA has updated the reporting instructions for RFB002 to clarify that Part 2 'Detail of funding from intragroup counterparties' of the RFB002 template, should be completed even if Part 1 is a nil return.

2.17 In Part 1 of the template, firms should report on funding provided by intragroup counterparties to the extent that this funding is not already reported within rows 020 – 110 of existing COREP template C67.00. The PRA has amended the reporting instructions to make this point clear. The amended instructions set out that all funding from group entities outside the RFB sub-group should either be reported in RFB002 or in C67.00 as reported by the RFB on a sub-consolidated basis. It should not be reported in both.

1 A ring-fenced affiliate, in relation to an RFB, is an entity which is a member of an RFB sub-group which is not itself that RFB.

2 The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014: www.legislation.gov.uk/ukdsi/2014/9780111117101/contents as amended by the Financial Services and Markets Act 2000 (Ring-fenced Bodies, Core Activities, Excluded Activities and Prohibitions) (Amendment) Order 2014: www.legislation.gov.uk/uksi/2016/1032/pdfs/uksi_20161032_en.pdf.

3 December 2016: www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp4616.aspx.

2.18 It is possible that all relevant information may be captured in C67.00, resulting in a nil return for Part 1 of RFB002. This would not mean that Part 2 of the template should also be a nil return. This is because Part 2 requires firms to submit an entity level breakdown of any funding that is reported either in Part 1 or in COREP reporting template C67.00.

International Financial Reporting Standards 9 (IFRS 9) reporting requirements relating to RFBs on a sub-consolidated basis

2.19 The PRA received one response to its proposal to require an RFB to comply with IFRS 9 reporting requirements on a sub-consolidated basis. The respondent sought confirmation that the PRA would not require duplicate data to be submitted to meet IFRS 9 reporting requirements in the case where the RFB sub-group would already be reporting the same data under FINREP reporting requirements. The PRA can confirm that duplicate reporting will not be required.

2.20 The PRA will therefore implement the changes to the Ring Fencing Part as presented in the CP, to apply the IFRS 9 reporting rules to an RFB on a sub-consolidated basis.

2.21 The PRA published feedback to CP46/16 and made final rules applying from January 2018 in PS18/17.¹ In that PS, the PRA stated that groups subject to ring-fencing would not be able to benefit from an exemption from, or apply for a waiver to, any of the sub-consolidated or individual reporting requirements set out in the PS. The PRA also stated that it would amend the rules to specify this in its response to CP2/17. These amendments are included in Appendix 4.

Securitisations – implicit support and external credit assessment institution (ECAI) mapping (Chapter 7)

2.22 The PRA proposed changes to SS9/13 to (i) align the Implicit Support and SRT chapter (5) with the EBA guidelines on implicit support for securitisation transactions;² and (ii) delete Chapter 7 'Mapping of ECAI credit assessments to credit quality steps' which has been superseded by the ECAI Mapping ITS for securitisation.³

2.23 The PRA received no responses to the consultation, and is making the amendments as consulted.

1 July 2017: www.bankofengland.co.uk/pr/Pages/publications/ps/2017/ps1817.aspx.

2 EBA/GL/2016/08: [www.eba.europa.eu/documents/10180/1603711/Final+report+on+Guidelines+on+implicit+support+for+securitisation+transactions+\(EBA-GL-2016-08\).pdf](http://www.eba.europa.eu/documents/10180/1603711/Final+report+on+Guidelines+on+implicit+support+for+securitisation+transactions+(EBA-GL-2016-08).pdf).

3 Commission Implementing Regulation (EU) 2016/1801 on laying down technical standards with regard to the mapping of credit assessments for securitisation: <http://eur-lex.europa.eu/legal-content/En/TXT/PDF/?uri=CELEX:32016R1801&from=EN>.

Appendices

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- 1 **PRA RULEBOOK: CRR FIRMS, NON-CRR FIRMS, SOLVENCY II FIRMS, NON-SOLVENCY II FIRMS: SENIOR MANAGERS REGIME AMENDMENT INSTRUMENT 2017, available at: www.bankofengland.co.uk/pr/Pages/publications/ps/2017/ps1917.aspx**

 - 2 **PRA RULEBOOK: NON-SOLVENCY II FIRMS: INSURANCE COMPANY – REPORTING (AMENDMENT) INSTRUMENT 2017, available at: www.bankofengland.co.uk/pr/Pages/publications/ps/2017/ps1917.aspx**

 - 3 **PRA RULEBOOK: CRR FIRMS: REMUNERATION INSTRUMENT 2017, available at: www.bankofengland.co.uk/pr/Pages/publications/ps/2017/ps1917.aspx**

 - 4 **PRA RULEBOOK: CRR FIRMS: RING-FENCING (AMENDMENT) INSTRUMENT 2017, available at: www.bankofengland.co.uk/pr/Pages/publications/ps/2017/ps1917.aspx**

 - 5 **Reporting templates and instructions RFB001 to RFB008, available at: www.bankofengland.co.uk/pr/Pages/regulatorydata/formscrdirms.aspx**

 - 6 **SS34/15 UPDATE 'Guidelines for completing regulatory reporting', available at: www.bankofengland.co.uk/pr/Pages/publications/ss/2017/ss3415update5.aspx**

 - 7 **SS9/13 UPDATE 'Securitisation', available at: www.bankofengland.co.uk/pr/Pages/publications/ss/2017/ss913update.aspx**