

Policy Statement | PS17/19

Supervising international banks: Revision of the Branch Return

September 2019



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1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 8/19 ‘Supervising international banks: Revision of the Branch Return’.¹ It also contains the PRA’s final policy, as follows:

- amendments to the Regulatory Reporting and Incoming Firms and Third Country Firms Parts of the PRA Rulebook (Appendix 1);
- reporting guidance included in updated Supervisory Statement (SS) 34/15 ‘Guidelines for completing regulatory reports’ (Appendix 2); and
- revised Branch Return template (‘the Return’) (Appendix 3).

1.2 This PS is relevant to all existing and prospective PRA-supervised branches of deposit takers and PRA-designated investment firms which are not UK headquartered firms (‘international banks’).

Background

1.3 In CP8/19 the PRA proposed to:

- (i) provide guidance for completion of the Return in SS34/15 alongside the other reporting guidance for deposit takers and investment firms;
- (ii) align balance sheet concepts used in the Return with concepts and guidance used in the PRA’s wider reporting framework, e.g. by requiring assets to be broken down into the standard categories of ‘Loans and advances’, ‘Derivatives’ etc;
- (iii) amend the reporting content, slightly reducing the number of data points reported by most firms;
- (iv) clarify that firms must report within 30 *business* days; and
- (v) replace the current Excel reporting format for the Return with the XBRL reporting format.

Summary of responses

1.4 The PRA received six responses to the consultation, including one from a trade association. The responses were generally supportive of proposals (i) –(iv) above though they were not supportive of proposal (v). Respondents also proposed further improvements to the reporting guidance and amendments to the Return to give reporters greater clarity or reduce their need to amend systems to deliver the required data. The PRA’s response to this feedback is set out in Chapter 2.

Changes to draft policy

1.5 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)² requires the PRA to publish:

- (a) details of the difference together with a cost benefit analysis; and

¹ April 2019: www.bankofengland.co.uk/prudential-regulation/publication/2019/supervising-international-banks-revision-of-the-branch-return (page 2 of 2).

² Section 138J(5) and 138K(4).

- (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-authorized firms.

1.6 After considering the responses received the PRA:

- will implement the Return as consulted on in CP8/19 with two minor changes described below in paragraph 1.7.
- has amended the reporting guidance to provide further clarity.

1.7 The PRA will make two minor changes to the names of data points in the template. Part 2 row 020 has been renamed from 'of which: Smaller Companies ("non-financial corporations")' to 'of which: Smaller Companies' to align it with the reporting guidance proposed in CP9/18, which does not exclude financial services firms. Part 6 row 030 has been renamed from 'average monthly transaction value' to 'average transaction value' because, in respect of centrally cleared trades, the calculation of monthly averages does not provide any benefit relative to a more straightforward daily average. Payments and settlement transactions should continue to be calculated using monthly averages. The reporting guidance for this row has been updated accordingly.

1.8 The PRA considers that the changes to the final rules are not significant and will not materially alter the cost benefit analysis presented in CP8/19. The PRA does not consider that the impact on mutuals is significantly different from the impact of the rules on other PRA-authorized firms. The same analysis applies in respect of the changes to the reporting guidance. The PRA considers that the additional clarity provided in the reporting guidance will allow the data reported by firms to better meet the PRA's objectives, and/or will allow firms to meet the PRA's reporting expectations at lower cost.

1.9 After considering the responses on proposal (v), the PRA has decided not to proceed with the replacement of an Excel template with XBRL. The PRA will keep this decision under review. This decision also reflects the PRA's desire to align any move to XBRL for the Return with longer term changes to its strategic capabilities for the management of data from banks. As a result, firms will not incur the additional compliance costs associated with the use of XBRL.

1.10 Further detail on these changes is set out in Chapter 2.

Implementation

1.11 The changes to the Return and the reporting guidance will take effect for the reporting of the H1 2020 Return, ie for the six-month period ending Tuesday 30 June 2020 and firms will need to submit their first revised Return by no later than Tuesday 11 August 2020.

1.12 Firms will be able to submit in Excel format and further details of the submission mechanism and validation rules will be provided by the end of 2019.

1.13 The policy set out in this PS has been designed in the context of the current UK and EU regulatory framework. The PRA has assessed that the policy will be affected in the event that the UK leaves the EU with no implementation period in place. As outlined in CP8/19 at paragraphs 1.9 and 1.10, this primarily affects changes required to ensure the revised rules remain consistent with the PRA's approach to regulation in the event that the UK leaves the EU with no implementation period. The PRA will ensure that the relevant version of the Branch Rules Instrument (as set out in Appendix 1 and Appendix 2 of CP8/19) will be implemented and published accordingly. As these changes relate to reporting they should be read in conjunction with SS2/19 'PRA approach to

interpreting reporting and disclosure requirements and regulatory transactions forms after the UK's withdrawal from the EU'.³

2 Feedback to responses

2.1 Before making any proposed rules, 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 feedback to them. The feedback below has been structured by theme.

Definition of smaller companies

2.2 The PRA's risk appetite for retail activity in branches is expressed in SS1/18⁴ as follows: 'the PRA expects branches to have under £100 million of retail and small-company transactional or instant access account balances covered by the FSCS'. The PRA proposed to collect data on the number and value of accounts held by smaller companies, using the definition of smaller company deposits set out in SS1/18. This is a change to the definition of 'SME' contained in the previous Return template, which is not aligned to that in SS1/18 and which captures fewer firms.

2.3 Three respondents suggested that the Return should use the definition of micro, small and medium-sized enterprises used in the Depositor Protection Part of the PRA Rulebook, which in turn refers to the definition in Article 2(1) of the Annex to Commission Recommendation 2003/361/EC. One respondent suggested that depositors which are subsidiaries of large companies, be excluded from the definition of smaller companies.

2.4 The definition of smaller company used in the Depositor Protection Part is materially wider (in terms of the scope of accounts captured) than the definition used in SS1/18 and would not permit the PRA to monitor firms against its risk appetite. The wider definition may cause the PRA to consider the subsidiarisation of branches where it is not necessary, given its risk appetite, for example. Given the risks associated with the UK's withdrawal from the EU, it is important that EEA branches, too, can be assessed against the risk appetite. The definition of smaller company was also raised in the PRA's consultation on SS1/18 and the PRA's response here is the same as that in PS3/18.⁵ Using the SS1/18 definition will reduce the need for ad-hoc data requests to monitor the PRA's risk appetite and ensure that data are comparable between firms.

2.5 The PRA acknowledges that depositors, which meet the definition of smaller companies, but which are subsidiaries of large companies, are not relevant to the risk appetite set out in SS1/18. The PRA has decided to use its proposed definition of smaller companies in the Return but clarify in the reporting guidance that firms may treat depositors which are smaller companies as if they were larger companies, where they are subsidiaries of a larger company.

2.6 The PRA recognises that the use of the SS1/18 definition of a smaller company may create additional implementation costs for some EEA firms. However, the PRA believes these costs should be limited because both the SS1/18 definition and the definition used in the Depositor Protection Part rely on the same three variables to define small firms (turnover, assets and employees) and hence firms should already have the data required to identify smaller firms under either definition.

³ April 2019: www.bankofengland.co.uk/prudential-regulation/publication/2019/pra-approach-to-interpreting-reporting-and-disclosure-regs-and-reg-trans-forms-ss.

⁴ PRA SS1/18 'International banks: the Prudential Regulation Authority's approach to branch authorisation and supervision', March 2018: www.bankofengland.co.uk/prudential-regulation/publication/2018/international-banks-pras-approach-to-branch-authorisation-and-supervision-ss.

⁵ 'International banks: the Prudential Regulation Authority's approach to branch authorisation and supervision, March 2018: www.bankofengland.co.uk/prudential-regulation/publication/2017/international-banks-pras-approach-to-branch-authorisation-and-supervision.

Furthermore, the option for firms to treat depositors which are subsidiaries of larger companies as larger companies should also limit costs. In view of the benefits set out in paragraph 2.4, the PRA considers this expectation to be proportionate.

Definition of transactional accounts

2.7 In CP8/19 the PRA proposed a definition of ‘transactional account’ consistent with SS1/18 which was ‘...that an account, whilst it may have transactional functionality, is only considered a ‘transactional account’ if withdrawals from it have been made nine or more times within a three month period, but it may additionally consider other factors. The PRA will continue to take a pragmatic, judgement-based view as to whether the accounts are transactional in practice’. The PRA has set its risk appetite for retail activity in branches with reference to transactional accounts since it published SS10/14 in 2014.

2.8 Two respondents questioned the need to identify accounts as transactional in view of the reporting burden. One respondent suggested that the PRA adopt the definition of transactional account used for Liquidity Coverage Ratio (LCR) reporting and set out in Article 24 of Commission Delegated Regulation (EU) 2015/61. This definition is that ‘a retail deposit shall be considered as being held in a transactional account where salaries, income or transactions are regularly credited and debited respectively against that account’.

2.9 In order for the PRA to monitor its risk appetite, it is essential that firms are able to identify transactional accounts. The previous version of the Return required firms to report amounts held in and numbers of transactional accounts. The PRA has considered carefully whether firms may use the definition used for LCR reporting. Given the purpose of the Return is to monitor the risk appetite as set out in SS1/18, the PRA does not consider it prudent to allow firms to use a definition of transactional accounts that would capture fewer accounts than would be the case under the definition outlined in SS1/18. Furthermore, the PRA considers the definition in SS1/18 to be both clear and objectively measurable. However, the PRA is willing to permit firms to use the LCR definition, provided it does not capture fewer accounts than that in SS1/18. In some cases, this may address the concern raised by firms described above, while still providing the PRA adequate information to monitor its risk appetite, therefore ensuring this expectation is as proportionate as possible.

Implementation timetable

2.10 The PRA proposed to implement the revised Return for the H1 2020 period, ie for the six-month period ending Tuesday 30 June 2020, with firms submitting their first revised Return no later than Tuesday 11 August 2020.

2.11 One respondent requested a 12-month period between publication of the final policy and the implementation date to allow time to implement systems changes.

2.12 The PRA considers that given the purpose was to improve the data quality of Return, and its decision to continue to permit the Excel reporting format (which reduces the systems changes required), the proposed implementation timetable remains feasible and proportionate and has not changed this.

Reporting format

2.13 One respondent was critical of the proposal to require the XBRL reporting format on the basis of the cost to firms. Some firms would need to acquire new software or incur a charge to amend existing licences. The PRA continues to believe that XBRL would bring benefits as set out in CP8/19. However, in view of the responses received and the PRA’s desire to align any change to the format

of the Return with planned changes to its strategic capabilities for managing data from banks, the PRA will continue to permit reporting of the return in Excel. The PRA will keep this under review.

Other changes

2.14 Respondents raised a number of other issues and requests for clarification. The PRA has considered these and concluded that in each case amendments to the reporting guidance will either enhance clarity for reporters, or reduce reporting costs while continuing to meet the PRA's objectives. On this basis, the PRA has decided to update the reporting guidance as follows to:

- permit reporting to the nearest £1,000, in line with the previous Return;
- provide additional detail on how data points in Part 1 and Part 5 relate to data points in the Financial Reporting (FINREP)_framework;
- clarify that, other than row 150, Part 1 does not capture assets, or liabilities which are originated by the branch but not booked to it;
- correct guidance on the reporting of gross derivatives in Part 1;
- clarify that 'number of accounts' in Part 2 refers to number of clients or customers. Accordingly, this field has been renamed to 'number of clients or customers';
- clarify that row 021 and row 031 in Part 2 are subsets of row 020 and row 030 respectively and that 'retail' deposits are defined as those deposits which are neither 'wholesale' nor 'smaller company' as defined in the reporting guidance;
- provide further detail on the definition of 'specific accounts' data required in Part 2;
- confirm that the frequency with which reporters review their categorisation of accounts between wholesale, smaller company and other (retail) must be fit for the purpose of the data;
- clarify that commodity derivatives should be reported under 'other' in Part 5;
- align the definitions of assets under custody, assets under administration and funds under management in Part 6 with those in the FCA Handbook;
- provide further detail on how to calculate the 'average transaction value' in relation to UK FMIs for Part 6;
- confirm that firms need to determine their own definition of 'material' when reporting third party services provided and received in Part 7; and
- confirm that Part 8a and Part 8b of the form apply to firms with £15 billion of total gross assets as defined in SS1/18 in relation to the identification of systemically important branches, ie reporters should take the sum of assets booked onto the balance sheet of the branch and assets traded or originated in the UK but booked remotely to another jurisdiction.

2.15 One respondent raised an issue that the threshold for identifying systemic branches in SS1/18 is too low. However, given that the PRA has determined to identify systemic branches in this way, as communicated in PS3/18, and this approach is not the subject of this CP, the PRA will not provide detailed feedback on this point.

Appendices

- 1 PRA RULEBOOK: CRR FIRMS; NON-CRR FIRMS: BRANCH RULES INSTRUMENT 2019, available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2019/supervising-international-banks-revision-of-the-branch-return>.

- 2 Updated SS34/15 'Guidelines for completing regulatory reports', available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/guidelines-for-completing-regulatory-reports-ss>.

- 3 Revised Branch Return template, available at: <https://www.bankofengland.co.uk/prudential-regulation/regulatory-reporting/regulatory-reporting-banking-sector/banks-building-societies-and-investment-firms>.