

Policy Statement | PS20/20

Responses to Chapters 2 to 7 of CP3/20 ‘Occasional Consultation Paper’

September 2020



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1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Chapters 2 to 7 of Consultation Paper (CP) 3/20 'Occasional Consultation Paper'.¹ It also includes the final rules, updated supervisory statements (SS), forms, relevant templates, and associated LOG files and instructions.

1.2 This PS is relevant to different firms, in accordance with the CP chapters, as follows:

- Chapters 2 and 7: PRA-authorised Capital Requirements Regulation (CRR) firms;
- Chapter 3: non-Solvency II insurance firms;
- Chapter 4: all Solvency II firms, including the Society of Lloyd's;
- Chapter 5: all PRA-authorised firms; and
- Chapter 6: PRA-supervised firms that operate in the UK but are not UK-headquartered firms.

1.3 The appendices to this PS provide links to the final policy material as set out in the table below.

CP3/20 chapter	Policy Material	Appendix
2. Liquidity: Minor updates and amendments to instructions for completing PRA110	SS24/15 'The PRA's approach to supervising liquidity and funding risks'	1
	Instructions for completing PRA110	2
3. Non-Solvency II: London interbank offered rate (LIBOR) updates for small insurers	The Insurance Company – Mathematical Reserves Part of the PRA Rulebook	3
4. Solvency II Reporting: Minor updates, corrections, and clarifications	The Reporting Part of the PRA Rulebook	4
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¹ March 2020: <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/occasional-consultation-paper-march-2020>.

Background

1.4 In the CP, the PRA proposed:

- to update SS24/15 and the ‘Instructions for completing PRA110’ to remove redundant material, move certain expectations, and align expectations with existing policy material (Chapter 2);
- to replace a reference to LIBOR with Sterling Overnight Index Average (SONIA), as the risk-free rate benchmark within Rule 18.4(2) of Insurance Company – Mathematical Reserves (Chapter 3);
- minor updates, corrections, and clarifications to National Specific Templates (NSTs), NST LOG files (which provide additional guidance on the templates), the market risk sensitivities template and associated instructions, and SS7/17 (Chapter 4);
- to make minor administrative changes and corrections to several Senior Managers & Certification Regime (SM&CR) forms (Chapter 5);
- to remove incorrect validations from Part 3 of the Branch Return Form (Chapter 6); and
- to rectify errors identified within versions of the PRA101 and Capital+ reporting templates. This change would be made effective through an update to the Regulatory Reporting Part of the PRA Rulebook, and in addition, minor presentational changes to SS35/15 (Chapter 7);

1.5 The PRA has already published the final policy for Chapter 8 of the CP in PS17/20 ‘Responses to Occasional Consultation Paper 3/20 – Chapter 8: Securitisation: Updates to Significant Risk Transfer’.²

Summary of responses

1.6 The PRA received no responses to Chapters 1 to 3 and 5 to 7. It received 3 responses to Chapter 4. Details of the responses and the PRA’s feedback is set out in Chapter 2 of this PS.

Changes to draft policy

1.7 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 together with a cost benefit analysis; and
- (b) a statement setting out the PRA’s opinion on 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.

1.8 After consideration of the responses relating to the market risk sensitivities template, the PRA has updated the notes and instructions, allowing firms to provide further supplementary information in respect of sensitivities 6 and 7. It has also taken the opportunity to re-label descriptions within the market risk sensitivities template, and rename a title row within the NS.07 template.

1.9 The PRA has also made typographical and formatting changes to improve readability of the text and forms.

² July 2020: <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/occasional-consultation-paper-march-2020>.

³ Section 138J(5) and 138K(4).

1.10 The PRA does not consider that the above changes are significant, or would have a significantly different impact on mutuals as compared to other PRA-authorised firms. The changes would add clarity to the Branch Return Form and the statement of responsibilities, and reduce the amount of time firms spend answering questions from the PRA with respect to the statement of responsibilities.

1.11 Details of these changes can be found in Chapter 2 of this PS.

Implementation

1.12 The implementation dates for the policy changes set out in this PS are:

- Chapters 2, 3, 6, and 7, upon publication of the final policy on Friday 4 September 2020;
- Chapter 4, Monday 30 November 2020; and
- Chapter 5, Sunday 25 October 2020.

1.13 The policy set out in this PS has been designed in the context of the UK’s withdrawal from the European Union and entry into the transition period, during which time the UK remains subject to European law. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework at the end of the transition period, including those arising once any new arrangements with the European Union take effect.

1.14 The PRA has assessed that the policy would not need to be amended under the EU (Withdrawal) Act 2018 (EUWA). Please see PS5/19 ‘The Bank of England’s amendments to financial services legislation under the European Union (Withdrawal) Act 2018’⁴ for further details.

⁴ April 2019: <https://www.bankofengland.co.uk/paper/2019/the-boes-amendments-to-financial-services-legislation-under-the-eu-withdrawal-act-2018>.

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.⁵

2.2 The PRA received no responses to Chapters 1 to 3 and 7, and will therefore publish the policy as proposed. The PRA also received no responses to Chapters 5 or 6, but has made some changes to the proposed policy.

2.3 The PRA received 3 responses to Chapter 4. The responses requested clarity on several aspects of the market risk sensitivities template.

2.4 Full details of the responses, the PRA’s feedback, and changes to the draft policy are set out below.

Market risk sensitivities template

Sensitivity 2: Property sensitivity

2.5 The PRA proposed that the property sensitivity (sensitivity 2) is applied to all property and other financial instruments with underlying property exposure, such as social housing loans and mortgages.

2.6 One respondent suggested that the property sensitivity should not be applied to social housing loans, given the restrictions on usage of the property held by social housing companies.

2.7 Having considered the response, the PRA has decided that social housing should be in scope of the property sensitivity, as it should be applied to all financial instruments where a downward stress to the market value of property collateral could result in a change of rating or International Financial Reporting Standards (IFRS) valuation. This includes stressing the market value of property collateral for all the illiquid assets with underlying property exposure, such as social housing, commercial real estate, and infrastructure. This should include not just the direct application of the market value stress to property collateral, but also how the market value stress would impact the other valuations of property collateral that might be relevant to the loan (eg valuation covenant). Firms should also consider the fall in expected income owing to the prescribed market value stress and include the impact that this would have on the rating and valuation of the loan. In the supplementary note, firms should explain the approach taken to apply the sensitivity and set out any additional information which could be helpful for interpreting the results.

Sensitivity 6: Credit spread sensitivity

2.8 The PRA proposed a change to the credit spread sensitivity (sensitivity 6) stress.

2.9 One respondent commented on the increased severity of the spread widening sensitivity, and the same respondent suggested an alternative stress for the credit spread sensitivity.

2.10 The PRA accepts that the proposed stress for credit spread sensitivity is stronger than the current stress. The PRA has considered the alternative stresses suggested by the respondent and has decided not to alter the proposal; however, it has amended the notes to sensitivity 6 to explain that it expects that participants provide information in the supplementary note to explain if an

5 Sections 138J(3) and 138J(4) of FSMA.

alternative stress is used for the credit spread sensitivity. The alternative stress should represent an equal severity to the stress set out in the instructions to the market risk sensitivities template.

Sensitivity 7: Credit downgrade sensitivity

2.11 The PRA proposed clarification to the credit downgrade sensitivity (sensitivity 7), and asked participants to apply the downgrade sensitivity to counterparty exposure.

2.12 One respondent proposed that a separate stress should be applied to the reinsurance counterparties, and sought clarification for treatment of intragroup reinsurance arrangements.

2.13 The PRA agrees that it would be helpful to have a separate sensitivity for the reinsurance counterparty; however, it would increase complexity for the market risk sensitivities reporting. The PRA has decided to include the downgrade for the reinsurance counterparty as part of the credit downgrade sensitivity and apply the same stress as the downgrade of all credit risky assets. The PRA has clarified the treatment of intragroup reinsurance in the instructions.

2.14 One respondent proposed a simplification in the implementation of the PRA’s proposed credit downgrade stress. The PRA considered the response and has updated the instructions for sensitivity 7 such that the participants should provide information in the supplementary note to explain the way in which the credit downgrade sensitivity is applied, and set out any additional information which could help the PRA to interpret the results.

Relabelling of descriptions of sensitivities tests

2.15 The PRA has also made a change to relabel the descriptions of the sensitivity tests shown in Sections 2 and 3 of the market risk sensitivities template, to remove the amounts of the individual stress parameters.

2.16 This change was not included in the consultation but arose as part of an implementation project. It has the advantage that any future changes to the sensitivity tests that only involve amending the parameters can be implemented purely by amending the instructions. The published template and annotated template for XBRL use would remain unchanged in this situation.

2.17 This represents a more efficient process for the PRA and firms. This change will not have any adverse impact on insurers because the data is collected using XBRL, for which the row and column references are unchanged.

NS.07 template

2.18 In the NS.07 template, the title of row R0435 in Table 04 in the template (ie in NS.07.01.01.04) has been amended to ‘Investment income and investment gains / (losses) [= investment income plus realised and unrealised gains / (losses)]’ so that the title of row R0435 is the same for Tables 01 to 04 of the template.

2.19 This change will not have an adverse impact on firms. The PRA is making the template clearer and more consistent.

Statement of Responsibilities form

2.20 The PRA received no responses to Chapter 5, but has discovered a typographical error within the Statement of Responsibilities form.

2.21 In PS20/19,⁶ the PRA published final policy amending wording within the form relating to prescribed responsibility FF. This amended wording should have read ‘Responsibility for the firm’s compliance with the UK regulatory system applicable to the firm’ but ‘applicable to the firm’ was erroneously left off. The PRA is now updating the wording to read as intended.

2.22 The PRA considers this change will not have an impact on firms as it is providing additional clarity to existing text and does not introduce any additional expectation, and this change has already been consulted on.

Branch Return Form

2.23 The PRA received no responses to Chapter 6, but has discovered a typographical error which has been corrected and one row has been coded wrongly.

2.24 In Part 6 of the Branch Return there are two rows coded 010:

- (i) Name of FMI; and
- (ii) Branch holds direct membership of system (yes/no?).

2.25 The PRA is changing the code on (ii) to 011.

2.26 The PRA considers that although some firms may need to reconfigure their systems to reflect the updated row codes, firms will continue to report in Excel in the Branch Return form. As a result, this change should not result in a significant impact on firms.

2.27 The PRA does not consider that any of these changes are significant or will have a differential impact on mutuals.

⁶ September 2019: <https://www.bankofengland.co.uk/prudential-regulation/publication/2019/strengthening-individual-accountability-resolution-assessments-and-reporting-amendments>.

Appendices

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- 1 SS24/15 ‘The PRA’s approach to supervising liquidity and funding risks’, available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-approach-to-supervising-liquidity-and-funding-risks-ss>
 - 2 Instructions for completing PRA110, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/pr110-instructions-sep-2020.pdf>
 - 3 PRA RULEBOOK: NON SOLVENCY II FIRMS INSURANCE COMPANY - MATHEMATICAL RESERVES INSTRUMENT 2020, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2020app3.pdf>
 - 4 PRA RULEBOOK: SOLVENCY II: REPORTING AMENDMENT INSTRUMENT 2020, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2020app4.pdf>
 - 5 National Specific Template NS.00, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/insurance/nsts/ns00-template-30-11-20.xlsx>
 - 6 National Specific Template NS.07, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/insurance/nsts/ns07-template-30-11-20.xlsx>
 - 7 National Specific Template NS.10, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/insurance/nsts/ns10-template-30-11-20.xlsx>
 - 8 National Specific Template NS.00 LOG File, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/insurance/nsts/ns00-log-file-30-11-20.pdf>
 - 9 National Specific Template NS.07 LOG File, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/insurance/nsts/ns07-log-file-30-11-20.pdf>
 - 10 National Specific Template NS.09 LOG File, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/insurance/nsts/ns09-log-file-30-11-20.pdf>
 - 11 National Specific Template NS.10 LOG File, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/insurance/nsts/ns10-log-file-30-11-20.pdf>
 - 12 Market risk sensitivities template, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/insurance/market-risk-sensitivities-template-30-11-20.xlsx>

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- 13 Instructions to firms when completing the market risk sensitivities data item, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/insurance/market-risk-sensitivities-instructions-30-11-20.pdf>
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- 14 SS7/17 'Solvency II: Data collection of market risk sensitivities', available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2017/solvency-2-data-collection-of-market-risk-sensitivities-ss>
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- 15 PRA RULEBOOK: CRR FIRMS: NON-CRR FIRMS: SOLVENCY II FIRMS: NON-SOLVENCY II FIRMS: SENIOR MANAGERS REGIME – APPLICATIONS AND NOTIFICATIONS (AMENDMENT) INSTRUMENT 2020, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2020app15.pdf>
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- 16 Senior Managers Regime – Applications and notifications: Form A, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/authorisations/senior-managers-and-senior-insurance-managers-regimes-approvals/long-form-a-oct-2020.pdf>
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- 17 Senior Managers Regime – Applications and notifications: Short Form A, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/authorisations/senior-managers-and-senior-insurance-managers-regimes-approvals/short-form-a-oct-2020.pdf>
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- 18 Senior Managers Regime – Applications and notifications: Form B, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/authorisations/senior-managers-and-senior-insurance-managers-regimes-approvals/form-b-oct-2020.pdf>
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- 19 Senior Managers Regime – Applications and notifications: Form C, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/authorisations/senior-managers-and-senior-insurance-managers-regimes-approvals/form-c-oct-2020.pdf>
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- 20 Senior Managers Regime – Applications and notifications: Form D, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/authorisations/senior-managers-and-senior-insurance-managers-regimes-approvals/form-d-oct-2020.pdf>
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- 21 Senior Managers Regime – Applications and notifications: Form E, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/authorisations/senior-managers-and-senior-insurance-managers-regimes-approvals/form-e-oct-2020.pdf>
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- 22 Statement of Responsibilities form, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/authorisations/senior-managers-and-senior-insurance-managers-regimes-approvals/smr-statement-of-responsibilities-oct-2020.pdf>
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- 23 PRA RULEBOOK: CRR FIRMS: NON CRR FIRMS: BRANCH RULES (AMENDMENT) INSTRUMENT 2020, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2020app23.pdf>

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- 24 Branch Return Form, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/branch-return-template-sept-2020.xlsx>
- 25 Branch Return Form validations, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/branch-return-form-validations-sept-2020.xlsx>
- 26 SS34/15 ‘Guidelines for completing Regulatory Reports’, available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/guidelines-for-completing-regulatory-reports-ss>
- 27 PRA RULEBOOK: CRR FIRMS: REGULATORY REPORTING (CAPITAL+) AMENDMENT INSTRUMENT 2020, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2020app27.pdf>
- 28 PRA101 template, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/pra101-template-sep-2020.xlsx>
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