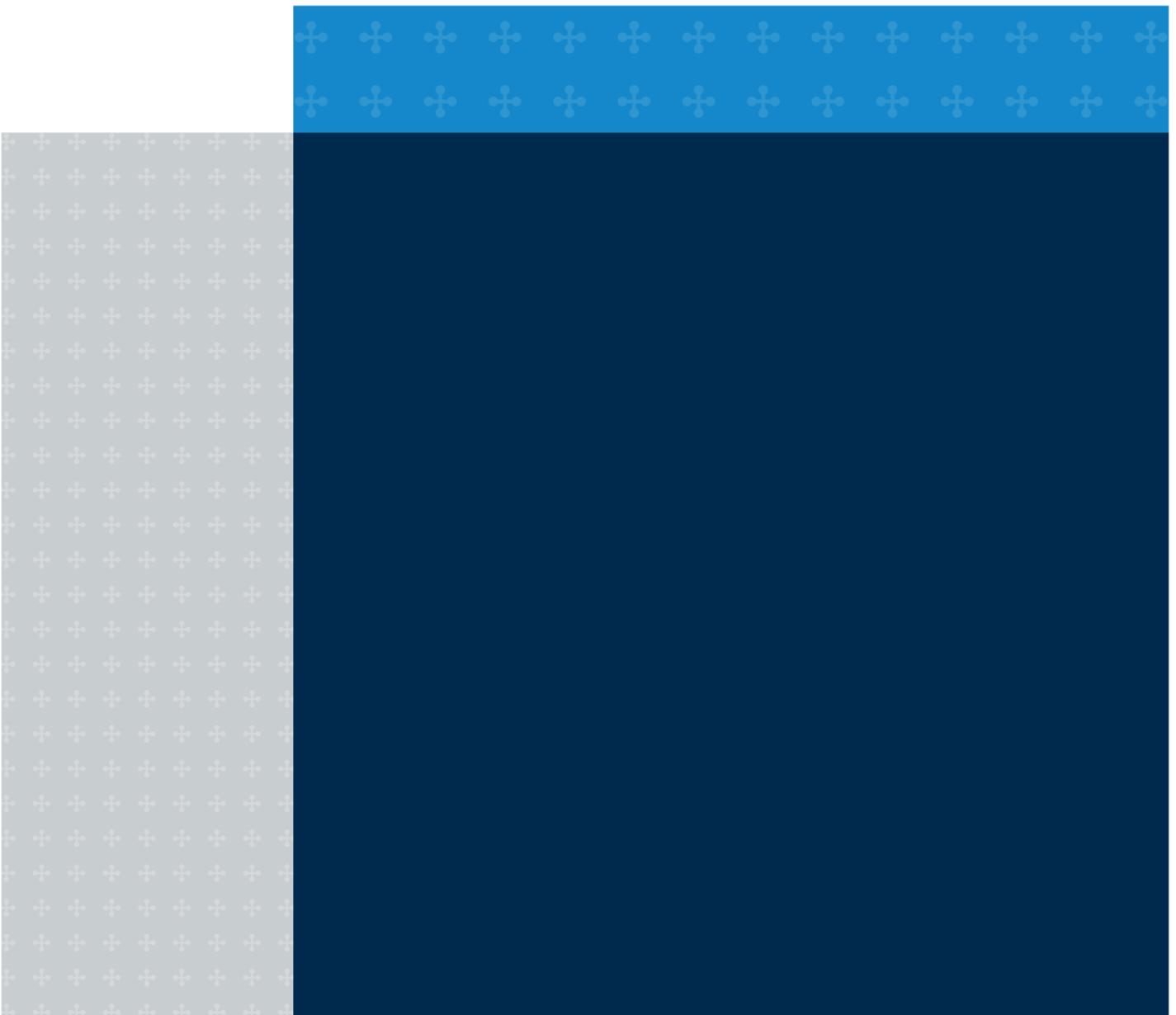




Policy Statement | PS19/21

# International banks: The PRA's approach to branch and subsidiary supervision

July 2021





BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY

Policy Statement | PS19/21

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July 2021

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## 1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 2/21 'International banks: The PRA's approach to branch and subsidiary supervision'.<sup>1</sup> It also contains the PRA's final Supervisory Statement (SS) 5/21 'International banks: The PRA's approach to branch and subsidiary supervision' (Appendix 1) which will replace SS1/18 'International banks: the Prudential Regulation Authority's approach to branch authorisation and supervision'.<sup>2</sup>

1.2 This PS is relevant to all existing or prospective PRA-authorised banks and designated investment firms that are headquartered outside the UK or are part of a group based outside of the UK.<sup>3</sup>

1.3 Such firms are collectively referred to as 'international banks' in this PS.

### Background

1.4 In CP2/21, the PRA proposed a new SS relating to its approach to supervising the UK activities of international banks. The proposed SS was designed to provide clarity to international banks on the implications for them of the different ways they may choose to structure their operations. The PRA proposed expectations regarding the arrangements that firms should have in place to ensure they can be effectively supervised, and explained how the PRA would assess such firms against its threshold conditions (particularly the condition that a firm should be capable of being effectively supervised), taking into account membership of the group, potential impact on UK financial stability, and the degree of integration between UK operations and the group. The expectations in the proposed SS aimed to ensure that:

- the PRA has access to appropriate information on the international bank, including visibility on group risks in order to assess the impact that the firm's activities may have on the stability of the UK financial system, and the safety and soundness of the firm's UK operations. The draft SS set out certain baseline information expectations and, where applicable, additional information expectations in respect of highly integrated subsidiaries and systemic wholesale branches;
- booking arrangements are transparent and effective, and they appropriately manage the risks they originate, receive, and transfer out to affiliates;
- firms have appropriate governance and accountability, including Senior Management Functions (SMFs);
- operational resilience arrangements in place with other group members are sufficient to allow compliance with the PRA's expectations on operational resilience arrangements for UK subsidiaries or those for UK branches; and
- firms put in place a credible group resolution strategy, or plans to support or wind up the firm, in line with the Bank of England's (the Bank) resolution objectives.

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<sup>1</sup> January 2021: <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/january/international-banks-branch-and-subsiary-supervision>.

<sup>2</sup> March 2018: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/international-banks-pras-approach-to-branch-authorisation-and-supervision-ss>.

<sup>3</sup> PRA-designated investment firms list: <https://www.bankofengland.co.uk/prudential-regulation/authorisations/which-firms-does-the-pra-regulate>.

## Summary of responses

1.5 The PRA received 10 written responses to the CP, in addition to comments received in meetings with interested stakeholders. Respondents generally welcomed the PRA's proposals and the approach of responsible openness, but made a number of observations and requests for clarification. Broadly, the responses focused on supervisory co-operation, the PRA's expectations for information sharing, accountability of SMFs, booking arrangements, operational resilience, and resolution. The PRA's feedback to these responses is set out in Chapter 2 of this PS.

## Changes to draft policy

1.6 After considering the responses to CP2/21, the PRA has made changes to the SS to provide greater clarity on the PRA's expectations in specific areas. The following aspects of the draft SS have been amended:

- Paragraph 1.2, to clarify that the PRA will take a proportionate approach to implementation – requiring firms to meet the expectations over a reasonable time frame – and to introduce an expectation for firms to provide the PRA with a clear explanation of any gaps they need to address in order to comply with the expectations, and their proposed timeframe for doing so.
- Paragraph 1.3, to further explain the scope of the SS and its application to UK branches and UK subsidiaries.
- Paragraph 2.10, to explain that where the PRA identifies concerns that a branch would fail to meet the PRA's expectations for effective supervision, the PRA may exercise its powers under the Financial Services and Markets Act 2000 (FSMA) to apply specific regulatory requirements at branch level.
- Paragraphs 4.1(e) and 4.26 to 4.28, to explain the PRA's expectation that international banks understand the extent of the services they provide to external end users in the UK, the risks they pose to firms' safety and soundness or the financial stability of the UK in certain circumstances, and to clarify the PRA's expectations on operational resilience arrangements for UK branches.
- Paragraphs 4.4 and 4.6 and Box 1, to explain the process the PRA will adopt in obtaining group information, and to clarify that it will take a tailored approach to each group in light of the relevant factors and circumstances.
- Box 1, to make clear that the PRA's information expectations are proportionate, tailored to the firm's activities, and focused on those risks which have a direct impact on the PRA's objectives; to clarify that daily or weekly profit and loss data is only required in respect of global and local investment banking and trading business lines for branches and subsidiaries that have the most potential impact on UK financial stability; and to clarify that for the smallest firms, the PRA will seek to obtain the most information from the home state supervisor.
- Paragraph 4.20, to include examples of the circumstances in which the PRA expects individuals to be approved as a Group Entity Senior Manager (SMF7).
- Paragraphs 4.24 and 4.25, to explain the stages of the booking lifecycle that are within the scope of the PRA's expectations, and to clarify the PRA's approach to ensuring controls exist from end-to-end trading book and banking book risks.

- Paragraph 4.30, to further clarify how the Resolvability Assessment Framework (RAF) applies to subsidiaries and branches respectively.
- Other minor amendments throughout the SS, to improve readability and increase overall clarity of the PRA expectations.

1.7 The PRA considers that these changes will not have a significant impact on firms, and will not have a significantly different impact on mutuals than for other firms. As a result, the cost benefit analysis has not been updated in respect of these changes.

### **Implementation**

1.8 The expectations in SS5/21 take effect, and supersede SS1/18, on the date of publication of this PS.

1.9 The policy set out in this PS has been designed in the context of the UK having left the European Union and the transition period having come to an end. Unless otherwise stated, any references to EU or EU-derived legislation refer to the version of that legislation which forms part of retained EU law.<sup>4</sup>

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<sup>4</sup> For further information, please see <https://www.bankofengland.co.uk/eu-withdrawal/transitioning-to-post-exit-rules-and-standards>.

## 2 Feedback to responses

2.1 The PRA must consider representations that are made to it in accordance with its duty to consult on its general policies and practices, and must publish, in such manner as it thinks fit, responses to the representations.

2.2 The PRA has considered the responses received to the CP. This chapter sets out the PRA's feedback to those responses and its final decisions.

2.3 The CP set out that, subject to the PRA meeting its statutory objectives, the PRA remains open to international business. The draft SS outlined the guiding philosophy underpinning the PRA's approach to international supervision – responsible openness. Overall, respondents welcomed the proposals in the draft SS. One respondent welcomed the PRA's 'commitment to ensuring the UK remains an open and attractive location for global banking groups and to promote low-friction international banking and trade', and 'the commitment to building strong international relationships with other regulatory bodies and home state regulators...', and further noted 'Effective co-operation between jurisdictions helps to ensure risks are comprehensively addressed and reduces unnecessary duplication of activity'.

2.4 Two respondents welcomed the open and transparent way in which the PRA has sought to develop the proposals set out in the CP, and three respondents reported positive feedback from firms going through the PRA's authorisation that stated that the proposed SS would be a useful resource.

2.5 The section below has been grouped along the same lines as the topics raised by respondents, and in some cases rearranged to better respond to related issues, as follows:

- general approach, scope, and application;
- general expectations for effective supervision;
- booking arrangements;
- operational resilience;
- SMFs;
- approach to systemic wholesale branches;
- implementation;
- other;
- PRA-driven changes; and
- responses not related to the CP.

## General approach, scope, and application

2.6 The proposed SS expanded on the PRA's approach to the supervision of international banks, and was structured as an integrated proposal covering both UK subsidiaries of international groups and UK branches of firms headquartered overseas.<sup>5</sup>

2.7 In general, respondents welcomed the additional clarity that the draft SS provided. One respondent commented that the clear description of requirements in the draft SS will support the optimisation of firms' resource deployment, providing assurance to both the industry and supervisors that required standards are being met. They said the clearly articulated set standards, combined with a high quality and well-implemented supervisory regime, attracts international banks and groups to the UK. However, the respondent also commented that additional specificity contained in the SS should not diminish the PRA's ability to operate a flexible and bespoke approach to supervision that fully reflects each firm's individual business model, risk profile, and governance structure. The PRA's feedback to responses provides more clarity in addressing a number of specific issues raised by respondents. At the same time, the PRA remains committed to a proportionate and tailored approach for the variety of business models that international banks adopt in the UK.

2.8 A number of respondents commented on the precise scope of some of the expectations. There were a number of comments stating that where the draft SS brought together expectations of both branches and subsidiaries, the clarity of what applied to each had become unclear in places. Two respondents said that it is unclear whether the PRA's expectations in the proposed SS apply to branches or subsidiaries, or both. One of these respondents also requested clarification that the PRA does not intend, through application of the SS, to extend the application of any rule to any institution that is not currently required to comply with that rule.

2.9 Referring to paragraph 1.5 of the CP, which stated that firms should find the proposals in line with their experience of PRA supervision, one respondent suggested the expectations in the draft SS do not reflect some smaller firms' current experience of PRA supervision. This reflected concern that some of the PRA's expectations of group information, as set out in the draft SS, might be being extended disproportionately to smaller firms. In contrast, one respondent commented that the general approach is consistent with their experience and understanding of PRA's approach to supervision.

2.10 The draft SS aimed to provide more transparency around the PRA's policy considerations that inform its assessment of an international bank's compliance with the threshold conditions and the PRA's general supervisory approach. The PRA's substantive approach is materially unchanged, and the proposals do not extend the application of any rules to a firm that is not within its scope (notably, the SS does not extend rules that are applicable to subsidiaries, only to branches). The PRA's policy provides an explanation as to how firms should interpret the application of the expectations to branches and subsidiaries. Having considered the responses to the CP, the PRA has amended the SS to clarify the position where the drafting was unclear, and has included a new paragraph 1.3 to further explain the scope of the SS, and its application to UK branches and UK subsidiaries.

2.11 The proposed SS also set out the PRA's expectations for receiving information concerning risks in the wider group, and for co-operation with regulated entities and their home state supervisors.

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<sup>5</sup> 'The PRA's approach to banking supervision', October 2018. Available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors>; and SS1/18 'International banks: the Prudential Regulation Authority's approach to branch authorisation and supervision', March 2018: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/international-banks-pras-approach-to-branch-authorisation-and-supervision-ss>.

## 2.12 Respondents suggested that the PRA needs to:

- adopt a proportionate and targeted approach to requests for information;
- reduce duplicative information requests, and streamline processes to reduce the burden on firms and the PRA;
- clarify that the PRA expects to receive information concerning risks or strategies in the wider group where there is clear evidence that these impact the UK;
- explain that it does not expect firms to provide information that is not within their power to provide, reflecting concerns that branches may be required to provide information relating to resolution plans, and the practical challenges that this raises for international firms (particularly those with head offices outside the European Economic Area (EEA) and which may not have such requirements); and
- ensure that the UK operation has visibility of PRA requests for information from the home state regulator or head office (unless exceptional circumstances mean information is being sought without the UK branch being informed), and the opportunity to intermeditate in respect of the provision of information to the PRA.

2.13 One respondent emphasised the importance of not using a 'one-size-fits-all' approach. The PRA's judgement-based approach to supervision ensures that the approach to supervising international banks is tailored to the circumstances of the international bank in question. The PRA considers the proposed expectations proportionate to the size and complexity of international banks. In addition, the PRA expects that work done to meet the requirements of one regulator should be leveraged to meet those of the other, and the PRA would encourage firms to avoid duplicative work.

## 2.14 Having considered these responses collectively, the SS has been amended to:

- clarify that firms, their home state supervisors, and home resolution authorities (where relevant) may decide how best to provide information to the PRA and that, where appropriate, the PRA will seek to obtain group information from the home state supervisor;
- clarify that information requests will be tailored to each group in light of the relevant factors and circumstances, and that for the smallest firms, the PRA will seek to obtain most information from the home state supervisor during routine supervisory engagement and in keeping with the arrangements described in a Memorandum of Understanding (where this exists between authorities);
- explain that while some information will need to be provided regularly, some of the information that firms are expected to provide will arise in response to ad-hoc requests initiated by

supervisors, which will only need to be updated when the group's situation materially changes; and

- state that daily or weekly profit and loss data is only required in respect of global and local investment banking and trading business lines for branches and subsidiaries that have the most potential impact on UK financial stability.

### General expectations for effective supervision

2.15 The PRA proposed that the general factors it would consider when assessing whether effective supervision is possible are as follows:

- whether the home jurisdiction's prudential supervision regime is sufficiently equivalent to the UK regime;
- whether there is sufficient supervisory co-operation with the home state supervisor; and
- the efficacy of the arrangements for resolution.

2.16 One respondent suggested that it would be helpful for firms (and home state supervisors) if the PRA disclosed the degree to which it assessed a home state jurisdiction to be equivalent. The PRA does not publish its assessments of the degree of supervisory equivalence and has no plans to change that approach at present. The PRA's assessment is a supervisory judgement, partly based on confidential supervisory information, and the PRA does not consider it appropriate to make these assessments public.

2.17 One respondent encouraged the PRA to work closely with other regulatory and legislative bodies to ensure consistency across rulebooks, and suggested that the industry would welcome further information on the PRA's interaction with recent HM Treasury and Financial Conduct Authority (FCA) consultations on the international regime.

2.18 The PRA will continue to engage in international standard-setting processes and adopt practices and structures which promote strong collaboration with supervisors in other jurisdictions.<sup>6</sup> Effective international cooperation is essential to the PRA meeting its objectives, but it is realistic to assume that there will be differences in legislative and regulatory frameworks. However, the PRA considers that firms and their supervisors are able to cooperate effectively across borders.

2.19 One respondent asked for clarification of the circumstances in which the PRA would require a firm's resolution plan, asserting that these will be complex for international banks and would raise issues of business confidentiality. The PRA, in coordination with the Bank as the UK resolution authority, will continue to engage with one or both of the home state supervisors and the home state resolution authorities in crisis management groups (CMG). The PRA and the Bank might also discuss international banks' recovery and resolution planning and arrangements, including group recovery plans and group resolution plans with home state resolution authorities and home state supervisors outside of CMGs. Box 1 in the SS clarifies that, consistent with Fundamental Rule 8, the PRA may request information on international banks' resolution planning, including information regarding the group's preparations for resolution<sup>7</sup>. The PRA, in coordination with the Bank as resolution authority, will discuss such information needs with the home state supervisor or

<sup>6</sup> 'Responsible openness: The PRA's approach to supervising banks – speech by David Bailey', available at: <https://www.bankofengland.co.uk/speech/2021/january/david-bailey-boe-afb-afme-webinar-on-a-forthcoming-consultation>.

<sup>7</sup> PRA Fundamental Rules <https://www.prarulebook.co.uk/rulebook/Content/Part/211136>.

resolution authority, or both, and consider whether any additional information may be required from particular firms.

### **Booking arrangements**

2.20 The PRA proposed expanding the core expectations of firms' booking arrangements for their trading activities, as set out in SS1/18. The key proposals would expect firms to have effective pre- and post-trade controls and sufficient risk management resource dedicated to the UK entities' booking arrangements.

2.21 One respondent commented that the definition of booking model arrangements from origination through to back office settlement is wider in scope than some banks have considered to date. Another respondent requested: clarifications in respect of the proposed expectation to have appropriate local risk management capability; confirmation that adequate financial resources does not imply anything additional to the existing regulatory capital and liquidity requirements; and more information as to what non-financial resources are expected. Two respondents requested additional clarity on the PRA's approach to reviewing detailed expectations on booking arrangements.

2.22 One respondent commented, in respect of booking models, that day-to-day supervisory practice may not reflect the policy intent. They noted that while the PRA's stated openness to hosting highly integrated and global booking models and remote booking was welcome, in day-to-day supervisory practice, some firms had found the PRA's supervisory approach to booking models to be 'cautious, somewhat diluting the top-level policy intent. Added clarity and dialogue on the approach to remote booking from the PRA, coordinated with the FCA, would be welcomed'.

2.23 Having considered the responses, the PRA has amended paragraphs 4.24 and 4.25 of the SS to explain the stages of the booking lifecycle that are within the scope of the PRA's proposals, and to clarify the PRA's approach to ensuring controls exist from end-to-end trading book and banking book risks. The PRA has decided not to provide further additional guidance on booking arrangements, as these will vary according to the size and structure of individual groups, and the level of integration of their booking arrangements.

2.24 Furthermore, the PRA considers that firms with material trading activity should undertake a self-assessment of their compliance with the revised expectations on booking arrangements within a reasonable timeframe. Supervisors will engage with firms accordingly.

2.25 In respect of the comments regarding supervisors' approach to booking in practice, the PRA will use SS5/21 as a guide for its supervisors and will continue to work closely with the FCA on firms' booking arrangements.

### **Operational resilience**

2.26 In order to assess its ability to effectively supervise an international bank, the PRA proposed considering whether the operational resilience arrangements that are in place at group level are sufficient to allow compliance with the PRA's expectations on operational resilience. Accordingly, the proposed SS included an expectation that international banks would provide information regarding the operational resilience of the firm or group.

2.27 In respect of paragraph 4.23 of the proposed SS, two respondents considered that the requirement for information relating to operational resources regardless of geographical location is unclear, and requested clarity on the purpose of the expectation and the type of information the PRA expects to receive. Another respondent requested further clarity on the extent to which the PRA expects global firms to follow its standards for operational resilience.

2.28 The PRA has amended the SS to clarify that operational resilience rules do not apply directly to branches. Instead, branches will be assessed on whether operational resilience arrangements are sufficient to assure the PRA that the services that a branch offers in the UK are operationally resilient. SS5/21 explains that the PRA will consider whether the home state's operational resilience regime is sufficiently robust to deliver outcomes similar to those required by the UK regime, including whether the home state supervisor has adopted the Basel Principles on Operational Resilience.<sup>8</sup> The PRA expects that a firm can demonstrate that it is in compliance with its home state regime. The SS also explains that the PRA will look to gain assurance that operational disruption at group level does not represent undue risk to the group as a whole, and thereby the provision of services by the UK business.

### Senior Management Functions (SMFs)

2.29 The PRA proposed clarifying the application of existing rules and expectations with regard to principles of good governance and the allocation of SMFs for UK subsidiaries and branches, including how the expectations should apply to firms with systemic wholesale branches. The respondents' comments focused on:

- the appointment of a SMF7 where individuals in the parent or in group entities exercise a significant influence over the management or conduct of the UK's regulated activities; and
- the expectation for systemic wholesale branches to appoint a Head of Overseas Branch (SMF19) that is a senior figure within the firm, who is credible and influential at group executive level, and well-informed as to how group developments will affect the operations of the branch.

2.30 Three respondents requested clarity on how responsibilities are allocated to SMFs. In particular, one respondent requested guidance on how groups should apply the Senior Managers & Certification Regime (SM&CR) in relation to SMF7, and suggested that while firms appreciate the flexibility in the thresholds for SMF7 appointment, more clarity is required on where these thresholds lie. One respondent noted that the requirement for an SMF2 (Chief Financial Officer) is mandatory for most international banks, and queried the implication in the SS that the PRA would separately impose this SMF requirement.

2.31 One respondent stated that there are practical difficulties that arise from the requirement to appoint a SMF7; namely that in practice it may be difficult to find an individual outside of the UK that is willing to take on responsibilities relating to an unfamiliar regulatory regime. The same respondent also suggested that the requirement for staff to be in a different legal entity limits the scope of the regime, and that it did not consider senior management responsibility necessary in the context of the proposed SS. The respondent also requested clarification in the SS that the expectation for branch management to have appropriate influence within the group's wider management be limited to matters relating to the branch or subsidiary.

2.32 One respondent asked the PRA to amend the definition of an SMF in the proposed SS to reflect Rule 5.2 in the Senior Management Functions Part of the PRA Rulebook, which states that an SMF can be from either the undertaking or holding company of the firm (explained in the SS as 'head office of the firm'), or another undertaking which is a member of the firm's group. The same respondent queried the PRA's use of custody as an example of a globally integrated activity, and raised a concern that where an individual is responsible for risk transferred to the branch as a

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<sup>8</sup> Basel Committee on Banking Supervision: 'Principles for Operational Resilience' (March 2021), available at: <https://www.bis.org/bcbs/publ/d516.htm>.

booking hub, that individual should not be held responsible for having oversight and visibility of all incoming business into that branch from elsewhere in the group.

2.33 One respondent asked whether the PRA would consider an alternative possibility of having a 'senior out of country officer' responsible for group information, who is out of scope of the SM&CR.

2.34 Having considered these comments, the PRA has amended paragraph 4.20 of the SS to include three examples of the circumstances in which the PRA expects individuals to be approved as a SMF7. Although the PRA is open to providing high level guidance for firms, the assessment of the allocation of SMFs is a matter for individual firms to consider, and for supervisors to make judgements about based on their experience of a firm's business model and organisational structure.

2.35 The PRA considers the appointment of a 'senior out of country officer' to be inconsistent with its expectation that individuals with sufficient authority and accountability will intermediate between the PRA, parent entity, and home state supervisor. The PRA expects firms to comply with this expectation through the application of the SM&CR. The PRA therefore does not intend to make any changes to its proposed policy as a result of this response.

### **Approach to systemic wholesale branches**

2.36 The PRA proposed to apply additional expectations to wholesale branches of systemic importance, regarding organisational arrangements, supervisory engagement, governance, and risk management.

2.37 Three respondents requested clarification on the proposed expectation to meet at least annually with the Chief Executive Officer (CEO) or Chief Risk Officer (CRO), or both, of an authorised entity of which the branch is part, to discuss the PRA's expectations on information sharing. The respondents also asked whether this is a dedicated meeting or an agenda item on a wider meeting with the CEO or CRO. Another respondent queried whether this meeting should take place at branch level. Where the PRA identifies wholesale branches as being of systemic importance to the UK, the intensity of the PRA's supervision of the branch, and its need to have certain information, will be greater. The PRA considers an annual meeting with the CEO or CRO of the authorised entity of which the branch is part to be necessary for the effective supervision of the branch, and therefore does not intend to change its proposed policy. The PRA has amended Box 3 (the PRA's expectations of systemic wholesale branches) of the SS to clarify that this annual meeting may take place as part of existing annual meetings.

2.38 One respondent requested clarification that the expectation to set risk appetite at branch level relates specifically to non-financial risks. The PRA is open to hosting cross-border business in the UK, but only if it is resilient, appropriately controlled and governed, and only if the PRA has sufficient visibility of and influence over the necessary supervisory outcomes.<sup>9</sup> Accordingly, the PRA's expectation of risk management by systemic wholesale branches is not limited to non-financial risks. The PRA expects the full set of risks to be identified, and requires the Fundamental Rules on risk management to be met.<sup>10</sup>

<sup>9</sup> See 'Stylish Regulation – speech by Sam Woods', given at the UBS 20th Annual Financial Institutions Conference, Lausanne, 2019. Available at: <https://www.bankofengland.co.uk/speech/2019/sam-woods-ubs-20th-annual-financial-institutions-conference-lausanne>. See also 'Strong and Simple – speech by Sam Woods', given at Mansion House, London, November 2020. Available at: <https://www.bankofengland.co.uk/speech/2020/sam-woods-city-banquet>.

<sup>10</sup> PRA Fundamental Rules 3, 5 and 6; <https://www.prarulebook.co.uk/rulebook/Content/Part/211136>.

## Resolution

2.39 Three respondents commented on the applicability of paragraphs 4.25 and 4.26 to branches and non-systemic subsidiaries, with one respondent asserting that the RAF is not an appropriate assessment framework.<sup>11</sup> Two respondents suggested that the PRA should clarify that it is not extending the scope of application of the Statement of Policy (SoP) on RAF, but is instead referencing the general broad outcomes of capabilities to support resolvability, rather than the detailed requirements of the RAF. The PRA confirms that it does not intend to extend the scope of application of the RAF. The PRA has made a number of amendments to its proposed policy to clarify the scope of the RAF as set out in the Bank's SoP.

## Implementation

2.40 Although the draft SS largely consolidated the PRA's existing approach to supervising international banks in SS1/18, the PRA proposed to allow firms operating with deemed authorisations under the Temporary Permissions Regime (TPR) to meet the expectations in the draft SS as soon as practicable (rather than immediately) and, in any event, by the time they are authorised by the PRA and exit the TPR.

2.41 Three respondents stated that all firms need adequate time to implement the changes, with two respondents referring to the introduction of the new expectation to document UK booking arrangements, and the internal work firms will need to undertake to comply with enhanced information requests.

2.42 Following these responses, the PRA considers that it would be proportionate to give all other authorised firms within the scope of the SS time to meet the expectations. Accordingly, the PRA has set out in paragraph 1.2 of the SS its expectation that all other authorised firms meet the expectations within a reasonable time, taking into account their current position and the scale of change that might be required. In addition, the PRA expects firms to provide their supervisors with a clear explanation of any gaps they need to address in order to comply with the expectations, and their proposed timeframe for doing so.

## Expectations for branches

2.43 Two respondents noted that in SS1/18 and CP2/21, there is a reference to the PRA's powers under FSMA which has been omitted in the draft SS, and would like an explanation as to why this is the case. The PRA has considered the response and notes that Figure 2 (PRA considerations for branch authorisation) in the SS includes a summary of the additional requirements that the PRA may apply to branches where the PRA identifies concerns that a firm may fail to meet its expectations. In addition, paragraph 2.10 of the SS has been amended to include specific reference to the PRA's powers under FSMA.

2.44 One respondent asked the PRA to clarify the circumstances in which it would impose liquidity requirements on a branch if its funding position is intertwined with its group. The PRA has considered the response and has decided not to amend its proposals, as liquidity requirements will be specific to an individual firm and its group's financial resources, risk profile, and mitigants, all of which require the PRA to take a firm-specific approach.

## Other

2.45 The PRA has made some minor changes to the draft SS that were not as a result of responses, to provide more clarity and address any errors.

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<sup>11</sup> The Bank of England's approach to assessing resolvability, July 2019: <https://www.bankofengland.co.uk/paper/2019/the-boes-approach-to-assessing-resolvability>.

2.46 Box 1 (the PRA's expectations for information sharing) has been amended to include information on group recovery plans, and also the home state and group approach to climate risks, as an example of information that the PRA may request that is not baseline information.

### Responses not related to the CP

2.47 The PRA received responses that did not relate directly to the draft policy under consultation, or which invited the PRA to elaborate on certain matters beyond the scope of the consultation, and these are summarised below. The PRA has not provided feedback to these responses, but may consider the points raised in future policy development:

- Two respondents were keen to understand if the PRA's and European Central Bank's expectations for branches and subsidiaries are aligned, and how supervisory co-operation will work in practice. Two respondents requested greater clarity on how information will be exchanged between the UK and EU/EEA national authorities, including what information the group home supervisor will be asked to share with the PRA, together with confirmation that branches and subsidiaries will not have to provide duplicative or non-UK-relevant information.
- One respondent suggested that it would be useful if regulators could co-ordinate on possible changes to domestic rules, ahead of changes, to avoid inconsistent or incompatible standards, as well as barriers to the provision of cross border services. Another respondent stated that firms would like to have sight of the regulators' written co-operation and co-ordination agreements before they are finalised for review and comment, to identify practical challenges and inconsistencies.
- One respondent requested further clarity on any other types of intragroup arrangements that could potentially fail to meet the PRA expectations, and the granularity that the PRA would expect to see in relation to responsibilities and service level agreements pertaining to such arrangements.
- One respondent commented that they were keen to understand the PRA's considerations for retail business, and in particular the PRA's stance on a firm's reliance on home state outsourcing arrangements. Another respondent asked the PRA to clarify whether the guidance represents any change to the PRA policy on outsourcing intra-entity (which is currently outside the outsourcing regulatory framework).
- One respondent asked the PRA to comment on the merit of a branch having a UK-based internal auditor, given that most groups have an internal audit function at head office level.

2.48 The PRA also received some responses that were firm-specific in nature and has therefore not provided feedback on these. Firms should contact their supervisor directly to pursue such discussions.

## Appendix

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1 SS5/21 'International banks: The PRA's approach to branch and subsidiary supervision', available at: [www.bankofengland.co.uk/prudential-regulation/publication/2021/july/pru-approach-to-branch-and-subsiidiary-supervision-ss](https://www.bankofengland.co.uk/prudential-regulation/publication/2021/july/pru-approach-to-branch-and-subsiidiary-supervision-ss)

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