



PRA Regulatory Digest

1-31 July 2016

This digest is for people interested in the UK financial services industry and highlights key regulatory news and publications delivered for the month. Readers are encouraged to continue to visit the Bank of England website throughout the month, [‘subscribe to alerts’](#) and visit the [calendar](#) for upcoming news and publications.

Note: Please be aware that the PRA may be issuing publications during August 2016.

Contents

[News](#)

[Banking publications and updates](#)

[Insurance publications and updates](#)

[Cross-cutting publications](#)

[Also in the month](#)

Top news and publications

- PRA issues structural reform and operational continuity publications
- PRA statement on adjustments to firms’ PRA buffers and letter to firms
- Analysis and observations from regulatory returns and monitoring-the-market questionnaire
- PRA reminds insurers to submit their Scopes of Responsibilities by 7 September 2016

News

29 July 2016

[Statement on EBA stress test publication](#)

The Bank welcomed the publication of the results of the European Banking Authority (EBA) 2016 stress test. Four UK banks – Barclays, HSBC Holdings, Lloyds Banking Group and The Royal Bank of Scotland Group – participated in the test. The results for the four banks are consistent with those of previous Bank of England stress tests. They provide evidence that major UK banks have the resilience necessary to maintain lending to the real economy, even in a macroeconomic stress scenario. There are important methodological differences between the EBA and Bank of England tests.

7 July 2016

[News Release – Payment systems memorandum of understanding](#)

The Bank of England, the Prudential Regulation Authority (PRA), the Financial Conduct Authority (FCA) and the Payment Systems Regulator (PSR) have reviewed the memorandum of understanding (MoU) that sets out the high-level framework we use to cooperate with each other in relation to payment systems in the United Kingdom. This is the first review of the MoU since it was signed in March 2015. As part of the review, the four authorities have emphasised their ongoing commitment to working closely together on issues of common regulatory interest and avoiding duplication.

Banking publications and updates

29 July 2016

[Residential mortgage risk weights – CP29/16](#)

This consultation sets out proposed changes to the supervisory statement (SS) on internal ratings based (IRB) approaches to calculating risk-weighted capital requirements for banks and building societies (SS11/13). The consultation is relevant to PRA-authorized firms that have either obtained or may seek to obtain permission to use the IRB approach to calculate risk-weighted assets for their residential mortgage portfolios. This consultation closes on Monday 31 October 2016.

[Ensuring operational continuity in resolution: reporting requirements – CP28/16](#)

In this consultation paper (CP) the PRA sets out proposals for data that the PRA intends to collect in connection with the final policy on operational continuity set out within SS9/16 ‘Ensuring operational continuity in resolution’ and the General Organisational Requirements and Outsourcing Parts of the PRA Rulebook. This consultation closes on Friday 28 October 2016.

[The PRA’s implementation of the systemic risk buffer – CP27/16](#)

In line with the Independent Commission on Banking recommendations, the UK legislation implementing the systemic risk buffer (SRB) requires the Financial Policy Committee (FPC) to establish a framework for an SRB that applies to large building societies and ring-fenced bodies (RFBs). The SRB Regulations require the FPC to specify a set of criteria for assessing the extent to which the failure or distress of an SRB institution might pose a long term non-cyclical systemic or macroprudential risk (which is specified as meaning a risk of disruption to the financial system with the potential to have serious negative consequences for the financial system and the real economy in the

United Kingdom). They also require the FPC to create a methodology for measuring the criteria and giving SRB institutions a single score in relation to the criteria with a corresponding SRB rate. The consultation closes on Friday 28 October 2016.

7 July 2016

[The implementation of ring-fencing: prudential requirements, intragroup arrangements and use of financial market infrastructures – PS20/16](#)

This policy statement (PS) provides feedback on responses received to CP37/15 'The implementation of ring-fencing: prudential requirements, intragroup arrangements and use of financial market infrastructures'. The appendices to this PS set out the final rules and SS to implement the proposals consulted on in CP37/15 and the near-final rules and supervisory statements set out in PS10/15 published in May 2015. The appendices also include updated versions of certain PRA publications to incorporate changes in relation to the proposals consulted on in CP37/15, updated for the final policy in this PS.

[Ring-fenced bodies \(RFBs\) – SS8/16](#)

This SS is aimed at RFBs, as defined in Section 142A of the Financial Services and Markets Act 2000 (the Act), parent undertakings of RFBs as defined in Section 192JA of the Act and other PRA-authorized persons that are members of a group containing an RFB. The purpose of this statement is to set out the PRA's expectations of an RFB and members of its group in relation to the ring-fencing of core activities and services.

[The implementation of ring-fencing: reporting and residual matters – CP25/16](#)

This CP consists of two parts. Part one focuses on reporting requirements for RFBs. Part two focuses on additional matters relating to ring-fencing on which the PRA has decided to consult. This CP is relevant to those banking groups that will be required by the Act to ring-fence their core activities. This includes groups with 'core' deposits – broadly those deposits from individuals and small businesses – in excess of £25 billion and those groups with growth plans which expect to exceed this threshold by 1 January 2019. This CP will also be relevant to banking groups which may approach this threshold over time and to financial and other institutions, and customers who have dealings with these banking groups.

[Ensuring operational continuity in resolution – PS21/16](#)

This PS provides feedback to responses to CP38/15 'Ensuring operational continuity in resolution' and the addendum to CP38/15. The appendices to this PS set out final rules and a supervisory statement to implement the proposals consulted on in CP38/15 aimed at ensuring firms' operational arrangements facilitate continuity of critical services supporting functions critical to the economy in resolution.

[Ensuring operational continuity in resolution – SS9/16](#)

This SS is relevant to UK banks, building societies and PRA-authorized investment firms ('firms') to which the Operational Continuity Part of the PRA Rulebook applies. The purpose of this SS is to set out the PRA's expectations on firms to ensure operational continuity of critical services to facilitate recovery actions, orderly resolution and post-resolution restructuring

[Structural reform – authorisations](#)

The PRA has also created a section for 'Structural reform – authorisations'. This includes a webpage with information on how ring-fenced bodies can apply to the PRA to request permission to indirectly access inter-bank payment systems, referred to in PS20/16.

[Counterparty credit risk – SS12/13 UPDATE](#)

This statement was updated to provide clarifications to the reporting requirements for model changes. In addition, the process for informing the PRA of non-compliance has been clarified: specifically paragraphs 5.1, 5.2, 6.5, 6.7, 6.15, 6.16, 6.25, 6.27 and Appendices A and B. Additionally, amendments were made for qualifying central counterparties (QCCPs). The amendments also clarify that further information on central counterparties (CCPs) can be found on the European Securities and Markets Authority (ESMA) website, and adjusts the notification arrangements when a CCP no longer reports its hypothetical capital (Kccp). These revisions are found in Chapter 4.

[Market risk – SS13/13 UPDATE](#)

This SS was updated to amend the expectations on the validation of firms' risks not In VaR (RNIV) frameworks and reporting of extensions and changes to firms' RNIV frameworks, and also provides clarification on the PRA's reporting requirements around Internal Model Approach (IMA) model changes and extensions. In addition, the process for informing the PRA with regard to non-compliance has been clarified. There are changes to paragraphs 2.2, 9.16, and 12.1. Paragraphs 2.10 to 2.12, and paragraph 12.3 are new. In addition, Chapters 3A and 3B have been added in a way to maintain the integrity of the numbering of the chapters and paragraphs in the previous version of this statement.

[Remuneration Rules update](#)

On 7 July 2016, the PRA updated some of the materials published on 30 June in the table included on this page. Please contact remuneration@bankofengland.co.uk if you have any queries on the templates, and your usual supervisory contact for firm-specific queries.

5 July 2016

[PRA statement on adjustments to firms' PRA buffers and letter to firms](#)

The PRA published '[PRA Statement on adjustments to firms' PRA buffers](#)' and a [letter to firms](#) from supervisors 'PRA Statement on adjustments to firms' PRA buffers' alongside the Financial Stability Report. The FPC has recommended to the PRA that it reduce PRA buffers, as far as possible and as soon as practicable, by an amount of capital that is equivalent to the effect of a 0.5% UK counter-cyclical buffer rate. The PRA Board has confirmed its intention to make adjustments to PRA buffers today to give effect to this recommendation.

4 July 2016

[Letter to firms from supervisors: Additional liquidity monitoring metrics \(ALMM\) – New data item](#)

The PRA published a letter from supervisors to firms with the title 'Additional liquidity monitoring metrics (ALMM) - New data item'. This sets out changes that will take effect from Friday 30 September 2016.

[Credit union regulatory reporting – CP24/16](#)

In this CP, the PRA sets out proposals for changes to the reporting requirements that apply to credit unions; these replace the returns that must currently be submitted and require that the new returns be submitted electronically. The purpose of the proposed rules is to support the timely submission of accurate regulatory data by credit unions and to provide that such data are consistent with the Credit Unions Part of the PRA Rulebook and relevant to its objectives. This consultation closes on Monday 5 September 2016.

For further information on CRD IV visit the [CRD IV updates webpage](#).

For further information on structural reform visit the [Structural reform webpage](#).

For new banks, please see the [New Banks Start-up Unit webpage](#).

Insurance publications and updates

28 July 2016

[Capital extractions by run-off firms within the general insurance sector – SS4/14 UPDATE](#)

SS4/14 was updated to reflect the proposals consulted on in CP42/15 'Capital extractions by run-off firms within the general insurance sector', following the change in the UK insurance regulatory regime from Individual Capital Adequacy Standards (ICAS) to Solvency II.

20 July 2016

[Insurance firms in run-off: firm engagement with the PRA](#)

The purpose of the letter is to remind run-off firms of their continuing responsibilities in the way they interact with the PRA. The letter reminds firms that in addition to Threshold Conditions, firms are required to comply with the PRA's eight Fundamental Rules as set out in the PRA Rulebook.

18 July 2016

[Analysis and observations from regulatory returns and monitoring-the-market questionnaire](#)

Last year the PRA set out its expectations in relation to underwriting, reserving, reinsurance and the setting of capital requirements in meeting the System of Governance requirements under Solvency II. In response to continuing soft market conditions in the commercial sector, this letter shares some observations based on analysis of PRA returns and the recent questionnaire completed by London market insurers titled 'monitoring-the-market'. The letter highlights that reserve releases in 2015 as measured by the percentage of reserves brought-forward were the highest for over 30 years, and that a number of asset classes indicated weakening of reserves.

7 July 2016

[Reminder: Senior Insurance Managers Regime – Scopes of Responsibility](#)

The PRA reminded insurance firms of the Wednesday 7 September 2016 deadline for submitting their Scope of Responsibilities (SoRs) as set out in Key Function Holder - Notifications 6.3 in the PRA Rulebook. SoR forms for Solvency II and non-Solvency II firms can be found on the Senior Insurance Managers Regime - submitting, amending, withdrawing page of the website.

6 July 2016

[Solvency II: Regulatory Reporting and exemptions – SS11/15 UPDATE](#)

Template reference numbers in Table A of SS11/15 were updated to reflect those published in the Commission Implementing Regulation (EU) 2015/2450 of 2 December 2015. There are no changes to the content of Table A.

[Solvency II: reporting and public disclosure – options provided to supervisory authorities – SS40/15 UPDATE](#)

Chapter 4 of this SS was updated to address the options for supervisory authorities in accident or underwriting year reporting and disclosure. It also includes references to template S.29.03.01 (the instructions for template S.29.03 give supervisory authorities discretion to stipulate accident or underwriting year reporting).

4 July 2016

[Solvency II: external audit of the public disclosure requirement – CP23/16](#)

The PRA consulted on its proposal for external audit of the Solvency II public disclosure in CP43/15. Following feedback, the PRA has made some minor amendments to the rules, though the broad policy approach has not changed. The draft rules and supervisory statement set out in Appendices 1 and 2 include those minor amendments and the PRA's responses to consultation feedback have been included in Chapter 3. In addition to those minor amendments the PRA proposes a clarification of the duty of care of auditors to the PRA in the proposed rules. While there is no substantive change in the PRA's policy, and the amendment does not change the substance of what an auditor or actuary must do to comply with the PRA's rules, the rule has been amended to provide clarity. This CP seeks views on this proposed clarification. This consultation closes on Thursday 4 August 2016.

For further information on Solvency II visit the [Solvency II updates webpage](#).

For further information for non-Directive firms visit the [non-Directive firms webpage](#).

Cross-cutting publications and updates

- 22 July 2016 [Establishment of the Enforcement Decision Making Committee – CP/EDMC2016](#)
- This CP sets out the Bank of England and the PRA’s proposal for the establishment of a unified Enforcement Decision Making Committee (EDMC) to take decisions in respect of: (1) the PRA; (2) Financial Market Infrastructure (FMI); and (3) Resolution contested enforcement cases. This consultation responds directly to a recommendation from HM Treasury regarding the PRA’s enforcement decision making processes within HM Treasury’s Review of enforcement decision-making at the financial services regulators. The consultation closes on Friday 21 October 2016.
- [Occasional Consultation Paper – CP26/16](#)
- This CP sets out proposed changes to the following PRA Rulebook Parts and SS: SS24/15 - The PRA’s approach to supervising liquidity and funding risks (Chapter 2); Internal Liquidity Adequacy Assessment (ILAA) Part (Chapter 3); Regulatory Reporting Part and SS34/15 - Guidelines for completing regulatory reports (Chapter 4); Conditions Governing Business Part (Chapter 5); and Capital Buffers Part and Leverage Ratio Part (Chapter 6). The consultation for Chapters 2 – 6 closes on Friday 21 October 2016, and for the administration instrument on Friday 5 August 2016.
- 19 July 2016 [Treasury Select Committee appointment hearing – Sam Woods](#)
- Appointment of Sam Woods as Deputy Governor for Prudential Regulation and Chief Executive of the PRA.
- 8 July 2016 [Senior Managers Regime](#)
- To reflect changes in PRA senior management, the PRA updated its internal application of the Senior Managers Regime, which contains its Management Responsibilities Map and the Statements of Responsibilities for executive Senior Managers.
- For further information on strengthening accountability visit the [Strengthening accountability webpage](#).

Also in the month

- 28 July 2016 [Fair and Effective Markets Review Implementation Report](#)
- 21 July 2016 [External MPC Unit Discussion Paper 47: The effect of unconventional monetary policy on inflation expectations: evidence from firms in the United Kingdom – James Cloyne, Lena Boneva, Martin Weale and Tomasz Wieladek](#)
- [One Bank Flagship Seminar by William Taylor and Roy Zilberman – ‘Macroprudential Regulation, Credit Spreads and the Role of Monetary Policy’](#)
- 19 July 2016 [Lords Economic Affairs Committee hearing on digital currency - Ben Broadbent](#)
- 18 July 2016 [Brexit and Monetary Policy – speech by Martin Weale](#)
- [Staff Working Paper No. 605: The macroeconomics of central bank issued digital currencies - John Barrdear and Michael Kumhof](#)
- 15 July 2016 [Whose Recovery? - speech by Andy Haldane](#)
- 5 July 2016 [Financial Stability Report – July 2016](#)
- [The demise of Overend Gurney - Quarterly Bulletin 2016 Q2 pre-release article](#)

Readers may also find it useful to refer to other [Bank publications](#) and [speeches by Bank officials](#).

European and international developments

Readers are also referred to the websites for the [European Banking Authority](#), [European Insurance and Occupational Pensions Authority](#), [Basel Committee on Banking Supervision](#), [International Association of Insurance Supervisors](#), and [Financial Stability Board](#).

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