



PRA Regulatory Digest

1 – 30 November 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.

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News

30 November [Financial Stability Report explained](#)

The Bank published its latest [Financial Stability Report](#), which sets out the Financial Policy Committee's view on the UK financial system's stability and an assessment of any risks to it. The Bank also published [the results of the most recent round of the annual stress-testing exercise](#), which examines the effect of a hypothetical adverse scenario on individual banks and the banking system as a whole. The PRA published '[Amendments to the PRA's rules on loan to income ratios in mortgage lending](#)' – CP44/16, see 'Banking publications and updates' below.

21 November [Consultation on restoring the deposit protection limit to £85,000](#)

The [PRA is consulting](#) on plans to restore the limit of protection provided by the Financial Services Compensation Scheme (FSCS) to deposits with firms authorised by the PRA to £85,000. The protection limit is currently £75,000. It would be raised from 30 January 2017, but firms would have until 30 June 2017 to implement the necessary changes to systems and materials.

8 November [New Bank of England rules bring UK closer to ending taxpayer bailouts](#)

The Bank of England announced new rules designed to make it easier to manage the failure of banks and building societies in an orderly way, as part of reforms to end taxpayer bailouts in the United Kingdom. The publications are listed in 'Banking publications and updates' below.

Banking publications and updates

30 November [Amendments to the PRA's rules on loan to income ratios in mortgage lending – CP44/16](#), referred to in the Bank of England's publication of the [Financial Stability Report – November 2016](#)

This Consultation Paper (CP) sets out the PRA's proposed amendments to the Housing Part of the PRA Rulebook in respect of the FPC's Recommendation on loan to income (LTI) ratios in mortgage lending in the owner occupied market. The CP also provides additional clarification regarding the scope of the LTI policy. This CP proposes to amend the PRA's rules to change the current fixed quarterly limit into a four-quarter rolling limit. In addition, this CP contains additional clarification on the scope of the LTI flow limit regarding interest roll-up bridging loans and mortgages 'ported' to another property where there is no increase in the principal outstanding. The PRA will continue to work together with the Financial Conduct Authority (FCA) to monitor developments relevant to the LTI flow limit. The PRA is proposing that the change to the rules takes effect as soon as practical, with the aim that the first quarter in which the four-quarterly rolling limit would apply would be Q1 2017, subject to the responses to the CP. This would mean that starting from Q1 2017 the PRA would monitor the LTI flow limit on a four-quarter rolling basis, which for Q1 2017 would be incorporating data on flows from Q2 2016, Q3 2016, Q4 2016 and Q1 2017. It is important to note that compliance under a fixed quarterly limit (which is the current expectation) automatically implies compliance with the limit under a four-quarter rolling basis. The PRA welcomes views on this consultation by Tuesday 10 January 2017.

29 November [2016 list of UK firms designated as other systemically important institutions \(O-SIIs\)](#)

The PRA published its 2016 list of UK firms designated as other systemically important institutions (O-SIIs), as required under the Capital Requirements Directive (2013/36/EU) (CRD) as implemented in the Capital Requirements (Capital Buffers and Macro-prudential measures) Regulations 2014. The

PRA is required to identify O-SIIs on an annual basis.

25 November

[Implementation of MiFID II: Part 2 – CP43/16](#)

In this CP the PRA sets out its proposals for rules to transpose parts of the Markets in Financial Instruments Directive (MiFID II). This is part of a legislative package, comprising the Directive, MiFID II (2014/65/EU); the Markets in Financial Instruments Regulation (2014/600/EU) (MiFIR); and Commission Delegated Regulation on organisational requirements and operating conditions (the 'Delegated Regulation'). The CP is relevant to banks, building societies, PRA-designated investment firms and their qualifying parent undertakings, which for this purpose comprise financial holding companies and mixed financial holding companies, as well as credit institutions, PRA-designated investment firms and financial institutions that are subsidiaries of these firms. This is the second PRA consultation on implementing MiFID II. The final rules following [CP9/16](#) were published in [Policy Statement \(PS\) 29/16 'MiFID II: Response to CP9/16'](#). This consultation closes on Monday 27 February 2017.

21 November

[Deposit protection limit – CP41/16](#)

This CP sets out the PRA's proposals to reset the deposit protection limit at £85,000. This CP is relevant to:

- UK banks, building societies, UK credit unions, as well as to overseas firms with PRA deposit-taking permission;
- dormant account fund operators;
- the FSCS, as the administrator of the UK's Deposit Guarantee Scheme (DGS) and Dormant Account Scheme (DAS); and
- depositors.

The purpose of the proposals in this CP is to provide depositors with PRA-authorized firms commensurate protection to depositors with firms authorised by regulators in other EU Member States, as required by the recast Deposit Guarantee Schemes Directive (DGSD) which requires the United Kingdom to adjust the deposit protection limit following the occurrence of unforeseen events such as currency fluctuations. Under the proposals depositors will be protected up to £85,000 as of Monday 30 January 2017. This consultation closes on Friday 16 December 2016.

16 November

[Responses to Chapter 3 of CP17/16 - forecast capital data - PS32/16](#)

This PS provides feedback to responses received to the forecast capital data proposals in Chapter 3 (paragraphs 3.19 – 3.33) of [CP17/16 'Regulatory reporting of financial statements, forecast capital data and IFRS 9 requirements'](#). The appendices to this PS contain the final rules (Appendix 1), [Supervisory Statement \(SS\) 34/15](#) (Appendix 2), and templates and instructions (Appendix 3) for the new reporting requirements relating to forecast capital (Capital+) data in the Regulatory Reporting Part of the PRA Rulebook. The templates and reporting instructions are also available on the [CRD firms - Reporting Requirements' webpage](#).

[Guidelines for completing regulatory reports – SS34/15 UPDATE](#)

This SS was updated following publication of:

- (i) [PS32/16 'Responses to Chapter 3 of CP17/16 - forecast capital data'](#) to include links in Appendix 1 to the guidelines for the new returns relating to forecast capital data (PRA101-PRA103); and
- (ii) [PS31/16 'Credit union regulatory reporting'](#) to delete appendix 3a 'Notes for completing the Quarterly Return (CQ) for Credit Unions' and 3b 'Notes on completing the Annual Return (CY) for Credit Unions', which are available on the ['Credit unions – forms and guidance' webpage](#). The notes updated following PS31/16, are effective from 3 January 2017, and are available in the appendices of PS31/16.

This SS is addressed to all firms regulated by the PRA who are required to submit supervisory reports under the Regulatory Reporting, Close Links and Change in Control Parts of the PRA Rulebook. Its purpose is to set out the PRA's expectations for how firms should complete the data items and returns required by those Parts.

14 November

[Credit union regulatory reporting – PS31/16](#)

This PS provides feedback to responses to [CP24/16 'Credit union regulatory reporting'](#) and sets out final rules, updated notes on completing credit union returns which change the format and frequency of reporting requirements that apply to credit unions, and updated annual and quarterly returns. This PS is relevant to credit unions. The PRA proposed that these changes would take effect from Tuesday 3 January 2017. No material changes have been made to the proposals in the CP.

8 November

[The minimum requirement for own funds and eligible liabilities \(MREL\) – buffers and Threshold Conditions – PS30/16](#)

This PS provides feedback on responses to [CP44/15 'The minimum requirement for own funds and eligible liabilities \(MREL\) – buffers and Threshold Conditions'](#) and sets out the final [SS16/16](#) (see below). This PS is relevant to all PRA-regulated banks, building societies and PRA-designated investment firms (firms). Alongside this PS, the Bank of England (the Bank) published a [statement of policy on its approach to setting MREL in line with relevant legislation](#). Readers should consider the PRA's PS in light of the Bank's statement of policy and vice versa.

[The minimum requirement for own funds and eligible liabilities \(MREL\) – buffers and Threshold Conditions – SS16/16](#)

This SS is aimed at PRA-regulated banks, building societies and PRA designated investment firms (firms). This SS sets out the PRA's expectations on the relationship between MREL and both capital and leverage ratio buffers, as well as the implications that a breach of MREL would have for the PRA's consideration of whether a firm is failing, or likely to fail, to satisfy the Threshold Conditions. This SS should be read in conjunction with the Bank's [statement of policy on its approach to setting MREL](#), PRA [SS6/14 on capital buffers](#), and PRA [SS31/15 on leverage buffers](#).

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

25 November

[Solvency II: consolidation of Directors' letters](#)

[Solvency II: consolidation of Directors' letters – PS33/16](#) provides feedback on the responses, and final SSs for [CP20/16, 'Solvency II: consolidation of Directors' letters'](#), May 2016. This PS is relevant to all UK insurance firms within the scope of the Solvency II Directive ('the Directive') and to Lloyd's. The SSs in the appendices to this PS set out the PRA's final expectations for the following areas under the Directive, based on material contained in Directors' letters, Executive Director's letters and feedback statements ('Directors' letters') issued between 1 April 2013 and 16 February 2016:

- [Supervisory Statement 17/16 – Solvency II: Internal models – assessment, model change and the role of non-executive directors](#);
- [Supervisory Statement 18/16 – Solvency II: longevity risk transfers](#);
- [Supervisory Statement 19/16 – Solvency II: ORSA](#);
- [Supervisory Statement 20/16 – Solvency II: reinsurance – counterparty credit risk](#);
- [Supervisory Statement 2/14 UPDATE – Solvency II: recognition of deferred tax](#);
- [Supervisory Statement 17/15 UPDATE – Solvency II: transitional measures on risk-free interest rates and technical provisions](#); and
- [Supervisory Statement 5/15 UPDATE – Solvency II: the treatment of pension scheme risk](#).

Appendix 8 of PS33/16 lists the SSs in which the PRA's expectations, where relevant, are available.

23 November

[Authorisation and supervision of insurance special purpose vehicles – PRA CP42/16 / FCA CP16-34](#)

This joint CP sets out more detail on the regulators' proposed authorisation and supervision regime for insurance special purpose vehicles (ISPVs) in the United Kingdom and should be read alongside [HM Treasury's consultation document](#). It introduces a draft PRA SS (Appendix 1), a draft FCA statement (Appendix 2), proposed amendments to the PRA Rulebook (Appendix 3), a draft application form in relation to the authorisation and supervision of ISPVs (Appendix 4), and a draft notification form for firms to use when they propose to add new cells to a multi-arrangement ISPV (Appendix 5). The joint consultation reflects the views of each regulator insofar as is applicable to each regulator's objectives. It is relevant to all parties who wish to apply to the PRA for, or have obtained authorisation as, an ISPV. It is also relevant to parties who wish to apply to the FCA for registration of a Protected Cell Company, and to insurers seeking to use UK ISPVs as risk mitigation in accordance with Solvency II. This consultation closes on Thursday 23 February 2017.

16 November

[Solvency II: Reporting format of National Specific Templates and reporting clarifications – CP40/16](#)

In this CP, the PRA proposes changes to National Specific Template (NSTs) in respect of the file type and reporting format for the 2016 financial year end and future financial year ends, and presents a number of reporting clarifications and technical corrections relating to the accompanying NST LOG files. The CP is relevant to all UK Solvency II firms required to submit NSTs and to Lloyd's. The NSTs contain information that is considered to be specific to the UK market and supervisory approach and are in addition to the Solvency II annual and quarterly reporting. The NSTs and accompanying LOG files are published on the [regulatory reporting for Solvency II firms page](#) of the Bank of England website. Specifically the PRA proposes:

- a) reporting for financial year end 2016 and future financial year ends whereby firms submit NSTs in Excel templates, that have been designed using XBRL principles (see Appendix 3);
- b) the information requirements for NSTs are brought into the Reporting Part of the PRA Rulebook; and
- c) updates to the NST LOG files to reflect changes in cell references, reporting clarifications and technical corrections.

The PRA will consult in a later CP on new proposals moving towards XBRL reporting of NSTs. This consultation closes on Tuesday 13 December 2016.

15 November

[Solvency II: Reporting of National Specific Templates – CP37/16 UPDATED](#)

The PRA has withdrawn CP37/16 'Solvency II: Reporting of National Specific Templates'. The decision was taken following insight that a number of firms plan to report in XBRL-enabled Excel format for financial year end 2016. In respect of its decision, the PRA will issue two separate consultations:

- i) a CP with the proposals for the reporting of National Specific Templates for financial year end 2016

and future financial year ends, using only Excel templates designed using XBRL principles, together with a number of reporting clarifications and technical corrections. The reporting clarifications and technical corrections will be identical to those proposed in CP37/16; and

ii) in a later CP, proposals for the future reporting of National Specific Templates.

14 November

[Cyber insurance underwriting risk – CP39/16](#) and [letter to firms ‘Cyber underwriting risk’](#)

In this CP, the PRA proposes a new SS setting out its expectations for the prudent management of cyber underwriting risk. For the purposes of this CP and draft SS, cyber underwriting risk is defined as the set of prudential risks emanating from underwriting insurance contracts that are exposed to losses resulting from a cyber-attack. The CP is relevant to all UK non-life insurance and reinsurance firms and groups within the scope of Solvency II including the Society of Lloyd’s and managing agents. The proposals in this CP are based on thematic work carried out by the PRA between October 2015 and June 2016 involving a range of stakeholders including insurance and reinsurance firms, (re)insurance intermediaries, consultancies, catastrophe modelling vendors, cyber security and technology firms, and regulators. The CP sets out the PRA’s proposed expectations in relation to the ability of firms to exercise prudent management of cyber insurance underwriting risk. Firms are expected to be able to identify, quantify and manage the risks emanating from cyber underwriting risk both in terms of affirmative and ‘silent’ cover. This consultation closes on Tuesday 14 February 2017.

The results of the PRA’s thematic work highlighted several risks faced by the insurance industry in relation to cyber underwriting risk. The key findings are summarised in a [letter to firms – ‘Cyber underwriting risk’](#).

7 November

[Solvency II: group supervision – CP38/16](#)

In this CP, the PRA sets out proposals to update [SS9/15 ‘Solvency II: group supervision’](#). The proposals in this CP follow on from [CP20/16 ‘Solvency II: consolidation of Directors’ letters’](#), published in May 2016. The consultation is relevant to all insurance firms within the scope of the Directive and to Lloyd’s. The proposals in this CP are intended to clarify for firms which aspects of the [PRA’s letter ‘Solvency II: An update on implementation’](#) published on 25 July 2014 on group supervision are now intended to have effect as ongoing supervisory expectations. The CP also includes proposals to address elements of the Solvency II legislation introduced after the publication of the relevant letters; including the Solvency 2 Regulations 2015 and to update it with references to the PRA Rulebook. This consultation closes on Tuesday 7 February 2017.

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](#).

PRA open consultations – closing December 2016

21 December

[Solvency II: updates to SS25/15 and SS26/15 – CP31/16](#)

[Dealing with a market turning event in the general insurance sector – CP32/16](#)

16 December

[Deposit protection limit – CP41/16](#)

13 December

[Solvency II: Reporting format of National Specific Templates and reporting clarifications – CP40/16](#)

12 December

[Occasional Consultation Paper – CP36/16](#) (Chapter 5)

To view all open consultations as at 1 December 2016, please see [PRA open consultations](#).

Also in the month

24 November

[The diversity project – remarks by Andy Haldane](#)

22 November

[Macroprudential Policy for Insurers - paper by Vicky Saporta](#)

17 November

[Default management by central counterparties: the importance of preparation – remarks by David Bailey](#)

9 November

[Bridging the gap between institution and innovation - speech by Charlotte Hogg](#)

3 November

[Challenges for financial markets - speech by Jon Cunliffe](#)

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

Bank Underground

Bank Underground is a blog for Bank of England staff to share views that challenge – or support – prevailing policy orthodoxies. The views expressed here are those of the authors, and are not necessarily those of the Bank of England or its policy committees.

To view all Bank underground blogs, please see the [Bank Underground homepage](#).

KnowledgeBank

[KnowledgeBank](#) explains the economy, the financial system and the role of the Bank of England in simple, jargon-free terms. From [interest rates](#) and [inflation](#) through to [bank failures](#) and [financial crises](#), the site uses everyday examples and engaging visuals to bring economics to life.

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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