



## PRA Regulatory Digest

1 - 31 December 2017

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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### Top news and publications

- Alongside the Bank's [News Release](#), the PRA published:
  - [A letter from Sam Woods, Deputy Governor for Prudential Regulation and CEO of the PRA, on 'Firms' preparations for the UK's withdrawal from the European Union: planning assumptions'](#)
  - [CP29/17 'International banks: the Prudential Regulation Authority's approach to branch authorisation and supervision'](#)
  - [CP30/17 'International insurers: the Prudential Regulation Authority's approach to branch authorisation and supervision'](#)
- [The PRA published the second consultation paper in a series of improvements to the implementation of Solvency II as referred in the News Release of 25 October 2017.](#)

### News

20 December

[The Bank of England's approach to the authorisation and supervision of international banks, insurers and central counterparties](#)

The Bank of England announced that it is consulting on an updated approach to authorising and supervising international banks and insurers, and is issuing guidance on its approach to international central counterparties (CCPs).

Sam Woods, Deputy Governor and CEO, Prudential Regulation Authority also writes a [letter](#) to firms in preparation for the UK's withdrawal from the EU. Consultation Papers ([CP](#) 30/17 and [29/17](#)) were published in conjunction with the letter.

### Cross-cutting publications and updates

15 December

[Responses to CP18/17 Occasional Consultation Paper – Chapter 7 and 8 – PS31/17](#)

This PRA Policy Statement (PS) provides final policy as part of changes to the PRA Rulebook as outlined in Chapter 7 of [CP18/17](#). These changes relate to the second Markets in Financial Instruments Directive (MiFID II), Insurance Distribution Directive (IDD) forms, and European Union Benchmark Regulation (BMR). This PS also includes a consequential amendment to Short Form A, as outlined in Chapter 8 of CP18/17.

The PS was updated on Thursday 21 December to include the MiFID II Passporting Amendment Instrument which includes changes to the Branch Notification and Cross Border Services Notification forms. The PS is near-final and will be updated once the FSMA (Benchmarks) Regulations have been made. The forms related to MiFID II come into effect on Wednesday 3 January 2018, and the changes relating to the IDD come into effect on Friday 23 February 2018.

This PS is relevant to:

- MiFID II: PRA designated investment firms and Financial Conduct Authority (FCA) regulated MiFID firms, all PRA regulated firms and all common platform firms;
- IDD: UK Relevant Authorised Persons (RAPs), third-country RAPs, Solvency II firms, small non-Directive insurers and large non-Directive insurers, as well as all firms completing the Authorisation form for banks, the supplements for insurance companies and Lloyd's managing partners, the controller appendices for corporates and partnerships, the owners and influencers appendix, and the waiver application form.
- Consequential Amendments to Short Form A: Banks, building societies, credit unions, PRA designated investment firms, RAPs and third-country branches; and
- BMR: All firms completing the Senior Management Regime: Statements of Responsibilities form.



Updates to this PS, as outlined in paragraphs 1.3 to 1.5 of this PS, will be made accordingly. Firms should check the [PS31/17](#) webpage for further updates and the PRA will communicate updates to firms as appropriate.

Readers are referred to updates made by the PRA on 29 December 2017 on the [Passporting](#) and [Variation of permission](#) webpages.

13 December

[Strengthening accountability: implementing the extension of the SM&CR to insurers and other amendments – CP28/17](#)

In the CP, the PRA sets out the proposed changes to forms and other consequential changes and minor administrative amendments related to the extension of the Senior Managers and Certification Regime (SM&CR, 'the regime') to insurers. It also sets out proposals for the removal of gendered language from the SM&CR for banking firms and insurers, amongst other changes. It should be read in conjunction with [CP8/17](#), which proposed optimisations to the existing Senior Insurance Managers Regime (SIMR), and [CP14/17](#), which proposed the extension of the SM&CR to insurers.

This CP is relevant to the PRA-authorized UK banks, building societies, credit unions, including UK branches of non-EEA firms and PRA-designated UK investment firms ('banking firms'), Solvency II insurers (ie UK Solvency II firms, the Society of Lloyd's and Lloyd's managing agents, third country (re)insurance branches), insurance special purpose vehicles (ISPVs), large non-Directive firms (NDFs), small NDFs and Swiss general insurers.

This CP should be read in conjunction with [Financial Conduct Authority \(FCA\) CP17/14](#), also published on Wednesday 13 December 2017, which contains the FCA's equivalent proposals to implement the extension.

The extended SM&CR for insurers will not come into effect until a commencement date has been set by HM Treasury, at which point the PRA proposes to publish the final policy and rules. This is currently expected during 2018. This consultation closes on Wednesday 21 February 2018.

12 December

[Results of the firm feedback survey 2016/17](#)

The [aggregated results for the 2016/17 survey](#) were published on 12 December 2017.

We appreciate the participation of respondent firms in the survey. It is important to us that we continue to understand and find out what is working well and what we could do better.

For more information about the firm feedback survey, see the [Supervision page](#).

For information on strengthening accountability visit the [Strengthening accountability webpage](#).

## Banking publications and updates

1 January 2018

[Capital Requirements Regulation \(CRR\) Article 500 has now lapsed – The Basel I floor – SS8/13](#)

In SS8/13 'The Basel I floor', the PRA set out its expectations relevant to firms using the Internal Ratings Based (IRB) approach or Advanced Measurement Approach (AMA) on the application of the Basel I floor requirement under CRR Article 500. Article 500 is a transitional provision that was in effect until 31 December 2017, and has now lapsed. Therefore the PRA's expectations, as set out in SS8/13, are no longer applicable. However, firms that wish to continue using this approach are still able to do so, and should continue to enter the amount in Row 890 in the CA4 section (own funds requirements for Basel I floor).

20 December

[International banks: the Prudential Regulation Authority's approach to branch authorisation and supervision - CP29/17](#)

In this CP, the PRA seeks views on its proposed new approach to authorising and supervising international banks, which includes a focus on those that undertake wholesale banking activities in the United Kingdom via branches.

Expanding on the PRA's general framework as set out in its [banking approach document](#), this CP includes a draft Supervisory Statement (SS) which sets out the PRA's new approach to authorising and supervising international bank branches. When it is finalised, having taken into account consultation feedback, it will replace [SS10/14 'Supervising international banks: the Prudential Regulation Authority's approach to branch supervision'](#).

The proposals are relevant to all PRA-authorized deposit-takers and designated investment firms operating in the United Kingdom that are part of non-UK headquartered groups ('international banks') and to international banks that may seek PRA authorisation in the future. The PRA is proposing that the new approach takes effect after the completion of the consultation period and following publication of the final SS. In particular, for those EEA firms that are currently branching into the UK under the 'passporting' arrangements, and which are intending to apply for PRA authorisation in order to continue operating in the UK after the UK's withdrawal from the European Union, the PRA would apply the new approach set out in the final SS in assessing the firm's applications. Authorisation under the new regime would come into effect after the UK withdraws from the EU. This consultation closes on Tuesday 27 February 2018.

- 15 December [Indicative timeline for Capital+ reporting requirements updated](#)
- The PRA updated the indicative timeline for Capital+ reporting requirements (initially published on 27 September 2017) to reflect the addition of a User Acceptance Testing (UAT) window in January for firms with a first reporting deadline in February 2018 and beyond. Firms should refer to the timeline for further details on key activities leading up to their submission date. The PRA will continue to contact firms directly with relevant updates on Capital+ reporting. See [regulatory reporting](#) sector.
- [2017 list of UK headquartered Global Systemically Important Institutions \(G-SIIs\)](#)
- In accordance with Article 131 of the Capital Requirements Directive (2013/36/EU) (CRD), the PRA disclosed the 2017 list of UK headquartered G-SIIs. Their respective sub-categories, applicable scores and G-SII buffers were also disclosed.
- The Royal Bank of Scotland Group Plc was designated as a G-SII in accordance with Article 131(10)(b) of the CRD. These buffers will apply from 1 January 2019. The list of G-SIIs and their sub-category allocations will be updated annually.
- 12 December [Pillar 2A capital requirements and disclosure - PS30/17](#)
- This PRA PS provides feedback to responses to [CP12/17 'Pillar 2A requirements and disclosures'](#). It sets out final amendments to [SS31/15 'The internal Capital Adequacy Assessment Process \(ICAAP\) and the Supervisory Review and Evaluation Process \(SREP\)'](#) and [Statement of Policy \(SoP\) 'The PRA's methodologies for setting Pillar 2 capital'](#), intended to provide additional clarity and transparency on the PRA's Pillar 2A framework. This PS is relevant to banks, building societies and PRA-designated investment firms.
- As a result of feedback, the PRA has made a minor change to the draft SS to the Total Capital Requirement (TCR) disclosure expectation for sub-consolidated ring-fenced bodies (RFBs). This change clarifies that the disclosure expectation for RFBs applies only at the sub-consolidated group level. Minor further corrections to the SS and SoP have been made to reflect the change of terminology from individual capital guidance (ICG) to TCR, and minor linguistic corrections.
- These changes will take effect from Monday 1 January 2018, then an SREP firms will still be invited to apply for a Voluntary Requirement (VREQ) to set their Pillar 2A capital. However, the text of the VREQ will be amended slightly to clarify that Pillar 2A is now a requirement. Firms will also be invited to simultaneously apply for waiver by consent. This waiver will be introduced to ensure there is no confusion over the fact. Maximum Distributable Amount trigger points include Pillar 2A, as set via the VREQ. Both the updated VREQ and the waiver by consent will be available on [Waivers and Modifications](#) of rules in due course.
- 11 December [New Bank Start-up Unit seminar](#)
- The PRA and FCA opened registration for the NBSU seminar on 19 February 2018. Please [register your interest online](#) by Friday 12 January 2018.
- [The minimum requirement for own funds and eligible liabilities \(MREL\) – buffers and Threshold Conditions – SS16/16 Update](#)
- SS16/16 was updated following [CP15/17 'The minimum requirement for own funds and eligible liabilities \(MREL\) – buffers'](#). This version of [SS16/16](#) updates the version issued on 8 November 2016. The PRA received two responses to CP15/17 which welcomed the proposed updates and did not give rise to the need to change the PRA's proposals.
- [Recovery planning – PS29/17](#)
- This PRA PS provides feedback on responses to [CP9/17 'Recovery planning'](#) and sets out the PRA's final expectations on the content of recovery plans and on the approach to recovery planning for groups containing a ring-fenced body (RFB). This PS is relevant to UK banks, building societies, PRA-designated investment firms and qualifying parent undertakings ('firms') to which the Recovery Planning Part of the PRA Rulebook applies.
- The PRA received eight responses to CP9/17. Respondents were broadly supportive of the proposals but did raise a number of specific issues and questions on the details of the proposed SS. The appendices to this PS set out the final [SS9/17](#) for recovery planning and the updated [SS8/16](#). The PRA has made minor amendments to the draft SS published in CP9/17, mainly to add further clarity, after considering the responses to the CP. Chapter 2 of this PS summarises the issues raised by respondents and notes the main areas of the final SS where the PRA has made amendments to the proposals contained in CP9/17.
- 6 December [Model risk management principles for stress testing – CP26/17](#)
- This CP sets out the PRA's proposals to support effective practices in model risk management for stress testing. A set of principles has been developed in the context of the annual concurrent stress testing process, which tests the resilience of the banking system and some of the largest firms within it. The PRA proposes to embed these principles further for firms participating in the annual concurrent stress tests, while also extending them, in a proportionate manner, to the wider banking sector. The CP is relevant to PRA-authorized banks, building societies and PRA-designated investment firms ('firms'). Credit unions are not in scope and there is currently no proposal to extend the principles to insurance and reinsurance firms. This consultation closes on Tuesday 6 March 2018.

## [Pillar 2: Update to reporting requirements – CP25/17](#)

There are two main areas that the PRA considers when conducting a Supervisory Risk and Evaluation Process (SREP) for a firm:

- (i) risks to the firm that are either not captured, or not fully captured, under the Pillar 1 requirements of the Capital Requirements Regulation (CRR); and
- (ii) risks to which the firm may become exposed over a forward looking planning horizon (e.g. due to changes to the economic environment).

In accordance with the Pillar 2 methodologies set out in [SoP 'The PRA's methodologies for setting Pillar 2 capital'](#), in an SREP the PRA calculates capital benchmarks for those risks in light of the information included in a firm's Internal Capital Adequacy Assessment Process (ICAAP) and the data reported in the Pillar 2 data items.

While the assessment of risks is facilitated by data provided in the Pillar 2 data items, firms' internal stress test data, which inform the assessment of risks covered are only provided in an unstructured format in firms' ICAAP documents. This CP is relevant to banks, building societies and PRA-designated investment firms. This consultation closes on Tuesday 6 March 2018.

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**

20 December

[International insurers: the Prudential Regulation Authority's approach to branch authorisation and supervision – CP30/17](#)

In this CP, the PRA seeks feedback on its proposed approach to authorising and supervising third-country insurers that carry on (or are considering carrying on) insurance business in the United Kingdom through a branch or by forming a subsidiary. The purpose of the proposals is to support the interpretation of the PRA Rulebook on third-country branches and to explain the PRA's policy.

The proposals are relevant to all existing and prospective insurance firms carrying out regulated activities, but not headquartered, in the United Kingdom that are not able to benefit from passporting rights. The PRA's approach to branch supervision for EEA firms that are currently branching into the United Kingdom under the passporting arrangements remains unchanged until the United Kingdom withdraws from the European Union. They would then be treated in the same way as other insurance branches. At the time of this consultation, the proposals do not apply to Swiss general insurers, as defined in the PRA Rulebook, to which different requirements apply pursuant to the Swiss Treaty Agreement (No. 91/370/EEC).

The PRA proposes to publish a supervisory statement to set out factors that would be considered relevant when considering authorisation as a third-country branch or a subsidiary. [SS44/15 'Solvency II: third-country insurance and pure reinsurance branches'](#) will remain unchanged.

This consultation closes on Tuesday 27 February 2018.

12 December

[Solvency II: Internal models update – CP27/17](#)

This CP is the second in a series of improvements to the implementation of Solvency II, as referred in the [News Release of 25 October 2017](#). The PRA proposes updated expectations of firms in respect of the model change process set out in [SS12/16 'Solvency II: change to internal models used by UK insurance firms'](#) and internal model change policies set out in [SS17/16 'Solvency II: internal models – assessment, model change and the role of non-executive directors'](#). This CP also proposes a process for quarterly model change reporting.

The PRA has reviewed the effectiveness of certain aspects of the model change process. This review together with the recent discussions with the ABI and industry participants, has resulted in the proposed updates to the PRA's guidance on the model change process, model change policies and the reporting of minor model changes. This CP is relevant to all UK Solvency II firms, the Society of Lloyd's and its managing agents. It is most relevant to firms that have an internal model approval. It may also be of interest to UK Solvency II firms seeking approval to use an internal model and to UK Solvency II firms that are part of the European Economic Area (EEA) or non-EEA groups within a group internal model. This consultation closes on Tuesday 20 March 2018.

Alongside the publication of this CP, the PRA has also published a [statement](#) setting out its review of the time it had taken to assess model change applications approved since the implementation of Solvency II on 1 January 2016; how firms had completed the Common Application Package (CAP) when making model change applications; and how firms have defined model changes in model change policies.

8 December

[PRA fees and levies: model transaction fees, fees and FSCS levies for insurers and fees for designated investment firms – PS28/17](#)

This PRA PS provides feedback to responses to [CP16/17 'PRA fees and levies: model transaction fees, fees and FSCS levies for insurers and fees for designated investment firms'](#). This PS is relevant to insurers and designated investment firms (DIFs), as well as firms that have, or intend to apply in the future for, Solvency II or Capital Requirement Regulation models. The proposals relating to FSCS levies are relevant to insurance firms falling within FSCS levy classes B1 (general insurance) and C1 (life and pensions), the FSCS Ltd as scheme manager, the Society of Lloyd's and policyholders.

The PRA received eleven responses to the CP. The PS provides the PRA's feedback to responses and its final decisions. The final rules are included in the appendices to this PS.

#### [Authorisation and supervision of insurance special purpose vehicles – SS8/17 Update](#)

This SS sets out the PRA's approach and expectations in relation to the authorisation and supervision of insurance special purpose vehicles (ISPVs). It has been updated to insert the statutory reference to the Risk Transformation Regulations 2017, and include a reference to the FCA statement. This SS is relevant to parties who wish to apply for, or have obtained authorisation as, an ISPV. It is also relevant to insurers and reinsurers seeking to use UK ISPVs as risk mitigation in accordance with Solvency II.

Firms may also find it useful to refer to the dedicated [Insurance special purpose vehicles webpage](#).

7 December

#### [General Insurance Stress Test 2017 Feedback](#)

Following the General Insurance Stress Test (GIST) issued on 11 April 2017, Anna Sweeney, Director of Insurance, sent a letter with the results to CEOs of participating firms. The key findings were:

- the UK general insurance sector in aggregate, and regulated firms at an individual level, are resilient to those scenarios within the regulatory threshold of Solvency II
- there is no evidence that the level of reinsurance interconnectedness, reflected by the concentration to specific reinsurers, has increased since our last exercise in 2015.

#### [Errors in 2016 YE QRTs and NSTs – feedback to life insurers](#)

The PRA published feedback to life insurers on how to improve data quality in the annual Solvency II quantitative reporting template and national specific templates for 2017 year end reporting, see [Regulatory reporting: insurance sector](#).

#### [User Acceptance Testing environment](#)

An email was sent to principal users of the Bank of England Electronic Data Submission (BEEDS) portal, notifying them of the availability of a UAT environment. The UAT environment incorporates Taxonomy 2.2 and is being made available for firms to test their Solvency II (annual/quarterly/financial stability) submissions in advance of making a legal submission to the BEEDS portal. The UAT environment will be available to firms from Monday 8 January to Friday 19 January 2018.

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 – January 2018**

4 January	<a href="#">Changes to the PRA's large exposures framework – CP20/17</a> <a href="#">Groups policy and double leverage – CP19/17</a>
9 January	<a href="#">Occasional consultation paper – CP18/17</a> (Chapters 2-6, 9 and 10)
31 January	<a href="#">Solvency II: Matching adjustment – CP21/17</a>

To view all open consultations as at January 2018 please see [PRA open consultations](#).

### **Also in the month**

07 December [Making bank resolvable: the key to making resolution work – speech by Andrew Gracie](#)

Andrew Gracie, the Executive Director, Resolution reflects on Resolution since G20 Leaders put together the post-crisis financial reform agenda in 2009. He reviews where we are on the journey as well as what has been done and what is left to do.

These items are selected from [Latest Bank of England news](#). Readers may also find it useful to refer to the [Statistics](#) and [Research](#) sections of the Bank's website.

### **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 how the economy and the environment have always been linked; '[The race is on: Growing economy, shrinking resources](#)'.

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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