



PRA Regulatory Digest

1-31 October 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

- Geofinance – speech by Sam Woods, alongside which two CPs were issued:
 - Groups policy and double leverage – CP19/17
 - Changes to the PRA's large exposures framework – CP20/17
- PRA issues a news release 'PRA launches series of improvements to the implementation of Solvency II' and publishes CP21/17 'Solvency II: Matching adjustment'
- The Bank of England's approach to resolution and consultation paper on internal minimum requirement for own funds and eligible liabilities (MREL)

News

25 October

[PRA launches series of improvements to the implementation of Solvency II](#)

The PRA published the first in a short series of consultation papers (CP) on reform to the implementation of Solvency II starting with the Matching Adjustment (MA) (see Insurance publications and updates below). The series of targeted improvements will support the PRA's commitment to the Treasury Committee made in February 2017 to explore reform of some areas of the PRA's implementation of Solvency II, which came into force on 1 January 2016. The PRA has worked closely with firms and the Association of British Insurers (ABI) in developing these measures. The series is intended to improve the implementation of certain aspects of Solvency II, consistent with the PRA's role in this framework and its statutory objectives.

2 October

[The Bank of England's approach to resolution](#) and consultation on [Internal MREL – the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities \(MREL\) within groups, and further issues](#)

The Bank of England published a revised edition of [The Bank of England's approach to resolution](#). This new publication explains the key features of the UK resolution regime – including the Bank's statutory responsibilities and powers, and how the Bank would be likely to implement a resolution. The Bank of England also issued a consultation paper '[Internal MREL – the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities \(MREL\) within groups, and further issues](#)'. Responses are requested by 2 January 2018.

Cross-cutting publications and updates

4 October

[Geofinance – speech by Sam Woods](#)

At the Mansion House City Banquet, Sam Woods, Deputy Governor for Prudential Regulation, explored the impact of geography on the shape of banks, insurers and financial regulation. In this speech, Sam announced a new approach to ensure that UK banking groups are "at least as strong as their parts" (see CP19/17 and CP20/17 in Banking publications and updates below).

3 October

[Occasional Consultation Paper – CP18/17](#)

This Occasional Consultation Paper (OCP) sets out proposed changes to PRA Rulebook Parts and supervisory statements (SS). This consultation is relevant to all PRA-authorized firms. Chapter 7 is also relevant to FCA-regulated Markets in Financial Instruments Directive (MiFID) firms. The consultation will close on:

- Tuesday 17 October 2017 for the administration instrument (Appendix 15);
- Friday 3 November 2017 for Chapters 7 and 8; and



Banking publications and updates

- 31 October [Treatment of Foreign Currency Reserves in the LCR](#)
- A recent [EBA Q&A on the treatment of central bank reserves published on 28 July 2017](#) (Question ID 2016_3048) has highlighted an issue arising in connection with Article 10(1)(b)(iii) of the LCR Delegated Act. The PRA views this as merely a technical issue that neither alters in substance the PRA's assessment of the withdrawability in a stress of firms' central bank reserves nor affects the PRA's assessment of firms' liquidity positions. Firms will be aware that the PRA has already concluded an agreement with the Bank of England with respect to sterling reserves. A [statement published by the ECB on 30 September 2015](#) represents the PRA's understanding of the treatment of PRA firms' euro reserves and the PRA considers this relevant for the purposes of such firms' compliance with Article 10(1)(b)(iii) of the LCR Delegated Act. The PRA is also engaged in discussions with certain other central banks with a view to obtaining formal confirmation of (and recording) its understanding of the withdrawability of firms' reserves at those central banks
- 27 October [UK-specific reporting clarifications for FINREP Financial Statements](#)
- Following its publication on 15 September, the PRA reminds those working with the FINREP Financial Statements templates that they may submit queries for reporting clarifications. For any queries relating to the EBA's FINREP instructions, firms should submit a Q&A to the EBA. For UK GAAP-specific queries, firms can submit these to their trade associations (who will group queries and prioritise those that apply to multiple firms, before passing them on to the PRA) or directly to the PRA.
- [Note following PRA seminar for relevant UK banks and building societies](#)
- Martin Stewart, Director of Banks, Building Societies and Credit Unions hosted a seminar on International Financial Reporting Standards (IFRS) 9 for relevant UK banks and building societies.
- [Getting ready for IFRS 9 – a note for non-executive directors](#)
- This note is for any non-executive director (NED) who sits on the board of a firm that is affected by the implementation of International Financial Reporting Standard (IFRS) 9 – particularly those who are also on the firm's audit committee. The note includes 'four questions to discuss with your board'.
- 25 October [Clarification on IFRS 9 for 2018 ICAAP stress testing and capital planning](#)
- For more information please visit the [stress test scenario webpage](#).
- 18 October [Ring-fencing transfer schemes – dates for banks' court directions hearings](#)
- The PRA published updated details of banks' ring-fencing transfer scheme court dates on the dedicated [Structural Reform webpage](#).
- 4 October [Changes to the PRA's large exposures framework – CP20/17](#)
- This CP sets out the PRA's proposed changes and clarifications to requirements relating to intragroup transactions in the Large Exposures Part of the PRA Rulebook. This CP was published alongside the 'Geofinance' speech by Sam Woods (see cross-cutting publications and updates above). This CP is relevant to PRA-authorized UK banks, building societies, PRA-designated UK 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, investment firms and financial institutions that are subsidiaries of these firms, regardless of their location. This CP closes on Thursday 4 January 2018.
- [Groups policy and double leverage – CP19/17](#)
- The PRA has reviewed the groups policy framework, in order to ensure that it remains coherent and fit for purpose in light of post-crisis financial reforms – including Basel III standards, UK ring-fencing legislation, the resolution framework and other international developments. Following the review, the PRA is considering some necessary changes to achieve this objective. This CP was published alongside the 'Geofinance' speech by Sam Woods (see cross-cutting publications and updates above). This CP is relevant to PRA-authorized UK banks, building societies, PRA-designated UK investment firms and their qualifying parent undertakings, as well as credit institutions, investment firms and financial institutions that are subsidiaries of these firms, regardless of their location. This consultation closes on Thursday 4 January 2018.
- 3 October [Internal Ratings Based \(IRB\) approach: clarifying PRA expectations – PS23/17](#)
- This Policy Statement (PS) provides feedback to responses to [CP5/17 'Internal Ratings Based \(IRB\) approach: clarifying PRA expectations'](#). It contains the final amendments to [SS11/13 'Internal Ratings Based \(IRB\) approaches'](#). The PS and SS are relevant to UK banks, building societies, and PRA-designated investment firms. The amendments to SS11/13 apply with immediate effect. They will apply to any IRB model application received after publication of the updated SS11/13, and also to IRB applications that have been received by the PRA prior to that date but for which a PRA approval or rejection decision has not yet been taken.

[Refining the PRA's pillar 2A capital framework – PS22/17](#)

This PRA PS provides feedback to responses to [CP3/17 'Refining the PRA's Pillar 2A capital framework'](#). This PS contains the [final amendment to the Reporting Pillar 2 Part of the PRA Rulebook](#) and updates to the following:

- [SS31/15 UPDATE 'The Internal Capital Adequacy Assessment Process \(ICAAP\) and the Supervisory Review and Evaluation Process \(SREP\)'](#);
- [SS32/15 UPDATE 'Pillar 2 reporting, including instructions for completing data items FSA071 to FSA082'](#);
 - this includes updated instructions for FSA076, FSA077, and an updated regulatory reporting schedule, see [CRD-Firms – Reporting Requirements](#).
- [Statement of Policy UPDATE 'The PRA's methodologies for setting Pillar 2 capital'](#).

These publications are relevant to banks, building societies and PRA-designated investment firms. The refined Pillar 2A capital framework will come into force on 1 January 2018. The PRA will implement the new approach as part of the Supervisory Review and Evaluation Process (SREP) reviews. To support the assessment, firms are required to submit the Pillar 2 data items FSA076 and FSA077 alongside their Internal Capital Adequacy Assessment Process (ICAAP).

[Strengthening individual accountability in banking: changes to SMR forms – PS24/17](#)

This PS provides feedback to responses to Chapter 4 of [CP8/17 'Strengthening accountability in banking and insurance: optimisations to the SIMR, and changes to SMR forms'](#). It includes amendments to a number of forms used in the Senior Managers Regime (SMR), which the PRA shares with the Financial Conduct Authority (FCA). This PS is relevant to banks, building societies, credit unions, and PRA designated investment firms. Until the new forms become live on Sunday 12 November 2017, firms should continue to use the current forms, available on the [Senior Managers Regime – submitting, amending withdrawing page](#).

[UK Leverage Ratio treatment of claims on central banks – PS21/17](#)

This PS provides feedback to responses to [CP11/17 'Consultations by the Financial Policy Committee \(FPC\) and PRA on changes to the UK leverage ratio framework relating to the treatment of claims on central banks'](#). In response to the FPC's Recommendation, and in line with CP11/17, the PRA is amending the PRA Rulebook and [SS46/15 'UK leverage ratio: instructions for completing data items FSA083 and FSA084'](#). The PS and SS are relevant to PRA-regulated banks and building societies with retail deposits equal to or greater than £50 billion on an individual or a consolidated basis. The PRA published an updated FSA083 template and instructions alongside publication of PS21/17. These reporting changes come into effect immediately, so will apply to firms' reporting and disclosure requirements for end-December 2017 onwards. The template is available on [CRD Firms – Reporting Requirements](#) webpage.

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 October

[Solvency II: Matching adjustment – CP21/17](#)

In this CP the PRA sets out its proposed expectations of firms in respect of the application of the matching adjustment (MA). This CP is the first in a series of targeted improvements that will support the PRA's commitment to the Treasury Committee made in February 2017 to explore reform of some areas of the PRA's implementation of Solvency II (see News above). This consultation is relevant to all UK Solvency II firms and to the Society of Lloyd's and its managing agents where they are applying or have applied to use the MA. This consultation closes on Wednesday 31 January 2018.

18 October

[Solvency II: Data collection of market risk sensitivities – PS25/17](#)

This PS provides feedback to responses to [CP7/17 'Solvency II: Data collection of market risk sensitivities'](#) and includes a link to the final [SS7/17 'Solvency II: Data collection of market risk sensitivities'](#). The PS and SS are relevant to PRA-regulated insurance or reinsurance firms that are most exposed to market risks. These are primarily Category 1 and 2 firms in the life sector, and any other category life firm or general insurance firm, or composite insurance firm that demonstrates material market risk exposures. The SS refers to the year end 31 December 2017: firms' submissions of the completed templates will be the solo Quantitative Reporting Template reporting deadline plus four weeks, ie 18 March 2018 for the first submission.

[Solvency II: Solvency and Financial Condition Report roundtables](#)

From 4-13 September 2017, the PRA hosted three roundtables with insurers, investors, credit analysts, and equity analysts to discuss the first round of Solvency and Financial Condition Reports (SFCRs) published by EU insurers in 2017. This summary of the roundtables sets out the feedback from both the preparers and users of these reports.

[Insurance data release](#)

The PRA has developed tools to analyse the data submitted by firms and this release shares some headline outputs from our high-level analysis. There are two main cohorts in the release: life insurers and general insurers. The metrics are themed around capital, assets and technical provisions (including risk margin). Feedback on the release, and suggestions for future releases are requested

by 31 December 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 November 2017

3 November [Strengthening individual accountability in insurance: extension of the Senior Managers and Certification Regime to insurers – CP14/17](#)

[Occasional Consultation Paper – CP18/17](#) (Chapters 7 and 8)

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

Also in the month

12 October [Rethinking Financial Stability – speech by Andy Haldane](#)

6 October [The Bank of England's FinTech Accelerator: what have we done and what have we learned? - remarks by Andrew Hauser](#)

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 the economy, the financial system and the role of the Bank of England in simple, jargon-free terms. In October, we published an article titled '[Climate change: why it matters to the Bank of England](#)'

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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