



PRA Regulatory Digest

01 – 31 July 2018

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 and speeches

24 July

[Temporary permissions and recognition regimes](#)

On Tuesday 24 July the Bank issued a [News Release 'Temporary permissions and recognition regimes'](#).

HM Government has published a draft of the statutory instrument (SI) that will, subject to parliamentary approval, deliver a temporary permissions regime for EEA firms operating in the UK.

HM Government has also laid in Parliament the separate draft SI that will, subject to parliamentary approval, deliver a temporary recognition regime for non-UK central counterparties (CCPs).

Firms are encouraged to continue engaging with the Bank and PRA on their authorisation and recognition processes, including on how to make best use of the additional time provided by the implementation period in their planning. The Bank and PRA expect to publish further guidance to relevant firms on the temporary permissions and recognition regime in due course, including the notification process for entry.

4 July

[Financial Stability Paper No.44: Risk sensitivity and risk shifting in banking regulation](#)

Vicky Saporta considers the impact of one of the most important post-financial crisis reforms, Basel III, which was completed in December 2017, and goes on to describe what banking regulation will look like in the future.

Accompanying Vicky's speech is a [news release](#) and the [Financial Stability Paper No. 44](#) assessing where the balance has been struck between the robustness and the risk sensitivity of the capital framework.

Cross-cutting publications and updates

5 July

[DP1/18 'Building the UK financial sector's operational resilience'](#)

The Bank of England, PRA and Financial Conduct Authority (FCA) published a [news release](#) on the joint Discussion Paper (DP)1/18 'Building the UK financial sector's operational resilience' in its capacity of supervising financial market infrastructures (FMIs), (collectively 'the supervisory authorities').

The purpose of this DP is to share the supervisory authorities' thinking regarding operational resilience and obtain feedback.

The supervisory authorities will work together to reflect on the feedback as they: develop potential proposals for consultation; develop their respective supervisory approaches; and work with the FPC as it develops its own impact tolerances. The supervisory authorities will also be drawing together existing policy material related to operational resilience in order to support firms and FMIs to build their resilience.

Please send any responses to DP1_18@bankofengland.co.uk by Friday 5 October 2018.

Banking publications and updates

- 31 July Following the publication of [Policy Statement 14/18 'Changes to the PRA's large exposures framework'](#) and an update to [Supervisory Statement \(SS\) 16/13 'Large Exposures'](#), The PRA published updated versions of the CRR Core UK Group template and CRR Non-core criteria template. The templates are available in 'Intragroup exposures applications: CRR Articles 113(6), 400(2)(c), 400(2)(g)-(h) and the leverage ratio Delegated Act Article 429(7)', on the [Capital Requirements Regulation permissions webpage](#).
- 27 July [CP17/18 'Credit risk: the definition of default'](#)
- In this CP, the PRA sets out its proposed approach to implementing the European Banking Authority's (EBA's) recent regulatory products relating to the definition of default in the Capital Requirements Regulation (575/2013) (CRR).
- The proposals are relevant to UK banks, building societies and PRA-designated UK investment firms.
- In accordance with the EBA Opinion on the implementation of the regulatory review of the IRB Approach, the EBA roadmap should be implemented by Thursday 31 December 2020. The proposed implementation date for all of the proposals in this CP is also Thursday 31 December 2020.
- This consultation closes on Monday 29 October 2018.
- The PRA also intends to publish a second CP on the PRA's proposed implementation of the remaining aspects of the EBA roadmap: the Guidelines on probability of default (PD) estimation, loss given default (LGD) estimation and the treatment of defaulted exposures; and the RTS on specification of the nature, severity and duration of an economic downturn. The second CP will be published after the EBA has finalised the relevant regulatory products.
- 24 July [Transition to v2.7 and v2.8 of EBA FINREP taxonomy](#)
- In order to assist firms' planning for their upcoming regulatory reporting requirements, the PRA has produced a graphic explaining when firms should transition to using v2.7 and v2.8 of the EBA's reporting taxonomy for FINREP (see 'EBA regulatory reporting: FINREP reporting taxonomy implications'). The PRA appreciates that where firms align their FINREP reporting to their accounting reference date (ARD) this could cause confusion about when firms should report using v2.7, and then report using v2.8, as while firms' implementation of v2.7 was generally aligned to their ARD, v2.8 has an implementation date of Monday 31 December 2018. This graphic explains how firms can determine when they should use v2.7 and v2.8, based on their ARD, which will enable them to submit their reports via the correct entry point, avoiding submission issues.
- 23 July [CP16/18 'Regulatory reporting: occasional consultation paper'](#)
- In this CP, the PRA sets out proposals for minor regulatory reporting amendments.
- This consultation is relevant to banks, building societies, PRA-designated investment firms, and dormant account fund operator(s). The proposals would result in changes to the Glossary, Regulatory Reporting, Reporting Pillar 2, and Close Links Parts of the PRA Rulebook. It also proposes amendments to reporting templates and instructions. To assist the reader, a mapping table is included in Appendix 2, with the proposed amendments to templates and instructions contained in [SS32/15 'Pillar 2 reporting, including instructions for completing data items FSA071 to FSA082'](#) (Appendix 3), and in [SS34/15 'Guidelines for completing regulatory reports'](#) (Appendix 4).
- This consultation closes on Tuesday 23 October 2018.
- 12 July Interim reporting for the introduction of PRA110
- Following the PRA's email to participating firms, further information has been provided on the timing and basis of interim reporting for the introduction of PRA110, see [Regulatory Reporting – Banking sector webpage](#).
- Systemic Risk Buffers (SRB) and Pillar 2A in stress test hurdle rates
- On Thursday 12 July the PRA issued a statement on ['Systemic Risk Buffers and Pillar 2A in stress test hurdle rates'](#). In 'Key elements of the 2018 stress test' March 2018, the Bank of England noted its intention to change the way hurdle rates are calculated in the annual stress test in four ways. This statement provides further specific details on two of these changes.

10 July	<p>Branch Return Form</p> <p>The PRA published an amended Branch Return Form. The PRA will shortly consult on the change to the existing form. Until then firms are asked to use the amended form. See Branch Return Form.</p>
5 July	<p>Taxonomy and annotated templates for MREL reporting</p> <p>The PRA published v3.1.0 of the Bank of England Banking XBRL taxonomy, alongside related technical artefacts. This taxonomy is to be used for MREL reporting which follows PS11/18 'Resolution planning: MREL reporting', published on Wednesday 13 June 2018. This will take effect from Tuesday 1 January 2019. Please note: the BEEDS system will be used to collect MREL reporting data. Following confirmation from firms of their nominated principal user. Further instructions on how to access BEEDS and an information guide will be sent direct.</p>
4 July	<p>PRA conference for Chairs of Non-Systemic UK Banks and Building Societies</p> <p>Melanie Beaman, Director of UK Deposit Takers, hosted the annual conference for the Chairs of non-systemic UK banks and building societies on Monday 2 July. The conference provided feedback on current regulatory matters, set out the PRA's supervisory strategy and key risks, and highlighted major prudential policy initiatives for 2018.</p>
3 July	<p>CP14/18 'UK leverage ratio: Applying the framework to systemic ring-fenced bodies and reflecting the systemic risk buffer'</p> <p>In this CP the PRA proposes to apply the Systemic Risk Buffer (SRB) framework in the UK leverage ratio framework.</p> <p>This includes a proposal to apply leverage ratio requirements on a sub-consolidated basis to those ring-fenced bodies (RFBs) whose groups are already required to meet leverage ratio requirements on a consolidated basis.</p> <p>In line with the statements (set out on CP14/18 webpage), and to support the implementation of the SRB framework from 2019, the PRA proposes to amend the UK leverage ratio framework to reflect the SRB framework.</p> <p>This CP is relevant to those firms in scope of the UK leverage ratio framework that are also SRB institutions, or part of a group containing an SRB institution.</p> <p>This consultation closes on Tuesday 25 September 2018.</p> <hr/> <p>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.</p>

Insurance publications and updates

31 July	<p>CP18/18 'Strengthening accountability: implementing the extension of the SM&CR to insurers'</p> <p>In this CP, the PRA sets out its proposed rules for a technical correction to the Solvency II firms: Insurance General Application Part of the PRA Rulebook, along with some consequential changes and minor administrative amendments related to the extension of the Senior Managers and Certification Regime (SM&CR or 'the regime') to insurers.</p> <p>The CP should be read in conjunction with PS15/18 'Strengthening individual accountability in insurance: Extension of Senior Managers and Certification Regime to insurers', and FCA PS18/15 'Extending the Senior Managers and Certification Regime to insurers – Feedback to CP17/26 and CP17/41 and near final rules'.</p> <p>This CP is relevant to Solvency II insurers (ie UK Solvency II firms, the Society of Lloyd's and Lloyd's managing agents, and third country (re)insurance branches), insurance special purpose vehicles (ISPVs), large non-Directive firms (NDFs), small NDFs and Swiss general insurers. Some of the proposals outlined in paragraphs 2.4 and 2.11, concerning cross references to the Financial Conduct Authority (FCA) Handbook in the PRA Rulebook and other minor consequential and administrative amendments, are also relevant to other PRA-regulated firms.</p> <p>This consultation closes on Monday 1 October 2018, which is intended to ensure that final rules can be made in advance of implementation so that the industry has certainty on the technical details of the regime prior to commencement on Monday 10 December 2018.</p>
27 July	<p>Modification by consent of the Solvency II Group Supervision rules</p> <p>On Friday 27 July the PRA published a modification by consent of the Solvency II Group Supervision rules 20.1 and 20.2 with reference to US-parented undertakings. Please see 'available waivers and modifications of rules' on the Waivers and modification of rules page.</p>
26 July	<p>PS21/18 'Solvency II: Changes to reporting format'</p> <p>This PS provides feedback to responses to CP11/18 'Solvency II: Changes to reporting format' (see page 2 of 2). It also contains the PRA's final policy, as follows:</p> <ul style="list-style-type: none"> • amendments to the Reporting Part of the PRA Rulebook (Appendix 1); • updated SS25/15 'Solvency II: regulatory reporting, internal model outputs' (Appendix 2) • updated SS26/15 'Solvency II: ORSA and the ultimate time horizon – non-life firms' (Appendix 3)

- updated [SS7/17 'Solvency II: Data collection of market risk sensitivities'](#) (Appendix 4)
- updated [SS15/16 'Solvency II: Monitoring model drift and standard formula SCR reporting for firms with an approved internal model'](#) (Appendix 5).

This PS is relevant to all UK Solvency II firms, and to the Society of Lloyd's and its managing agents.

The changes to the reporting format will be effective for submissions of year-end 2018 information, from Monday 31 December 2018 onwards. For further information and materials, see the [Regulatory reporting – insurance sector webpage](#).

The PRA will release public working drafts and final versions of the relevant technical artefacts in the coming months. On Friday 29 June 2018, the PRA published a web update to provide indicative dates for the availability of the relevant materials required for implementation of the reporting changes.

13 July

The PRA published final policy relating to a [series of improvements to the implementation of Solvency II](#). Including:

- [PS18/18 'Solvency II: Matching adjustment'](#)
- [PS19/18 and SS8/18 'Solvency II: Internal models – modelling of the matching adjustment'](#)
- [PS20/18 'Solvency II: Internal models update', including an update to SS12/16 'Solvency II: Changes to internal models used by UK insurance firms'](#)
- [SS17/16 'Solvency II: internal models – assessment, model change and the role of non-executive directors' has been updated following PS19/18 and PS20/18. This includes a template and LOG file for Quarterly Model Change Reporting \(QMC.01\) available on Regulatory Reporting – Insurance sector](#)
- ['Solvency II: Two and half years on' letter to Chief Actuaries of life insurers from Sid Malik, Head of Division of the PRA Life insurance and Pensions Risk Division.](#)

[PS18/18 'Solvency II: Matching adjustment'](#)

This PS provides feedback on responses to [CP21/17 'Solvency II: Matching adjustment'](#) and provides the final [SS7/18 'Solvency II: Matching adjustment'](#), which sets out the PRA's expectations in respect of firms seeking to apply the matching adjustment (MA) to an eligible portfolio of assets and liabilities.

This PS 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.

[PS19/18 'Solvency II: Internal models – modelling of the matching adjustment'](#)

This PS provides feedback to responses to [CP24/17 'Solvency II: Internal models - modelling of the matching adjustment'](#). It also provides the final [SS8/18](#), of the same title, and an updated version of [SS17/16 'Solvency II: internal models – assessment, model change and the role of non-executive directors'](#).

[PS20/18 'Solvency II: Internal models update'](#)

This PS provides feedback to responses to [CP27/17 'Solvency II: Internal models update'](#) and the final updated expectations of firms in respect of the model change process set out in [SS12/16 'Solvency II: Changes 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 PS 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 with a group internal model.

[Letter from Sid Malik: 'Solvency II: Two and half years on'](#)

Alongside the final policy relating to a series of improvements to the implementation of Solvency II, the PRA published a letter 'Solvency II: Two and half years on' to Chief Actuaries of life insurers from Sid Malik, Head of Division of the PRA Life Insurance and Pensions Risk Division.

12 July

[CP15/18 'Solvency II: Group own fund availability'](#)

In this CP, the PRA sets out its proposed approach to the determination of the availability of group own funds and its expectations on firms in presenting relevant analysis to the PRA. The PRA sets out amendments to [SS9/15 'Solvency II: Group supervision'](#) to reflect the proposed approach (see Appendix).

This consultation is relevant to all insurance firms within the scope of the Solvency II Directive and to the Society of Lloyd's.

This consultation closes on Monday 12 November 2018.

[PS17/18 'Solvency II: Group supervision'](#)

This PS provides feedback on the responses to [CP38/16 'Solvency II: Group supervision'](#), and the final [SS9/15 'Solvency II: Group supervision'](#).

This PS is relevant to all UK insurance firms within the scope of the Solvency II Directive and to the Society of Lloyd's.

[SS9/15](#) sets out the PRA's updated expectations for group supervision and incorporates the PRA's

letter [‘Solvency II: An update on implementation’](#) published on Friday 25 July 2014.

6 July

[PS16/18 ‘Changes in insurance reporting requirements’](#)

This PS provides feedback to responses to [CP2/18 ‘Changes in insurance reporting requirements’](#). It also contains the PRA’s final policy, as follows:

- amendments to the Reporting Part of the PRA Rulebook (Appendix 1)
- [SS6/18 ‘National Specific Templates LOG files’](#) which includes updates to [National Specific Template LOG files](#)
- updated [SS11/15 ‘Solvency II: Regulatory reporting and exemptions’](#) which includes a [modification by consent](#).
- amendments to the Change in Control Part of the PRA Rulebook (Appendix 4).

This PS is relevant to all UK Solvency II firms, the Society of Lloyd’s and its managing agents and mutuals.

The policy relating to NSTs will take effect for all financial year-ends on, or after, Monday 31 December 2018.

The modification by consent for Category 4 and 5 firms (introduced in the updated SS11/15) will apply from quarter 3 2018 onwards.

The policy relating to Annual Controller Reports submitted by mutuals will apply from Saturday 1 September 2018.

4 July

[PS15/18 ‘Strengthening individual accountability in insurance: Extension of the SM&CR to insurers’](#)

This PS provides feedback to responses to [CP14/17 ‘Strengthening individual accountability in insurance: extension of the Senior Managers and Certification Regime to insurers’](#), and [CP28/17 ‘Strengthening accountability: implementing the extension of the SM&CR to insurers and other amendments’](#). It also provides:

- the final rules for the extension of the SM&CR to insurers by amending the Senior Insurance Managers Regime (SIMR) (Appendix 1)
- an updated [SS35/15 ‘Strengthening individual accountability in insurance’](#) (Appendix 2), and terminology updates to other existing Ss ([SS3/17](#), [SS39/15](#), [SS5/16](#), [SS10/16](#) and [SS28/15](#))
- a consolidated [Statement of Policy \(SoP\) ‘Conditions, time limits, and variations of approval’](#) (Appendix 3)
- the streamlined set of forms for the SM&CR, and amendments to Part 4A permissions forms (Appendix 4).

This PS is relevant to all Solvency II insurance firms (UK Solvency II firms, the Society of Lloyd’s and managing agents, and third country (re)insurance branches), and to insurance special purpose vehicles (ISPVs), large non-Directive firms (large NDFs), and small non-Directive firms (small NDFs) (collectively referred to as ‘insurers’). Chapter 3 is relevant to all PRA regulated firms.

This PS should be read in conjunction with [Financial Conduct Authority \(FCA\) PS18/14, FCA PS18/15 and FCA PS18/16](#), which provides feedback to the responses to FCA CP17/26, CP17/41, and CP17/42, and contains the FCA’s equivalent policy to implement the extension of the SM&CR to insurers.

2 July

[CP13/18 ‘Solvency II: Equity release mortgages’](#)

This CP sets out further proposed detail on the PRA expectations in respect of firms investing in equity release mortgage (ERMs) portfolios, as set out in Chapter 3 of [SS3/17 ‘Solvency II: Matching adjustment - illiquid unrated assets and equity release mortgages’](#).

The purpose of the proposals is to ensure that, where firms have invested in ERMs and have approval to use the Matching adjustment (MA) or transitional measure on technical provisions (TMTP), their technical provisions (TPs) are not understated and that their Solvency II and Institute of Chartered Accountants Scotland (ICAS) balance sheets include appropriate allowance for the risks to which they are (directly or indirectly) exposed.

This CP is relevant to insurance and reinsurance companies holding ERMs.

David Rule, Executive Director, Insurance Supervision, PRA wrote a [letter](#) to CEOs confirming the release of CP13/18, proposing updates to SS3/17.

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 August 2018

22 August

[CP12/18 ‘Securitisation: The new EU framework and significant risk transfer’](#)

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

Also in the month

5 July

[From Protectionism to Prosperity](#) - speech by Mark Carney

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

This month, KnowledgeBank includes guides on : ['What is Financial Stability?'](#); ['Is my money safe from cyber-attacks?'](#) and ['What is insurance'](#).

From [interest rates](#) and [inflation](#) through to [bank failures](#) and [financial crises](#), [KnowledgeBank](#) 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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