



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP25/16

The implementation of ring-fencing: reporting and residual matters

July 2016

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Responses are requested by Friday 7 October 2016.

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1 Overview

1.1 The Prudential Regulation Authority (PRA) is required under the Financial Services and Markets Act 2000 (the Act), as amended by the Financial Services (Banking Reform) Act 2013 (the Banking Reform Act) to make policy to implement the ring-fencing of core UK financial services and activities.

1.2 This consultation paper (CP) consists of two parts. Part one of the CP sets out the PRA's proposals for the data it intends to collect in connection with ring-fencing, in addition to the data already required under the broader regulatory regime or as a consequence of the PRA's ring-fencing policy. The proposals in part one build on the preliminary discussion set out in CP37/15 'The implementation of ring-fencing: prudential requirements, intragroup arrangements and use of financial market infrastructures',¹ which included a chapter setting out the PRA's preliminary views on certain potential reporting requirements.

1.3 Part two of this CP sets out the PRA's proposals in respect of additional matters relating to ring-fencing on which the PRA has decided to consult. These include proposals to implement the expectation in CP37/15 that a UK parent of a ring-fenced body (RFB) should not make use of double leverage to fund its investment in an RFB or other entities in an RFB sub-group,² and to comply with the Financial Policy Committee's (FPC) recommendation of 13 May 2016 in relation to the systemic risk buffer (SRB) framework.³

1.4 This CP is one of two publications issued by the PRA on 7 July 2016 relating to ring-fencing. The other ring-fencing publication, Policy Statement (PS) 20/16 'The implementation of ring-fencing: prudential requirements, intragroup arrangements and use of financial market infrastructures',⁴ sets out the PRA's feedback to responses received to its proposals in CP37/15. The appendices to PS20/16 set out the final rules and supervisory statements to implement the proposals consulted on in CP37/15 and the near-final rules and supervisory statements set out in PS10/15.⁵ The appendices to PS20/16 also include updated versions of certain PRA publications to incorporate changes in relation to the proposals consulted on in CP37/15.

1.5 The PRA has also published PS21/16 'Ensuring operational continuity in resolution' which may be relevant to banking groups required to implement ring-fencing.⁶ PS21/16 sets out the PRA's final policy aimed at ensuring firms' operational arrangements facilitate continuity of critical services supporting functions critical to the economy in resolution, consulted on in CP38/15.⁷

1 PRA Consultation Paper 37/15 'The implementation of ring-fencing: prudential requirements, intragroup arrangements and use of financial market infrastructures', October 2015: www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp3715.aspx.

2 An RFB sub-group is a subset of related group entities within a consolidated group, consisting of one or more RFBs and other legal entities, which is established when the PRA gives effect to Article 11(5) of the Capital Requirements Regulation (CRR).

3 Record of the Financial Policy Committee meeting, 13 May 2016: www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2016/record1605.pdf.

4 PRA Policy Statement PS20/16 'The implementation of ring-fencing: prudential requirements, intragroup arrangements and use of financial market infrastructures', July 2016: www.bankofengland.co.uk/pr/Pages/publications/ps/2016/ps2016.aspx.

5 PRA Policy Statement PS10/15 'The implementation of ring-fencing: legal structure, governance and the continuity of services and facilities', May 2015: www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps1015.aspx.

6 PRA Policy Statement PS21/16 'Ensuring operational continuity in resolution', July 2016: www.bankofengland.co.uk/pr/Pages/publications/ps/2016/ps2116.aspx.

7 PRA Consultation Paper 38/15 'Ensuring operational continuity in resolution', October 2015: www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp3815.aspx.

1.6 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 banks and banking groups which may approach this threshold over time. This CP will also be of interest to financial and other institutions, and customers who have dealings with these banking groups.¹

1.7 The policy contained in the underlying rules and supervisory statements has been designed in the context of the current UK and EU regulatory framework. It will come into effect on 1 January 2019. The PRA will keep the policy under review to assess what changes would be required due to intervening changes in the UK regulatory framework, including as a result of the referendum on 23 June 2016.

Structure of the CP

1.8 Part one of this CP focuses on reporting requirements for RFBs. Part two focuses on additional matters relating to ring-fencing on which the PRA has decided to consult. The CP is structured as follows:

Part one

- (a) Chapter 2 sets out the PRA's approach to reporting requirements for RFBs.
- (b) Chapter 3 sets out proposals to extend all non-Capital Requirements Regulation (CRR)² reporting requirements that currently apply on a consolidated basis to banking groups affected by ring-fencing to an RFB sub-group. This will enable the PRA to monitor the adequacy of an RFB sub-group's financial resources.
- (c) Chapter 4 sets out proposals for new reporting by an RFB sub-group of transactions with group entities that are not members of the RFB sub-group. Detailed information on these transactions will enable the PRA to assess potential dependencies of an RFB sub-group on, and risks to the sub-group emanating from, group entities that are not members of the RFB sub-group.
- (d) Chapter 5 sets out proposals for new reporting requirements to monitor an RFB's use of exceptions to excluded and prohibited activities under the Excluded Activities and Prohibitions Order (the Order).³ The proposed reporting requirements will enable the PRA to supervise an RFB's compliance with these provisions and help enable the PRA to report on compliance by RFBs with certain ring-fencing provisions in the PRA Annual Report, as required by the Act.⁴
- (e) Chapter 6 sets out proposals for new reporting requirements to monitor an RFB's compliance with specific PRA ring-fencing rules, and the extent to which an RFB has acted in accordance with certain PRA supervisory statements.

1 The PRA has a dedicated webpage on ring-fencing and structural reform, which includes background, key changes, a table summarising policy development and updates on implementation, see www.bankofengland.co.uk/pras/pages/supervision/structuralreform/default.aspx.

2 Regulation (EU) No 575/2013.

3 SI 2014/2080 The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014.

4 The requirement for the PRA to report on ring-fencing matters is set out in paragraph 19(1A) to schedule 12B of the Act.

Part two

- (a) Chapter 7 sets out proposals to adjust a group's consolidated requirements to take account of the sub-consolidated prudential requirements of an RFB sub-group. These proposals implement the expectation in CP37/15 that a UK parent of an RFB should not use double leverage to fund its investment in an RFB or other entities in an RFB sub-group. The proposals also comply with the FPC recommendation of 13 May 2016 in relation to the SRB framework by raising the consolidated PRA buffer by an appropriate amount to ensure there is sufficient capital within the consolidated group, and distributed appropriately across it, to address both the global systemic risks and domestic systemic risks.
- (b) Chapter 8 sets out proposals for a supervisory expectation that an RFB sub-group should consider the failure of group entities that are not members of the RFB sub-group when undertaking reverse stress testing.
- (c) Chapter 9 sets out proposals for a supervisory expectation that a group containing an RFB should include, in its group recovery plan, recovery options to be taken at the level of the RFB sub-group. This will ensure that an RFB sub-group has credible recovery actions to implement in the event of severe stress.
- (d) Chapter 10 sets out proposals clarifying the PRA's operational continuity policy in respect of access to financial market infrastructures (FMIs).

1.9 Proposed amendments to PRA rules, supervisory statements and other PRA publications (including to the final rules and supervisory statements included in the appendices to PS20/16) are set out in the appendices to this CP.

Responses and next steps

1.10 This consultation closes on 7 October 2016. The PRA invites feedback on the proposals set out in this CP. Please address any comments or enquiries to CP25_16@bankofengland.co.uk.

1.11 The PRA also invites firms to include in their responses their own assessment of the impact of the proposals set out in this CP.

Firms' preparations for ring-fencing

1.12 The proposals in this CP, together with the final rules and statements in the appendices to PS20/16 and the final policy in PS21/16, provide banking groups that will be required to implement ring-fencing with the information they need to finalise their plans.

1.13 Firms required to implement ring-fencing, ie those which have core deposits in excess of the threshold of £25 billion, should continue to discuss their overall implementation of ring-fencing with their supervisors. Firms should also highlight any changes to their plans made as a result of this CP to their supervisors. Firms with growth plans which indicate they are likely to meet this threshold should discuss with their supervisors.

Part one

2 The PRA's approach to reporting requirements for RFBs

2.1 The Banking Reform Act amended the PRA's general safety and soundness objective in relation to ring-fencing and RFBs (see Box 1 on page 10). The PRA will seek to ensure the continuity of the provision of core services by implementing ring-fencing:

- with regards to the **resilience** of an RFB to risks, by seeking to ensure that the activities of an RFB are restricted and that the RFB has a degree of protection from shocks that originate in other parts of its group or the global financial system; and
- in a way that facilitates orderly **resolution** in the event that either an RFB or another member of its group fails, and supports the continuity of core services thereafter.

2.2 As confirmed in PS20/16, the PRA's approach to ensuring the resilience and resolvability of an RFB will be to:

- require an RFB to comply with prudential requirements on the basis of the sub-group of entities which includes the RFB – known as the RFB sub-group – in most circumstances. This will ensure that an RFB, together with the other entities in its RFB sub-group - known as ring-fenced affiliates¹ - have sufficient resources to meet the requirements arising from the risks in that sub-group; and
- make rules to monitor the boundary between the RFB sub-group and group entities that are not members of the RFB sub-group by ensuring appropriate management of the risks that arise from permitted intragroup relationships. In particular, an RFB sub-group is required to apply the same standards of management to transactions and exposures with a member of its group that is not a ring-fenced affiliate as it would to a third party.²

2.3 The PRA generally expects to undertake supervisory activities specifically in relation to an RFB sub-group, as well as in the context of its overall group. The reporting proposals in this CP support the implementation of the policy confirmed in PS20/16 by facilitating the supervision of the RFB sub-group and the monitoring of its relationship with other parts of its group.

2.4 The proposals in this CP do not preclude the PRA from making use of other sources of information, such as management information, financial accounts and other ad hoc data requests, to support supervision. An RFB should therefore expect to provide this information at the sub-group level and to respond to requests for this information as part of business-as-usual supervision.

2.5 The majority of reporting requirements for an RFB follow automatically from the PRA's decision to apply prudential requirements to an RFB on a sub-consolidated basis using CRR Article 11(5). Where prudential requirements are applied on a sub-consolidated basis, a credit institution is required to meet the reporting and disclosure requirements contained within Parts Two to Four and Six to Eight of the CRR on a sub-consolidated basis. Consistent with this, the PRA's view is that all existing rule-based (eg non-CRR) reporting requirements that apply

¹ A ring-fenced affiliate, in relation to an RFB, is an entity which is a member of an RFB sub-group which is not itself an RFB.
² Ring-fenced Bodies 3.5 of the PRA Rulebook.

on a consolidated basis to banking groups affected by ring-fencing should also be applied to an RFB sub-group. These proposals are outlined in Chapter 3.

2.6 The PRA will also need data to monitor any risks to an RFB sub-group from, and any dependencies of an RFB sub-group on, group entities that are not members of the RFB sub-group. The Act requires the PRA to make reporting rules in relation to transactions between an RFB and other members of its group. Most of the related data will be covered by existing reporting requirements or under the proposals outlined in Chapter 3. Where these do not provide sufficiently granular data on intragroup transactions, the PRA is proposing additional, supplementary reporting. These proposals are outlined in Chapter 4.

2.7 Other reporting proposals set out in Chapters 5 and 6 will enable the PRA to monitor an RFB's use of exceptions under the Order and its compliance with PRA ring-fencing rules set out in the Ring-fenced Bodies Part of the PRA Rulebook. Data regarding the former are required by the PRA to help meet its obligations set out in the Act to report annually on compliance by RFBs with certain ring-fencing provisions.¹

2.8 When making rules and general policies to set new reporting requirements, the PRA is required to have regard to the eight regulatory principles set out in section 3B of the Act. These include the principle that *'a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction.'*

2.9 All new reporting requirements proposed in this CP have been designed in such a way that they do not duplicate unnecessarily information which firms may already provide. The PRA has based the design of proposed reporting requirements for an RFB on existing templates and definitions where possible. For example, the intragroup reporting proposals described in Chapter 4 are based on existing CRR Common Reporting (COREP) and Financial Reporting (FINREP) templates and definitions. The PRA considers that this approach will lessen the reporting burden on an RFB as firms should already have systems in place to produce data for these templates. The PRA has also considered the frequency of reporting to ensure that it is proportionate. The proposed frequency is set out in each chapter.

2.10 Where the PRA has proposed new reporting which is not based on existing templates and definitions (for example to monitor the use of exceptions by an RFB), it has been designed to provide sufficient information to allow the PRA to identify where firms are potentially not compliant, or are taking on risks that might adversely affect the continuity of provision of core services. This may in turn trigger further investigation and additional information requests. More detail on the PRA's proposed reporting on the use of exceptions by an RFB is contained in Chapter 5, and on the PRA's statutory obligations in Chapter 11.

2.11 Table 1 on page 12 provides a summary of all new reporting requirements proposed in this CP.

1 The requirement for the PRA to report on ring-fencing matters is set out in paragraph 19(1A) to schedule 12B of the Act.

Box 1: The PRA's objectives in respect of ring-fencing¹ and the group ring-fencing purposes²

The Banking Reform Act amends the PRA's general safety and soundness objective to the effect that, when discharging its general functions in relation to ring-fencing, RFBs and groups containing RFBs, the PRA should seek to:

- ensure that the business of RFBs is carried on in a way that avoids any adverse effect on the continuity of the provision in the United Kingdom of core services;
- ensure that the business of RFBs is protected from risks (arising in the United Kingdom or elsewhere) that could adversely affect the continuity of the provision in the United Kingdom of core services; and
- minimise the risk that the failure of an RFB or of a member of an RFB's group could affect the continuity of the provision in the United Kingdom of core services.

The legislation also requires the PRA to make rules to ensure the effective provision to an RFB of services and facilities it requires in relation to carrying on a core activity (which is the regulated activity of accepting deposits) and to make provision for group ring-fencing purposes, which are to ensure as far as reasonably practicable that:

- the carrying on of core activities by an RFB is not adversely affected by the acts or omissions of other members of its group;
- in carrying on its business an RFB:
 - is able to take decisions independently of other members of its group; and
 - does not depend on resources which are provided by a member of its group and which would cease to be available to the RFB in the event of the insolvency of the other member; and
- the RFB would be able to continue to carry on core activities in the event of the insolvency of one or more other members of its group.

The PRA's general approach to implementing ring-fencing focuses on the outcomes to be achieved, which are informed by the PRA's amended general safety and soundness objective in relation to ring-fencing and the group ring-fencing purposes. The PRA has made provision for the group ring-fencing purposes in the draft rules. The PRA's amended objective and the group ring-fencing purposes are also reflected in the PRA's group restructuring powers.³

1 See section 2B of the Act, as amended by the Banking Reform Act.

2 See section 142H of the Act, as amended by the Banking Reform Act.

3 See section 142K of the Act, as amended by the Banking Reform Act.

Application of requirements on a consolidated basis

2.12 Chapter 3 of SS8/16 'Ring-fenced bodies (RFBs)'¹ notes that the PRA will consider granting rule modifications to enable an RFB to meet the PRA's ring-fencing rules and related policy on a UK consolidated basis where the composition of the UK group meets the PRA's expectations on the composition of an RFB sub-group. When the PRA is considering what rule modifications would be appropriate in a specific case, the process would include a review of how the reporting rules related to ring-fencing should apply in that case. Modifications to the reporting rules may be appropriate depending on the purpose of the reporting requirement.

- The reporting requirements proposed in Chapter 3 would not apply where no RFB sub-group is formed.
- If the PRA applies ring-fencing rules and related policy on a UK consolidated basis to a particular RFB, then the reporting requirements proposed in Chapters 4 and 6 would also be applied on a UK consolidated basis, unless there are reasons why that would be disproportionate. For example, if there are no material entities outside the UK consolidation group, then it may not be appropriate to apply the full set of reporting requirements on intragroup transactions at a UK consolidation group level.
- The reporting requirements proposed in Chapter 5 apply to an RFB at an individual level regardless of whether ring-fencing rules are applied on an individual, a sub-consolidated or a UK consolidated basis.

Reporting Systems

2.13 The PRA expects that the data described in this CP will be collected by electronic means, as for other regulatory reporting.

¹ PRA Supervisory Statement 8/16 'Ring-fenced bodies', July 2016: www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss816.aspx.

Table 1: Summary of reporting requirements proposed in this CP

New data item	Chapter reference	Proposed reporting	Proposed data series frequency	Level of application
Prudential supervision of RFB sub-group				
NA	Chapter 3	All reporting currently collected (or proposed for collection in CP17/16) at consolidated group level.	As per existing reporting	RFB sub-groups
Intragroup dependencies				
PRA109	Chapter 4 (paras 4.6 – 4.9)	New templates to collect data on intragroup exposures and credit risk mitigation (CRM), based on the COREP large exposures templates (C28.00 and C29.00).	Quarterly	RFB sub-groups
PRA110	Chapter 4 (paras 4.10 – 4.11)	New templates to collect data on intragroup funding transactions, based on the COREP funding template (C67.00).	Quarterly	RFB sub-groups
PRA111	Chapter 4 (paras 4.12 – 4.13)	New templates to collect data on core intragroup balance sheet and profit and loss items, based on FINREP templates and definitions.	Quarterly	RFB sub-groups
PRA112	Chapter 4 (paras 4.12 – 4.13)	New templates to collect detailed breakdowns of intragroup balance sheet and profit and loss items, based on FINREP templates and definitions.	Annually	RFB sub-groups
Excluded Activities and Prohibitions				
PRA116	Chapter 5	High level reports on total use of each exception by the RFB.	Annually	Individual RFB
Specific PRA ring-fencing rules or supervisory statements				
PRA114	Chapter 6 (paras 6.2 – 6.5)	Report on the amount of excluded activities conducted by RFB sub-group members.	Annually	RFB on behalf of the RFB sub-group
NA	Chapter 6 (para 6.4)	Requirement to submit organogram showing any unregulated entities that are included in the RFB sub-group, including any subsidiaries of the RFB.	Annually	RFB on behalf of the RFB sub-group
PRA115	Chapter 6 (paras 6.6 – 6.10)	High level report on level of usage of FMIs by an RFB and RFB sub-group members.	Annually	RFB on behalf of the RFB sub-group
PRA113	Chapter 6 (paras 6.11 – 6.13)	High level report on Value Added Tax (VAT)/Bank Levy payable by both group and RFB sub-group	Annually	RFB on behalf of the RFB sub-group
NA	Chapter 6 (paras 6.14 – 6.15)	Requirement to notify PRA when approaching the core deposit threshold	NA	Individual banks
NA	Chapter 6 (paras 6.16 – 6.17)	Credit Valuation Adjustment (CVA) attestation requirement to cover intragroup CVA	Annually	RFB and RFB sub-group

3 Supervision of prudential requirements at RFB sub-group level

3.1 As set out in Chapter 3 of SS8/16, the PRA will require an RFB to meet prudential requirements on a sub-consolidated basis when an RFB sub-group is formed. Formation of a sub-consolidated group has consequences for reporting and disclosure requirements under the CRR. In addition, the PRA considers that other reporting requirements outside the CRR but within the PRA's reporting regime that apply on a consolidated basis to a banking group affected by ring-fencing should also be applied to an RFB sub-group.

CRR harmonised reporting requirements

3.2 When prudential requirements are applied on a sub-consolidated basis using CRR Article 11(5), a credit institution must meet the reporting and disclosure requirements contained within Parts Two to Four and Six to Eight of the CRR on a sub-consolidated basis. This means that COREP reporting requirements and Pillar 3 disclosure requirements will apply to an RFB sub-group under the CRR.

3.3 FINREP reporting may also be required from an RFB sub-group under the CRR, but this depends on the structure and accounting arrangements of the sub-group.¹ The PRA considers that FINREP is a key source of supervisory data for groups applying international financial reporting standards (as those groups potentially affected by ring-fencing currently do) as it provides detailed information on the statement of profit or loss and balance sheet, and therefore the financial strength, of a firm. The PRA therefore considers that FINREP will be necessary for the prudential supervision of an RFB sub-group.

3.4 Similarly, the PRA considers that the submission of audited consolidated financial statements to the PRA will be necessary for supervisory purposes, as this helps to ensure that elements of an RFB sub-group's own funds calculations derived directly from financial statements are subject to an appropriate level of external audit and audit committee oversight. The PRA therefore proposes a supervisory expectation that it will require an RFB sub-group to submit FINREP templates and audited consolidated financial statements if it would not otherwise be required to do so.

PRA Rulebook reporting requirements

3.5 The PRA proposes that the following reporting returns be reported by an RFB on a sub-consolidated basis:

- FSA005 (Market risk) provides the PRA with information on Risks not in VaR (RNiV) on a standardised basis. This reporting enables the PRA to ensure that own funds are held to meet all risks which are not captured, or not captured adequately, by the firm's Value at Risk (VaR) and stressed VaR (sVaR) models;
- FSA017 (Interest rate gap report) provides the PRA with sufficient information to understand the interest rate sensitivity of a firm's assets and liabilities;
- FSA045 (IRB portfolio risk) enables the PRA to undertake peer analysis of Internal Ratings Based (IRB) portfolios by asset class. The template would only be required for firms on the Foundation or Advanced IRB approaches; and

1 The scope of FINREP reporting is set out in CRR Article 99.

- Prudent Valuation Returns.

3.6 The PRA proposes that the frequency of reporting of the above returns should be aligned to existing reporting on a consolidated group basis. For FSA005, FSA017 and FSA045 this would be on a half yearly basis. For Prudent Valuation Returns, this would be on a quarterly basis.

3.7 CP17/16 'Regulatory reporting of financial statements, forecast capital data and IFRS 9 requirements'¹ set out proposals for future reporting of balance sheet, statement of profit or loss (P&L) and forecast capital data. Those proposals are currently under consultation, and the rules on those areas will be finalised in due course. In line with the proposals made above, the PRA proposes that any reporting requirements in these areas that are applied on a consolidated basis should also be applied to an RFB on a sub-consolidated basis. If the proposals made in CP17/16 are adopted, this would mean an RFB would be required to submit:

- certain memorandum items on derivative and off-balance sheet business, using the new PRA108, on a sub-consolidated basis;
- forecasts of balance sheet and P&L data, using the new PRA104, PRA105, PRA106 and PRA107, on a sub-consolidated basis; and
- actual and forecast capital data on a sub-consolidated basis, using one of the templates PRA101, PRA102 and PRA103, with the choice of template determined by the same thresholds proposed in CP17/16 to be applied at consolidated level.

3.8 The PRA proposes that the frequency of reporting for the above requirements will be aligned to the frequency of reporting required from UK consolidation groups. If, following the consultation process for CP17/16, any changes are made to the rules proposed in that CP, then the reporting requirements for an RFB on a sub-consolidated basis on these topics would change accordingly.

3.9 CP17/16 also discusses potential changes to FSA015 (Sectoral information) in light of the introduction of International Financial Reporting Standard 9 (IFRS 9). Pending the outcome of the review of FSA015, the PRA does not propose extending FSA015 to RFB sub-groups at this stage.

Remuneration reporting requirements

3.10 Ring-fenced Bodies 18 of the PRA Rulebook requires an RFB to comply with the Remuneration Part of the PRA Rulebook on a sub-consolidated basis. The Remuneration Part requires firms to submit certain information relating to Remuneration Benchmarking and High Earners reporting to the PRA on an annual basis. At the UK consolidated group level, firms currently satisfy this requirement by submitting data using a pre-defined template. The PRA does not expect an RFB to submit information on a sub-group basis using these pre-defined templates. The PRA proposes a supervisory expectation that it will collect these data as part of the existing annual group review procedures.

¹ PRA Consultation Paper 17/16 'Regulatory reporting of financial statements, forecast capital data and IFRS 9 requirements' April 2016: www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp1716.aspx.

4 Intragroup transactions

4.1 In addition to data required for the prudential supervision of an RFB sub-group, the PRA will need data to monitor any risks to an RFB sub-group from, and any dependencies of an RFB sub-group on, group entities that are not members of the RFB sub-group. These data will also enable the PRA to monitor the extent to which an RFB has, as far as reasonably practicable, applied the same standards of management to its exposures to and transactions with any member of its group that is not a ring-fenced affiliate as it would to any person that is not a member of its group, as required by ring-fencing policy.¹

4.2 Section 142H(5)(c) of the Act also requires the PRA to make rules requiring the disclosure to the PRA of information relating to transactions between an RFB and other members of its group ('intragroup transactions'). The proposed reporting requirements outlined in this chapter will also meet this legal obligation.

4.3 CP37/15 discussed requiring new reporting templates for this purpose based on existing COREP and FINREP returns. The feedback received on CP37/15 was supportive of this approach. This chapter now sets out proposals in this area.

4.4 The preliminary view outlined in CP37/15 was that these data should be collected on both an individual and sub-consolidated basis. However, the PRA considers that applying this requirement at the sub-group level is more closely aligned with the scope of the rules in PS20/16. The proposals in this chapter will therefore be applied to an RFB sub-group only, or to an RFB where no RFB sub-group is formed.

Intragroup exposures and funding transactions

4.5 The PRA will need data on an RFB sub-group's intragroup exposures, associated collateral and funding transactions. This will enable the PRA to assess the likely impact on the RFB sub-group of an insolvency of another group entity and any dependency of the RFB sub-group on intragroup funding.

Exposures

4.6 The existing COREP templates for large exposures (C28.00 and C29.00) will provide a breakdown of an RFB sub-group's exposures to the rest of its group, by entity and exposure type, where the gross exposure to the group of connected counterparties (GCC) exceeds the specified reporting threshold.² If, however, the RFB sub-group's exposures to the rest of its GCC fell below the reporting threshold, no data on intragroup exposures would be reported.

4.7 The PRA therefore proposes new templates to collect data on all exposures to intragroup entities, including those which fall below the current COREP reporting thresholds. The same definitions and breakdowns as those currently used in COREP would apply to these new reporting requirements, and the new templates will only require exposures not currently reported under COREP to be included. This information would be collected on a quarterly basis, to the same reporting schedule as the corresponding COREP templates. In line with the structure of the COREP templates, the proposed templates will require an RFB sub-group to report its exposures to each intragroup counterparty by exposure type.

¹ Ring-fenced Bodies 3.5 of the PRA Rulebook.

² The COREP reporting threshold is 10% of eligible capital, but for FINREP reporters this is reduced to €300 million or 10% of eligible capital, whichever is lower.

Collateral

4.8 The PRA will also need data to monitor the use of collateral for intragroup exposures. This will support the PRA's assessment of the likely impact on an RFB sub-group of an insolvency of another group entity. It will also support the PRA's assessment of the extent to which an RFB has applied the same standards of management to collateral received from group entities that are not members of the RFB sub-group as it would to any person that is not a member of its group, as required by ring-fencing policy.

4.9 The COREP large exposure template C28.00, together with the new templates proposed in paragraph 4.7, will provide some data on levels of intragroup exposures and the level of credit risk mitigation (CRM), but the PRA will require more granular data on collateral securing intragroup exposures. The PRA therefore proposes a new template to provide a more granular breakdown of the CRM techniques provided under COREP template C28.00 for intragroup exposures. This new template will use existing CRR definitions and would be submitted on a quarterly basis as part of the new intragroup exposures data item.

Funding

4.10 The COREP template on concentration of funding by counterparty (C67.00) provides aggregated data on amounts of intragroup funding provided by the GCC, where the aggregate amount exceeds the reporting threshold. In this case, however, the COREP template does not require entity level data. The PRA therefore proposes to introduce new reporting templates to collect data on funding provided by intragroup counterparties, broken down by individual entity, whether or not the amount exceeds the current COREP reporting thresholds. The PRA proposes to use the same breakdown and definitions as the corresponding COREP template, but a currency breakdown would not be required.

4.11 The PRA proposes that this template be submitted on a quarterly basis, less frequently than the COREP funding data, but to the same reporting schedule as intragroup exposures data. The proposed funding reporting template will require an RFB sub-group to report its funding from each intragroup counterparty, broken down by counterparty sector and location, product type and amount received. The proposed reporting template will also provide data on the weighted average initial and residual maturity of each funding transaction.

Intragroup financial reporting (FINREP)

4.12 The PRA will need aggregate financial data related to intragroup assets, liabilities, income and expenses to assess any potential dependencies of an RFB sub-group on other group entities. In particular, this will provide information to help assess any potential reliance on intragroup and shared customer income as well as providing additional information on other intragroup transactions, such as intragroup derivatives. This will help the PRA understand the extent to which transactions with intragroup counterparties could be replaced by transactions with third parties if necessary.

4.13 The PRA therefore proposes new templates based on existing FINREP returns.¹ The proposed new templates only contain cells relevant to intragroup transactions. The PRA proposes that four of these templates: (i) balance sheet statement: assets; ii) balance sheet statement: liabilities; iii) statement of profit or loss; and iv) statement of comprehensive

¹ www.eba.europa.eu/regulation-and-policy/supervisory-reporting/implementing-technical-standards-on-proposed-amendments-to-finrep-ifs-due-to-ifs-9.

income should be submitted on a quarterly basis. The PRA proposes that the remaining sixteen templates be submitted on an annual basis.

5 Use of exceptions to excluded activities and prohibitions

5.1 The Act prohibits an RFB from undertaking excluded activities, and specifies that this includes the regulated activity of dealing in investments as principal. The Order¹ additionally defines commodity trading as an excluded activity, and makes a number of prohibitions with which an RFB must comply, such as incurring exposures to certain other relevant financial institutions. However a number of these exclusions and prohibitions are subject to exceptions which allow an RFB to carry out certain activities it would otherwise be prevented from undertaking. The Act² requires the PRA to include an assessment within its Annual Report to Parliament of the extent to which RFBs have used the exceptions set out in the Order.

5.2 The PRA proposes to require data to enable the PRA to monitor an RFB's use of the exceptions under the legislation and to help the PRA meet its obligation to report to Parliament. As set out in Table 1 on page 12, these data will normally be required annually for the calendar year to 31 December. As the PRA's first statement on this matter will be published in mid-2019, supervisors will discuss with firms the extent and nature of data required to cover the initial period from 1 January 2019.

Approach to reporting

5.3 In line with the approach described in Chapter 2, the PRA aims to use these data to identify whether further information is required.

5.4 As the restrictions placed by the legislation apply to an individual RFB, the PRA proposes to collect data from each RFB at an individual level, rather than from an RFB sub-group. As discussed in Chapter 6, another template will collect data on the extent to which ring-fenced affiliates are conducting excluded activities or undertaking prohibitions. Reporting is proposed at an annual frequency.

5.5 The PRA has considered existing data reported by firms (including, for example, transaction level data reported under the European Market Infrastructure Regulation³ and the Markets in Financial Instruments Directive⁴) when developing these reporting requirements. The PRA does not consider that the existing reporting is sufficiently aligned to the definitions of the exceptions contained within the Order.

5.6 The proposed reporting templates cover the majority of exceptions contained within the Order. The PRA has not proposed new reporting requirements where existing reporting requirements (or other proposals made within this CP) are expected to provide sufficient information. For example, the PRA has not proposed reporting requirements to monitor an RFB's use of the liquid assets exception as this can be monitored through existing processes for liquidity reviews. The PRA has also not proposed regular structured reporting where, in its view, it would lead to costs that would be disproportionate to risks involved in the activity being monitored or where there is no ongoing need for data.⁵

1 SI 2014/2080 The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014.

2 In paragraph 19(1A), Schedule 1ZB.

3 Regulation (EU) No 648/2012.

4 Directive No 2004/39/EC.

5 The transitional provision in article 21 of the Order only applies for a two year period, so the PRA has not proposed a rule requiring reporting on this provision, but may request data on an ad hoc basis to monitor investments held or sold under this provision during 2019 and 2020.

5.7 Reporting on the use of exceptions will also be underpinned by existing PRA rules. Under existing notification requirements,¹ a firm must notify the PRA if it becomes aware of any breaches, or potential future breaches, of requirements imposed by the Act or by an order made under the Act. An RFB would therefore need to notify the PRA if it conducted a transaction or incurred an exposure that is prohibited under the Order.

Proposed reporting on the use of exceptions

5.8 Table 2 summarises the proposed reporting templates to monitor an RFB’s use of the exceptions.

Table 2: Summary of proposed templates on use of exceptions

Template	Data collected	Relevant articles from the Order
Risk management transactions	<ul style="list-style-type: none"> Commodity trading Position risk requirement (PRR), notional amount and carrying amount for hedging transactions End-period exposures to FMI related to hedging risk 	Articles 5(1), 6(1), 6(2), 14(2), 14(3), 14(5)
Collateral transactions	<ul style="list-style-type: none"> Data on transactions of collateral for use in hedging transactions Use of security interest over investments and commodities Title transfer collateral arrangements in relation to investments and commodities 	Articles 5(3), 6(3)(b), 6(6)
Dealing in shares and debentures	<ul style="list-style-type: none"> Specific transactions as allowed under the Order 	Articles 6(4), 6(5)
Securitisations and covered bonds	<ul style="list-style-type: none"> Exposures relating to own originated securitisations and covered bonds, and third-party issued covered bonds. 	Articles 6(3)(a), 7, 16
Transactions with central banks	<ul style="list-style-type: none"> Transactions with central banks 	Article 8
Customer derivatives	<ul style="list-style-type: none"> Position risk requirement (PRR), notional amount and carrying amount for derivatives provided to customers Data required to calculate ratios defined in Article 12 	Articles 9, 10, 11, 12
Trade finance	<ul style="list-style-type: none"> Trade finance exposures 	Article 15
Exposures to conduits	<ul style="list-style-type: none"> Exposures to conduits 	Articles 17

5.9 Where an RFB has not used a particular exception during the reporting period, firms can indicate this on the relevant reporting template. Where a particular transaction in investments or in commodities is permitted under more than one of the exceptions outlined in Articles 5(2)-12, and Article 21 of the Order, firms should only report under one exception. Similarly, where an RFB’s exposure to a relevant financial institution is permitted under more than one of the exceptions outlined in Articles 14-19, and Article 21, of the Order, firms should report under one exception only.

¹ See 2.4 of the Notifications Part of the PRA Rulebook.

6 Ring-fencing rules and supervisory statements

6.1 The PRA will also need data to monitor an RFB's compliance with PRA rules and the extent to which an RFB has acted in accordance with PRA supervisory statements, where these data are not already received under existing reporting requirements or under the proposals in Chapters 3 to 5. This chapter sets out the additional templates the PRA proposes for this purpose.

Sub-group entities which perform excluded activities

6.2 Chapter 2 of SS8/16 sets out the PRA's supervisory expectation that an RFB should not have ownership rights or hold capital instruments in an entity that carries out activities that, if it were an RFB, would amount to activities that would contravene a prohibition or be excluded activities under the Act (an 'excluded activity entity'). This restriction reduces the risk of losses associated with international or investment banking activity weakening an RFB. As a result, SS8/16 states that the PRA expects an RFB sub-group not to contain ring-fenced affiliates that are excluded activity entities.

6.3 SS8/16 also states that the PRA will adopt this approach in a manner it considers proportionate to achieve the outcomes set out by the group ring-fencing purposes. Given this, the PRA proposes a rule requiring an RFB to report on the extent to which such activities are taking place in the sub-group, where this is permitted by the PRA.

6.4 For each overarching category of prohibition or excluded activity,¹ the PRA proposes a new template to collect data on any excluded activities or prohibited exposures undertaken by ring-fenced affiliates (excluding RFBs), net of the use of exceptions. In addition, the PRA proposes that an RFB should submit organograms that show any unregulated entities that are included in the RFB sub-group, or are subsidiaries of the RFB.

6.5 This information will enable the PRA to monitor the extent to which the ring-fence may be undermined by the activities of members of the RFB sub-group. Such reporting will help identify areas that require further supervisory investigation.

Participation in financial market infrastructures (FMIs)

6.6 Article 13 of the Order prohibits an RFB from entering into any transaction that requires the use of services provided through an inter-bank payment system unless it is a direct participant in the system, or it meets at least one of a number of specified conditions. One of these conditions is that the PRA has, following an application made by an RFB, granted permission for the RFB to access the payment system through an intermediary proposed by the RFB.²

6.7 The Order specifies that the PRA may grant such permission only when the RFB needs to access the services provided by the payment system in question due to 'exceptional circumstances'. In Chapter 9 of SS8/16 the PRA defines as 'exceptional circumstances':

-
- 1 The proposed four categories are: dealing in investments as principal and commodities trading (excluding derivatives); Dealing in investments as principal and commodities trading: derivatives transactions; financial institution exposures excluding capital holdings; and relevant financial institution exposures: capital holdings.
 - 2 The other conditions are that: (i) the intermediary through which the RFB accesses the payment system is another RFB within the same group which is a direct participant in that system; (ii) the RFB is not eligible to become a direct participant under the payment system's rules; and (iii) should the intermediary through which the RFB accesses the payment system cease to be able to provide that service, the RFB would be able to make its payments through another intermediary, another payment system or by other means.

- where acting as a direct participant in a particular payment system would result in a level of cost, risk or burden for an RFB, its customers or the payment system that is disproportionate to the degree to which direct participation would contribute to the PRA's achievement of its general safety and soundness objective in relation to ring-fencing; and
- where an RFB is not already a direct participant in a particular payment system and joining that system during a particular period would result in a level of cost, risk or burden for the RFB, its customers or the payment system significantly greater than establishing direct participation at some later specified date.

6.8 SS8/16 also sets out the PRA's expectation that an RFB participate in central securities depositories (CSDs) and central counterparties (CCPs) in a manner which is appropriate given the activity and business model of the RFB. The PRA expects an RFB to participate in CSDs and CCPs directly where they have significant activity or where the use of the system supports an important area of the RFB's business.

6.9 To monitor an RFB's activity in payment systems, CSDs and CCPs, the PRA proposes to require an RFB to report, on behalf of itself and its ring-fenced affiliates, the volumes and values of their transactions through each financial market infrastructure (FMI) in which they participate and to state whether their access to the FMI is direct or indirect. Where indirect access is used, an RFB would be required to report on the intermediaries used. In addition for payment systems, an RFB would be required to identify the exception it is exercising to be an indirect member. The proposed new reporting template collects information on the average daily value/volume processed and the peak daily value/volume processed for each reporting period.

6.10 To ensure proportionality and that only material data are reported, the PRA proposes not to collect data for every ring-fenced affiliate or for every FMI used. Instead, the PRA proposes that an RFB will be required to report:

- on the total activity for each type of FMI (inter-bank payment system, CSDs and CCPs) for every RFB in the RFB sub-group and at an aggregate level across all RFB sub-group entities other than RFBs; and
- breakdowns per individual group entity, and per individual FMI:
 - for each group entity that is either an RFB or is one of the top five ring-fenced affiliates other than RFBs, ranked by use of the relevant type of FMI; and
 - for each FMI that accounts for more than 2% of the relevant group entities' total activity across the relevant type of FMI.

Information on certain taxes with joint and several liability

6.11 An RFB sub-group may have joint and several liability with other members of its group in respect of certain tax arrangements, in particular the Bank Levy and Value-Added Tax (VAT) groups. The liability in respect of the Bank Levy will arise by virtue of the RFB being part of a wider banking group. The UK VAT group liability will arise as a result of the RFB taking advantage of UK VAT group membership.

6.12 Chapter 4 of SS8/16 includes a supervisory expectation that an RFB should pay particular attention to ensuring it has assessed the risks arising from its arrangements with other group members. These include the risks arising from arrangements where an RFB has joint and several liability with other group members such as those in respect of certain taxes. PS20/16 also sets out that the PRA's approach to supervising group risks such as the Bank Levy and VAT liabilities would be through the Internal Capital Adequacy Assessment Process (ICAAP).

6.13 To monitor the scale of any joint and several liabilities affecting an RFB sub-group and its wider group, the PRA proposes a rule requiring an RFB to provide the PRA with data on taxes where it has joint and several liability. The proposed template will require an RFB to report its consolidated group's annual charge for the Bank Levy and Corporation Tax Surcharge and its total VAT amount due and reclaimed for each quarter, and the amount of each of these that is attributable to the RFB sub-group. This would be reported on an annual basis.

Core deposits

6.14 Under the Act and accompanying secondary legislation, banks are required to ring-fence their core activities where they have core deposits greater than £25 billion. The PRA will therefore need to monitor when the level of a banking group's core deposits rises above – or falls below – the £25 billion threshold. The PRA does not consider it necessary for banks to report their level of core deposits on a regular basis.

6.15 Given its central importance to the implementation of ring-fencing, however, the PRA considers it appropriate to ensure that banks are actively monitoring their levels of core deposits, and that they are doing so in such a way that ensures they have sufficient time to plan for implementation of the ring-fencing requirements if the threshold is likely to be crossed. The PRA therefore proposes a new rule requiring UK banks to notify the PRA when they are approaching or have passed this threshold. This is consistent with Fundamental Rule 7 which states that firms '*must deal with the PRA in an open and co-operative way, and...disclose to the PRA anything relating to the firm of which the PRA would reasonably expect notice.*' The proposed amendments to SS8/16 set out the PRA's expectation on how banks should approach the requirement to monitor their level of core deposits.

Intragroup own funds requirements for credit valuation adjustment (CVA) risk

6.16 Ring-fenced Bodies 10 of the PRA Rulebook requires an RFB and all other ring-fenced affiliates which are in scope of CRR to include certain intragroup transactions¹ with counterparties that are not members of the RFB sub-group when calculating the own funds requirements for CVA risk.² This will support the resilience of an RFB and RFB sub-group by ensuring that capital is held against the risk of mark-to-market losses resulting from a deterioration in the creditworthiness of counterparties to derivatives transactions which are not in the RFB sub-group, including those in the wider banking group.

6.17 The PRA proposes that an RFB and all ring-fenced affiliates required under the CRR to calculate own funds requirements for CVA risk on an individual basis should attest that they have complied with the intragroup CVA rule. The PRA also proposes that an RFB should attest that it has complied with the intragroup CVA rule when calculating the own funds capital requirement on a sub-consolidated basis. This attestation is to be completed on an annual basis.

1 As defined under Article 3 of Regulation (EU) No 648/2012.

2 CRR Article 382(4)(b).

Part two

7 Double leverage

7.1 This chapter sets out the PRA's proposals to:

- implement its expectation that the UK parent of an RFB should not make use of double leverage to fund its investment in an RFB or other entities in an RFB sub-group, in response to requests for further clarity from respondents to CP37/15; and
- comply with the FPC recommendation to the PRA that it should seek to ensure that, where systemic buffers apply at different levels of consolidation, there is sufficient capital within the consolidated group, and distributed appropriately across it, to address both global systemic risks and domestic systemic risks.

Proposals

7.2 The PRA will require an RFB to meet prudential requirements at the level of the RFB sub-group. These requirements could be higher than the corresponding requirements at the consolidated group level. Higher capital requirements at the level of the RFB sub-group are likely to arise mainly when the RFB is subject to a systemic risk buffer (SRB) at the level of the RFB sub-group, but the consolidated group is either not subject to a global systemically important bank (G-SIB) buffer, or its G-SIB buffer rate is lower than its SRB rate; when the credit concentration risk of the RFB sub-group is proportionately higher compared to the consolidated group; or due to the need of the RFB sub-group to hold capital to cover the risk arising from its exposures to group entities that are not members of the RFB sub-group.

7.3 The PRA proposes to take account of this type of *group risk*¹ when assessing capital adequacy at the consolidated group level under Pillar 2 to ensure that sufficient capital of appropriate quality is held within, and distributed appropriately across, the consolidated group to cover the risks faced by the RFB sub-group itself and, separately, group entities that are not members of the RFB sub-group.

7.4 The methodology the PRA proposes to address this risk is set out in the draft amendments to the PRA's existing Supervisory Statement 31/15² and Statement of Policy on methodologies for setting Pillar 2 capital³ in Appendices 5 and 8 respectively. Specifically, to comply with the FPC recommendation, the PRA expects the setting of a firm's consolidated PRA buffer to reflect any higher SRB applicable at the level of the RFB sub-group, to ensure that the group also has sufficient capital buffers in relation to the global systemic importance of group entities that are not members of the RFB sub-group.

Pillar 2A

7.5 The PRA proposes that the Pillar 2A group risk assessment at the consolidated group level will be informed by:

1 Group risk, as defined in the PRA Rulebook (Internal Capital Adequacy Assessment 1.2), means the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risk which may affect the financial position of the whole group, including reputational contagion.

2 PRA Supervisory Statement 31/15 'The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)' August 2015: www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss3115update.aspx.

3 PRA Statement of Policy 'The PRA's methodologies for setting Pillar 2 capital' July 2015: www.bankofengland.co.uk/pr/Pages/publications/sop/2015/p2methodologies.aspx.

- the need for the RFB sub-group to hold capital to cover the risk arising from its exposures to group entities that are not members of the RFB sub-group;
- proportionately higher credit concentration risk of the RFB sub-group compared to the consolidated group; and
- if appropriate, any other proportionately higher capital requirements at the level of the RFB sub-group compared to the consolidated group (eg operational risk or the risk of the consolidated group being undercapitalised following the application of PRA rules on deduction of significant investments in financial sector entities at the level of the RFB sub-group).¹

PRA buffer

7.6 The PRA expects to increase the consolidated group's PRA buffer in the following circumstances.

- For groups that are subject to both the G-SIB buffer on a consolidated basis and the SRB on a sub-consolidated basis, the PRA may raise the PRA buffer if the SRB rate exceeds the G-SIB buffer rate to comply with the FPC recommendation. In this case, the consolidated group's PRA buffer may be increased by the difference between the amount of common equity tier 1 (CET1) capital the RFB needs to meet the SRB on a sub-consolidated basis and the RFB sub-group's share of the G-SIB buffer. The RFB sub-group's share of the G-SIB buffer would be determined as the amount of CET1 needed by the consolidated group to meet the G-SIB buffer multiplied by the proportion of the consolidated group's risk-weighted assets (RWAs) that are attributable to the RFB sub-group.²
- For groups that are subject only to the SRB on a sub-consolidated basis, the PRA expects the consolidated group's PRA buffer to increase by the amount of CET1 capital needed by the RFB to meet the SRB on a sub-consolidated basis.
- If appropriate, any other increases due to applying proportionally higher buffers at the level of the RFB sub-group (eg an RFB sub-group would be expected to have a capital conservation buffer against the risk arising on exposures to group entities that are not members of the RFB sub-group).

7.7 Where the PRA sets additional capital in the consolidated group's PRA buffer to cover this group risk, the PRA proposes that such capital will not offset the CRD IV buffers for the purposes of that part of the PRA buffer assessment.

Other considerations

7.8 As set out in Chapter 4 of SS8/16, the PRA expects an RFB to ensure it has fully and appropriately considered group risk arising in respect of its pension arrangements when conducting its assessment of pension obligation risks at the level of the RFB sub-group. The PRA expects an RFB to consider all relevant factors when performing its assessment, including, but not limited to, its current share of consolidated group pension obligations, and its expected future share where it is making changes to its pension arrangements. An RFB's

¹ See 2.1 and 2.2 in the Definition of Capital Part of the PRA's Rulebook.

² The proportion of the consolidated group's RWAs that are attributable to the RFB sub-group is calculated as the RFB sub-group's RWAs (calculated on a sub-consolidated basis) minus the risk-weighted exposures of the RFB sub-group to group entities that are not members of the RFB sub-group.

assessment should not be limited to a simple allocation of a share of the consolidated group's pension obligation risk. A full assessment of pension obligation risk may therefore result in a higher capital requirement than if the RFB were to apply such a 'share-of-group' approach, particularly in the period prior to 1 January 2026.¹ The PRA also expects to apply its existing policy, as set out in SS31/15, when assessing the pension obligation risk of a consolidated group containing an RFB. Accordingly, the PRA expects the capital requirements for pension obligation risk at group level to be unaffected by the assessment of the pension obligation risk for the RFB sub-group.

7.9 The PRA is currently considering its general approach on the interaction of prudential requirements at different levels of application in a banking group, as part of its wider work on groups-related issues. The PRA intends to publish a discussion paper on this topic in 2017.

¹ This may be the case where, for example, an RFB has joint and several liability with group entities that are not members of the RFB sub-group, or where it has other guarantees, contributions or other arrangements in place with group entities that are not members of the RFB sub-group.

8 Reverse stress testing

8.1 The Act amended the PRA's general safety and soundness objective to the effect that, when discharging its general functions in relation to ring-fencing, RFBs and groups containing RFBs, the PRA should seek to '*minimise the risk that the failure of an RFB or of a member of an RFB's group could affect the continuity of the provision in the United Kingdom of core services.*' The Act also requires the PRA to make rules to make provision for group ring-fencing purposes, which include ensuring that, as far as reasonably practicable, an RFB should '*be able to continue to carry on core activities in the event of the insolvency of one or more other members of its group.*' Accordingly, the PRA considers that an RFB sub-group should be able to understand any dependencies on group entities that are not members of the RFB sub-group, under both business-as-usual and stressed conditions. The PRA also considers that an RFB sub-group should understand the potential impact on it of the failure of group entities that are not members of the RFB sub-group.

8.2 The PRA has already made ring-fencing policy to address intragroup dependencies such as on critical shared services and intragroup or contingent shared customer income. Chapter 7 of SS8/16 sets out the PRA's expectation that an RFB should identify, assess and manage risks from intragroup and contingent shared customer income, and have a plan to reduce dependence on, or recover from the loss of, such income.

8.3 Ring-fenced Bodies 18 of the PRA Rulebook requires an RFB to comply with the Internal Capital Adequacy Assessment Part of the PRA Rulebook ('the ICAA rules'). As part of its business planning and risk management obligations under the ICAA rules, an RFB is required to undertake reverse stress testing on the basis of its RFB sub-group. Reverse stress testing requires a firm to identify a range of adverse circumstances which would cause its business plan to become unviable, assess the likelihood that those events could crystallise and, where that risk is unacceptably high, take mitigating action.

8.4 To assess the full extent of any intragroup risks, the PRA proposes that, for an RFB sub-group, comprehensive reverse stress testing must include an assessment of the impact of the failure of group entities that are not members of the RFB sub-group. This analysis should include direct impacts on, including but not limited to capital, liquidity, funding, income, profitability and franchise value. It should also include an assessment of how its business model may need to change as a result of group failure. This analysis should include an assessment of any dependencies on the rest of its group, how these would be impacted under stress and what management action would be taken where dependencies occurred.

8.5 As with wider reverse stress testing, the design and results of an RFB sub-group's assessment should be reviewed and approved at least annually by the firm's senior management or governing body. The PRA would also expect to review the results of reverse stress testing by an RFB sub-group.

9 Recovery planning

9.1 Groups containing an RFB are already required under the Bank Recovery and Resolution Directive (BRRD), as implemented by the Recovery and Resolution Part of the PRA Rulebook and Supervisory Statement 19/13 'Resolution Planning',¹ to draw up and submit a group recovery plan to the consolidating supervisor.

9.2 The PRA proposes a supervisory expectation that a group containing an RFB should include in its group recovery plan recovery options for the RFB sub-group. This will ensure that an RFB sub-group has credible recovery actions to implement in the event of severe stress. This supports the advancement of the PRA's general objective amended for ring-fencing matters, in particular that the PRA should seek to '*minimise the risk that the failure of a ring-fenced body or a member of a ring-fenced body's group could affect the continuity of the provision in the United Kingdom of core services.*'

9.3 The PRA, either as consolidating supervisor or as college member, intends to discuss within colleges of supervisors of groups that contain an RFB the provision of a separate recovery plan for each RFB sub-group. The joint assessment process provided for in BRRD Article 8(2) (b) may result in a separate recovery plan having to be submitted for the RFB sub-group.

1 PRA Supervisory Statement 19/13 'Resolution planning' January 2015:
www.bankofengland.co.uk/pr/Pages/publications/ss/2015/ss1913update.aspx.

10 Operational continuity and financial market infrastructures (FMIs)

10.1 This chapter sets out the PRA's proposals in relation to an RFB's use of FMI-related services and facilities. FMIs, including inter-bank payment systems, CSDs and CCPs, provide key services on which financial markets and their participants rely. Draft rules in relation to these proposals are included in Appendix 1 and proposed guidance is included in a draft supervisory statement in Appendix 4.

10.2 The PRA has considered whether the requirements on continuity of services and facilities set out in the Ring-fenced Bodies Part of the PRA Rulebook should apply to an RFB's use of FMI services and facilities. CP19/14 noted that the PRA may consult on whether FMI services and facilities should be included within the scope of the continuity of services and facilities policy.

10.3 The PRA proposes that the back-office services and facilities that support an RFB's access to FMIs (eg payment capture, reconciliations) should be included within the policy set out in Ring-fenced Bodies 9 of the PRA Rulebook and Chapter 8 of SS8/16. This means that:

- an RFB can only receive FMI back-office services and facilities from other group entities where such entities are 'permitted suppliers' (group service entities or members of the RFB sub-group); and
- the provision of FMI back-office services and facilities from other group entities and third parties to an RFB that are required to carry out its core activities should not be capable of being disrupted through acts, omissions or insolvency of other group members.

10.4 If these requirements were not applied to FMI back-office services and facilities, this would leave a risk that an RFB or its ring-fenced affiliates could enter into arrangements for the provision of FMI services and facilities from group members that they could not do for other types of services and facilities. Such arrangements would expose the RFB and its ring-fenced affiliates to the risk of failure of the group member providing the FMI back-office services and facilities, where that entity is not a permitted supplier.

10.5 Article 13 of the Order requires an RFB to participate directly in inter-bank payment systems, subject to a number of exceptions. In relation to CSDs and CCPs, Chapter 9 of SS8/16 sets out the PRA's expectation that an RFB should be a direct participant where it has significant activity or where the CSD or CCP supports an important area of business. As a result, the PRA generally expects an RFB to be a direct participant in most of the FMIs where it has the most significant activity. Accordingly, the PRA considers it unnecessary to propose additional policy to restrict an RFB to accessing FMIs only through intermediaries that are permitted suppliers, ie unless the activity is significant, an RFB can use any group member with the relevant permission to indirectly access an FMI on the RFB's behalf.

11 The PRA's statutory obligations

11.1 Before making any rules, the Act requires the PRA to publish a draft of the proposed rules accompanied by:

- a cost benefit analysis;
- a statement as to whether the impact of the proposed rules will be significantly different to mutuals than to other persons;¹
- an explanation of the PRA's reasons for believing that making the proposed rules is compatible with the PRA's duty to act in a way that advances its general objective,² insurance objective³ (if applicable), and secondary competition objective;⁴ and
- an explanation of the PRA's reasons for believing that making the proposed rules are compatible with its duty to have regard to the regulatory principles.⁵

11.2 The PRA is also required by the Equalities Act 2010⁶ to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

Cost benefit analysis for Part one of this CP

Scope

11.3 The analysis of the overall costs and benefits of the implementation of ring-fencing was published by the Government in 2013.⁷ The proposals set out for consultation in CP37/15 had implications for reporting requirements,⁸ but the impact analysis presented in that consultation paper noted that the costs associated would be assessed as part of the separate consultation on reporting. The incremental costs and benefits associated with these reporting requirements are assessed in this section.

Benefits

11.4 In general, the proposed reporting requirements for an RFB will enable effective supervision of the ring-fencing requirements. These support the intended outcomes of the ring-fencing policies proposed in previous CPs by ensuring an RFB complies with the requirements on an ongoing basis. The benefits associated with ring-fencing are significant and result mainly from the ability to protect core services and to promote financial stability by reducing the contagion of potential shocks within banking groups and through the UK banking system.

1 Section 138K of the Act.

2 Section 2B of the Act.

3 Section 2C of the Act.

4 Section 2H(1) of the Act.

5 Sections 2H(2) and 3B of the Act.

6 Section 149.

7 HM Treasury and Department for Business, Innovation and Skills, 'Banking reform: draft secondary legislation', July 2013; www.gov.uk/government/uploads/system/uploads/attachment_data/file/223566/PU1488_Banking_reform_consultation_-_online-1.pdf. This impact assessment estimated significant benefits to the UK economy from ring-fencing and related reforms corresponding to an annualised net present value of approximately £7.1 billion (in 2011/12 terms). The net benefit figure estimated by the Government included the private costs to banks, which were estimated to be between £1.7 billion and £4.4 billion per annum.

8 Specifically the collection of COREP, FINREP and pillar 2 data at sub-group level.

11.5 Ring-fencing policies also facilitate the restructuring of a group in recovery or following a resolution event, further reducing the potential costs of a banking crisis.

11.6 The proposals in this CP enable the PRA to satisfy the obligations placed on it by the Act and accompanying secondary legislation. The PRA is required to make rules requiring an RFB to report information relating to intragroup transactions. The proposals described in Chapter 4 would satisfy that requirement, as well as enable supervision of intragroup relationships. The PRA will also be required to include an assessment in its Annual Report on RFBs' compliance with ring-fencing obligations and the extent of their use of exceptions made within the Order. The proposals in this CP would provide the PRA with information to help inform that assessment.

11.7 Table 3 provides more details about the benefits of each category of reporting.

Costs to firms

11.8 Costs to firms arising from the proposals in this CP should be considered in the light of the legal requirements imposed on an RFB under ring-fencing legislation. In particular, an RFB will be required to monitor its own compliance with ring-fencing obligations. This will require changes to systems to support internal monitoring. Any additional costs arising from the reporting requirements in this CP are therefore expected to be limited.

11.9 Table 3 provides more details about the costs of each category of reporting.

Table 3: Costs and benefits of proposed reporting requirements, split by purpose

Purpose of reporting	Benefits	Costs
Supervision of prudential requirements at RFB sub-group level	The reasons for creating RFB sub-groups are set out in PS20/16. Collecting the same regulatory information at sub-group level that is currently collected at group level will enable the PRA to conduct effective supervision of the sub-group and, as a result, ensure that the intended benefits of ring-fencing proposals can be achieved.	<p>A high volume of the data an RFB sub-group will be required to report is already required under the CRR on a consolidated group and individual basis.</p> <p>An RFB will incur some set-up costs to produce existing reporting templates at a new level of consolidation, but these are not expected to be material. As changes to systems will already be required for CRR purposes, the incremental set-up cost of the proposal to extend PRA reporting requirements to an RFB sub-group are expected to be limited.</p> <p>It is expected, however, that ongoing staff costs for manual data manipulations, data quality checking and/or sign-off processes would be similar to the expected costs reported for COREP and FINREP (CP5/13).¹</p>
Intragroup transactions	The reporting requirements in this CP will enable the PRA to monitor whether an RFB sub-group is sufficiently independent from other group members. They will also satisfy the PRA's legal obligation to make rules in	An RFB will be required to make some systems changes to meet the new reporting requirements. Associated set up costs are expected to be limited, however, as these new requirements are based on existing reporting templates and definitions. There may be ongoing staff costs for manual data manipulations, data quality checking and/or sign-off processes.

¹ PRA Consultation Paper 5/13, 'Strengthening capital standards: implementing CRD IV' August 2013: www.bankofengland.co.uk/pr/Pages/publications/implemcrdivcon.aspx.

	this area.	
Monitoring use of exceptions to excluded activities and prohibitions	New reporting requirements will enable supervisors to monitor an RFB's use of exceptions to excluded activities and prohibitions and to identify areas where this use may give rise to risk. The reporting will also enable the PRA to satisfy the reporting requirements placed on it in respect of the PRA's Annual Report.	The definitions for the proposed reporting requirements are based on those in the legislation, rules and/or supervisory statements and may not align closely to existing reporting definitions. As a result, firms are expected to incur some set-up costs for reporting. However, these are expected to be limited as: a) firms will be expected to introduce internal systems to monitor their compliance with the legislation; and b) the volume of new data required is not significant. As a result, the incremental set-up and ongoing costs to meet the new reporting requirements are expected to be limited.
Monitoring compliance with ring-fencing obligations	New reporting requirements are required to support the PRA's supervision of specific aspects of ring-fencing.	The definitions for the proposed reporting requirements are based on those in the legislation, rules and/or supervisory statements and may not align closely to existing reporting definitions. As a result, firms are expected to incur some set-up costs for reporting. However, these are expected to be limited as: a) firms will be expected to introduce internal systems to monitor their compliance with the legislation; and b) the volume of new data required is not significant. As a result, the incremental set-up and ongoing costs to meet the new reporting requirements are expected to be limited.

11.10 In their responses to CP37/15, some firms drew attention to the cost of producing reporting at a sub-consolidated level in addition to existing reporting requirements at both individual and consolidated levels. As CRR reporting requirements are mandatory whenever the broader set of prudential requirements is applied on a sub-consolidated basis, the PRA does not have discretion to adjust the level of CRR reporting when an RFB sub-group is created. In addition, in PS20/16 the PRA has confirmed that the formation of an RFB sub-group does not reduce the need for the application of the CRR at an individual level and that individual entities within the RFB sub-group will continue to be subject to the CRR as a result.

11.11 The majority of new data collected (in terms of the volume of new data points, rather than the number of templates) will either use existing COREP and FINREP definitions, or use definitions closely based on these. The cost benefit analysis¹ conducted before the introduction of COREP and FINREP has therefore been used as a basis for estimating the costs of these proposals. This analysis put the median cost per large bank of the introduction of COREP and FINREP reporting requirements between £9 million and £14 million, with the costs broadly split 50:50 between set-up and ongoing costs.

11.12 Overall, the PRA expects that the total costs per RFB sub-group would be lower than the total costs estimated per firm for the introduction of COREP and FINREP as firms already have systems in place to report these data at the consolidated group and individual level. The set-up costs for requirements introduced in Chapters 3 and 4 are expected to be limited, compared to the corresponding costs for setting up COREP and FINREP, because most of the new requirements are closely based on existing requirements. However, there may be similar ongoing staff costs for manual data manipulations, data quality checking and/or sign-off processes. The set-up costs for requirements introduced in Chapters 5 and 6 may be higher because the templates and definitions are not closely aligned to existing reporting

¹ As set out in PRA Consultation Paper CP5/13, 'Strengthening capital standards: implementing CRD IV', August 2013: www.bankofengland.co.uk/pr/Pages/publications/implemcrdivcon.aspx.

requirements. However, the small volume of annual data means that the PRA expects any set-up as well as ongoing costs of reporting to be limited.

Costs to the PRA

11.13 There will be set-up costs and ongoing maintenance costs to the PRA to ensure that systems are in place to receive, process and analyse the data. Due to the ongoing work on defining the Bank of England's future systems, the costs for the PRA cannot be quantified at this stage. There will also be ongoing staff costs for quality-checking and monitoring the new data.

Cost benefit analysis for Part two of this CP

Scope

11.14 The analysis in this section is limited to the incremental costs and benefits arising from the proposals in Part two of this consultation.

Benefits

11.15 In general the proposals in Part two of this CP clarify the policies to implement ring-fencing confirmed in PS20/16. As set out in CP37/15, the benefits associated with implementing ring-fencing are significant and result mainly from the ability to protect core services and promote financial stability by reducing the contagion of potential shocks within banking groups and through the UK banking system.

11.16 The proposals in Chapter 7 are intended to address group risk at the consolidated group level faced by groups subject to ring-fencing. They also allow the benefits associated with implementing ring-fencing to be realised by ensuring that sufficient capital of appropriate quality is held within, and distributed appropriately across, these groups to cover the risks faced by the RFB sub-group itself, and separately, group entities that are not members of the RFB sub-group.

11.17 The proposals in Chapter 8 will ensure that an RFB sub-group considers the impact of the failure of group entities outside the RFB sub-group as part of reverse stress testing. This will help ensure the resilience of the RFB, in accordance with the ring-fencing objectives, by requiring that it assess any vulnerabilities to and dependencies on its wider group. The information provided as part of this assessment will help the PRA assess the extent to which an RFB sub-group has been insulated from its wider group. This will support the PRA's supervision of the RFB sub-group.

11.18 The proposals in Chapter 9 that a group containing an RFB should include recovery options for its RFB sub-group as part of its group recovery plan will ensure that an RFB sub-group has credible recovery actions to implement in the event of severe stress.

11.19 The proposals in Chapter 10 relating to back-office FMI services and facilities will help ensure that an RFB can continue to undertake core activities related to access to FMIs regardless of the acts, omissions or insolvency of other group members. This will help to remove indirect avenues of contagion from other group entities to the RFB. In the absence of this proposal, a service entity or third party could terminate the contact if another group entity has entered insolvency. This policy is also currently in line with how banks subject to ring-fencing are planning to structure their back-office FMI services and facilities.

Costs

11.20 In general, these proposals clarify existing obligations and so do not lead to additional costs or costs that are not already set out elsewhere, for example in the FPC's framework for the SRB¹ and CP37/15.

11.21 CP37/15 stated that the PRA expects a UK parent of an RFB not to make use of double leverage to fund its investment in an RFB or other members of an RFB sub-group. Chapter 7 proposes that this expectation be implemented via the Pillar 2 framework, by seeking to ensure that a consolidated group holds sufficient capital resources (of appropriate quality and distribution across the group) to cover the risks faced by the RFB sub-group itself and, separately, group entities that are not members of the RFB sub-group.

11.22 Increased prudential requirements at the RFB sub-group level may arise as a result of the need of the RFB to hold capital to cover the risk arising on exposures to group entities that are not members of the RFB sub-group; increases, if any, in the level of credit concentration risk as a result of applying Pillar 2A to an RFB on a sub-consolidated basis; and, if appropriate, any other proportionately higher capital requirements at the level of the RFB sub-group compared to the consolidated group (eg operational risk or risk of the consolidated group being undercapitalised following the application of PRA rules on deduction of significant investments in financial sector entities at the level of the RFB sub-group).

11.23 The PRA also intends to comply with the FPC's recommendation on the SRB by increasing the PRA buffer at the group consolidated level where the SRB rate applied at the RFB sub-group level exceeds the G-SIB buffer rate applied at the group consolidated level. This seeks to ensure that, where systemic buffers apply at different levels of consolidation, sufficient capital of appropriate quality is held within, and distributed appropriately across the consolidated group, to address both global systemic risks and domestic systemic risks.

11.24 These policy proposals are consistent with the increase in capital requirements at a UK system-wide level already anticipated in the FPC's framework for the SRB and in CP37/15:

- the FPC's framework estimated that the SRB would add around 0.5% of group RWAs to equity requirements of UK systemic banks overall;
- CP37/15 estimated that its proposals would result in an aggregate increase in capital requirements of £2.2 billion - £3.3 billion.

11.25 It is not expected that these proposals will result in significantly different costs to firms in aggregate than the costs identified in the FPC's framework for the SRB and in CP37/15, although the costs could vary depending on, but not limited to, the domestic systemic importance of RFB sub-groups relative to the global systemic importance of their wider group.

11.26 Chapter 8 sets out the PRA's expectation that an RFB sub-group consider the failure of group entities that are not members of the RFB sub-group when it undertakes reverse stress testing. An RFB sub-group is required to undertake reverse stress testing as a result of the application of prudential requirements, the cost of which was assessed in CP37/15. Chapter 8 makes clear the PRA's expectation that as part of this requirement an RFB sub-group considers the scenario of an insolvency of its group. Hence there are no additional costs.

1 See Bank of England, The Financial Policy Committee's framework for the systemic risk buffer, May 2016.

11.27 Chapter 9 sets out the expectation that a group containing an RFB should include in its group recovery plan recovery options for the RFB sub-group. The PRA expects the additional compliance cost of this to be negligible, both in terms of up front and ongoing costs. Firms are already required to provide recovery plans and resolution packs that take the wider group context into account. The current proposal clarifies that this should include the RFB sub-group, taking into account the implications of structural reform on the group.

11.28 Information from firms' ring-fencing plans suggests that the proposals in Chapter 10 will not generate material additional costs for banks beyond those covered in the Government's estimates of the costs of implementing ring-fencing. This is because firms are intending to apply the continuity of services and facilities policy set out in Ring-fenced Bodies 9 of the PRA Rulebook and Chapter 8 of SS8/16 to their FMI related back-office services and facilities, ie the banks are planning to house the FMI back-office services and facilities with other back-office services and facilities.

11.29 The Government's analysis included within its estimates the costs of full separation of internal systems but did not include costs specifically related to CCDs and CCPs. The PRA considers that the back-office services and facilities supporting CCDs and CCPs would be housed with other back-office functions so we do not expect there to be additional extra costs.

11.30 The proposal to ensure that FMI service arrangements are not capable of being disrupted through acts, omissions or insolvency of other group members was included with CP19/14.¹ The PRA does not consider that these proposals will generate material additional costs for banks beyond those considered in CP19/14. Firms will need to review prospective FMI contractual arrangements between an RFB and other group entities and third parties in line with other back-office service arrangements.

Compatibility with the PRA's objectives

11.31 Box 1 on page 10 sets out amendments made to the PRA's safety and soundness objective in relation to ring-fencing. The reporting requirements proposed in Part one will assist the PRA in identifying risks to the continuity of provision of core services by RFBs, or to the group ring-fencing purposes.

11.32 The PRA has assessed the impact of the proposals in this consultation on effective competition. There will be costs involved with these reporting requirements that will only affect banking groups subject to ring-fencing. These costs are, however, small compared to the costs involved in implementation of the wider set of ring-fencing obligations outlined in CP37/15. And they must be assessed against the benefit of enabling effective supervision of ring-fencing obligations, and therefore supporting the intended outcomes of policies proposed in previous consultations.

11.33 Costs for banking groups close to the deposits threshold are likely to be smaller than for larger firms, assuming that all or most of their activities can be carried out within RFB sub-groups.

11.34 The PRA does not expect the proposals in Chapter 9 relating to recovery planning to amount to a competitive disadvantage for banks below the threshold or new entrants that

¹ See PRA Consultation Paper 19/14, 'The implementation of ring-fencing: consultation on legal structure, governance and the continuity of services and facilities', October 2014: www.bankofengland.co.uk/pr/Pages/publications/cp/2014/cp1914.aspx.

may in the future be in scope of the ring-fencing proposals. As with banks currently in scope, separate recovery options for the RFB would help support the resilience of the RFB in a stress.

11.35 The proposals in Chapter 10 ensure that essential services supporting FMI access can continue following firm failure. Making banks more resolvable facilitates market exit and should encourage effective competition by reducing the implicit subsidy received by banking groups and the associated funding advantages. All firms above the ring-fencing threshold will face similar costs associated with their FMI access. The PRA does not expect the proposals in this chapter to amount to a competitive disadvantage for new entrants that may in the future be in scope of the ring-fencing proposals as this is an extension of the policy set out in PS10/15 relating to the firm's other back-office services and facilities.

Regulatory Principles

11.36 In making its rules and establishing its practices and procedures, the PRA must have regard to the regulatory principles as set out in the Act. In developing the proposals in this CP, the PRA has had regard to the regulatory principles. Four of the principles are of particular relevance.

- *The principle that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction.* The PRA has followed this principle when developing the proposals outlined in this CP, and has indicated in the CP the key areas of its judgements. The PRA's approach of articulating the outcomes to be achieved in relation to ring-fencing and only to be prescriptive where necessary is consistent with taking a proportionate approach. The PRA's approach of using existing reporting requirements as a basis for new reporting requirements where possible, and of using structured reporting as a trigger for further supervisory action on a risk-based basis, is consistent with taking a proportionate approach. The PRA has also considered proportionality in proposing the frequency of certain reporting requirements, in particular annual reporting for the majority of new templates proposed.
- *The need to use the resources of each regulator in the most efficient and economic way.* As noted above there will be costs to the PRA in collecting and analysing the data collected under the proposed reporting requirements. The PRA's proposed approach to reporting will enable supervisors to identify areas where further investigation would be appropriate on a risk-based basis, and thus allow for an efficient allocation of supervisory resources.
- *The principle that the PRA should exercise its functions as transparently as possible.* In this CP, the PRA sets out the key information relevant to its proposals, and gives respondents the opportunity to comment.
- *The desirability in appropriate cases of each regulator publishing information relating to persons on whom requirements are imposed by or under this Act, or requiring such persons to publish information, as a means of contributing to the advancement by each regulator of its objectives.* The disclosure requirements set out in CRR Part Eight will automatically apply to an RFB sub-group, meaning that the same regulatory disclosures will be required at RFB sub-group level as are required from consolidated groups. An RFB may also be required to publish individual or group annual accounts, as set out under the Companies Act 2006. The PRA does not consider that any further rules on disclosure requirements are necessary.

Impact on mutuals

11.37 The Act requires that the PRA assesses whether, in its opinion, the impact of the proposed rules on mutuals will be significantly different from the impact on other firms.¹ Building societies, credit unions and industrial and provident societies are exempt from ring-fencing requirements, and from the definition of financial institutions to which an RFB may not have exposures.² The PRA does not therefore expect mutuals to be materially affected by the proposals in this CP.

Equality and diversity

11.38 The PRA may not act in an unlawfully discriminatory manner. It is required, under the Equalities Act 2010, to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions. To meet this requirement, the PRA has performed an assessment of the policy proposals. The PRA does not consider that the proposals in this CP give rise to equality and diversity implications.

1 Mutuals are defined as building societies, friendly societies, industrial provident societies and EEA mutual societies.

2 Section 142A(2) of the Act, as amended by the Banking Reform Act .

Appendices

1	Draft Ring-fencing instrument
2	Draft amendments to Supervisory Statement 34/15 - Guidelines for completing regulatory reports
3	New templates (PRA110 – PRA116) and instructions
4	Draft amendments to Supervisory Statement 8/16 - Ring-fenced bodies (RFBs)
5	Draft amendments to Supervisory Statement 31/15 - The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)
6	Draft amendments to ‘FSA071 Firm information and Pillar 2A summary’ reporting template and instructions
7	Draft amendments to ‘Guidance on terms used in data items FSA071 to FSA082’
8	Draft amendments to Statement of Policy - The PRA’s methodologies for setting Pillar 2 capital

Appendix 1 – Draft ring-fencing instrument

PRA RULEBOOK: CRR FIRMS: RING-FENCING INSTRUMENT [YEAR]

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (The PRA’s general rules);
 - (2) section 137T (General supplementary powers); and
 - (3) section 142H (Ring-fencing rules).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

- C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Rulebook: CRR Firms: Ring-fencing Instrument [YEAR]

- D. The PRA makes the rules in Annexes A to E to this instrument.

Commencement

- E. This instrument comes into force on 1 January 2019.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Ring-fencing Instrument [YEAR].

By order of the Board of the Prudential Regulation Authority
[DATE]

Annex A

Amendments to the Regulatory Reporting Part

In this Annex, new text added to the rules which are under consultation in Consultation Paper (CP17/16) on regulatory reporting of financial statements, forecast capital data and IFRS 9 requirements is underlined and deleted text is struck through.

1. APPLICATION AND DEFINITIONS

...

initial Capital+ reference date

means:

(1) ~~for a firm which is a PRA-*authorised person* on 1 July 2017, the first of the firm's *Capital+ reference dates* after 1 July 2017; or in relation to a *data item* which a *ring-fenced body* must submit on a *sub-consolidated basis* in accordance with 20.22A, the first of the firm's *Capital+ reference dates* after the firm became subject to the Ring-fenced Bodies Part of the *PRA Handbook*; or~~

(2) for any other *firm*, the first of the firm's *Capital+ reference dates* after it became a *PRA-*authorised person**.

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6 REGULATED ACTIVITY GROUPS

6.1 Unless otherwise indicated, *firms* must comply with the rules specified in the following table (which set out the *data items*, frequency and submission periods as applicable to each *RAG*) in accordance with Chapters 2, 3 and 4.

(1)		(2)	(3)	(4)
RAG number	Regulated Activities	Rules containing:		
		applicable <i>data items</i>	reporting frequency / period	due date
RAG 1	<ul style="list-style-type: none"> • <i>accepting deposits</i> • <i>meeting of repayment claims</i> • <i>managing dormant account funds (including the investment of such funds)</i> 	<p>7.1, except that the requirements to:</p> <p>(1) submit templates 1.1, 1.2, 1.3, 2 and 3 of Annexes III or IV of the <i>Supervisory Reporting ITS</i> on a <i>consolidated basis</i> and, if applicable, on a <i>sub-consolidated basis</i>; and</p> <p>(2) submit FSA001 on a <i>consolidated basis</i> and, if applicable, on a <i>sub-consolidated basis</i>.</p> <p>do not apply to a <i>firm</i> which is required to report financial information under Article 99(2) of <i>CRR</i>.</p>	7.2	7.3

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7 REGULATED ACTIVITY GROUP 1

7.1 The applicable **data items** referred to in the table in 6.1 are set out according to **firm** type in the table below:

RAG 1	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (1)						
	<i>UK bank</i> other than a <i>ring-fenced body</i>	<i>Ring-fenced body</i>	<i>Building society</i>	<i>Non-EEA bank</i>	<i>EEA bank</i> that has <i>permission</i> to accept deposits and that has its registered office (or, if it has no registered office, its head office) outside the EU	<i>Credit union</i>	<i>Dormant account fund operator</i> (12)
Description of <i>data item</i>							
<i>Annual report and accounts</i>	No standard format	<u>No standard format</u>		No standard format, but in English			No standard format
<i>Annual report and accounts</i> of the <i>mixed-activity holding company</i> (7)	No standard format	<u>No standard format</u>					
Solvency statement (8)	No standard format						
Balance sheet	Either: (1) Templates 1.1, 1.2, 1.3 at Annex III of	<u>Either:</u> (1) <u>Templates 1.1, 1.2, 1.3 at Annex III of</u>	Either: (1) Templates 1.1, 1.2, 1.3 at Annex III of			CQ; CY	

	the <i>Supervisory Reporting ITS</i> ; or (2) Templates 1.1, 1.2, 1.3 at Annex IV of the <i>Supervisory Reporting ITS</i> Annex IV ((2),(20))	<u>the <i>Supervisory Reporting ITS</i></u> ; or (2) <u>Templates 1.1, 1.2, 1.3 at Annex IV of the <i>Supervisory Reporting ITS</i></u> <u>((2),(20),(22))</u>	the <i>Supervisory Reporting ITS</i> ; or (2) Templates 1.1, 1.2, 1.3 at Annex IV of the <i>Supervisory Reporting ITS</i> Annex IV (3) ((2),(20))IV ((2),(20))				
Income statement						CQ; CY	
Statement of profit or loss	Either: (1) Template 2 at Annex III of the <i>Supervisory Reporting ITS</i> ; or (2) Template 2 at Annex IV of the <i>Supervisory Reporting ITS</i> ((2),(20))	<u>Either:</u> (1) <u>Template 2 at Annex III of the <i>Supervisory Reporting ITS</i></u> ; or (2) <u>Template 2 at Annex IV of the <i>Supervisory Reporting ITS</i></u> <u>((2),(20),(22))</u>	Either: (1) Template 2 at Annex III of the <i>Supervisory Reporting ITS</i> ; or (2) Template 2 at Annex IV of the <i>Supervisory Reporting ITS</i> ((2),(20))	Either: (1) Template 2 at Annex III of the <i>Supervisory Reporting ITS</i> ; or (2) Template 2 at Annex IV of the <i>Supervisory Reporting ITS</i> (20)			
Statement of comprehensive income	Either: (1) Template 3 at Annex III of the <i>Supervisory Reporting ITS</i> ; or (2) Template 3 at Annex IV of the <i>Supervisory Reporting ITS</i> ((2),(20))	<u>Either:</u> (1) <u>Template 3 at Annex III of the <i>Supervisory Reporting ITS</i></u> ; or (2) <u>Template 3 at Annex IV of the <i>Supervisory Reporting ITS</i></u> <u>((2),(20),(22))</u>	Either: (1) Template 3 at Annex III of the <i>Supervisory Reporting ITS</i> ; or (2) Template 3 at Annex IV of the <i>Supervisory Reporting ITS</i> ((2),(20))				

Capital adequacy						CQ; CY	
Market risk	FSA005 ((2), (3))	<u>FSA005 ((2), (3), (22))</u>	FSA005 ((2), (3))				
Market risk – supplementary	FSA006 (4)	<u>FSA006 (4)</u>					
Large exposures						CQ; CY	
Exposures between <i>core UK group</i> and <i>non-core large exposures group</i>	FSA018 (10)	<u>FSA018 (10)</u>	FSA018 (10)				
Liquidity (other than stock)			FSA011			CQ; CY	
Forecast data	PRA104 (9) PRA105 (9) PRA106 (9) PRA107 (9)	<u>PRA104 (21)</u> <u>PRA105 (21)</u> <u>PRA106 (21)</u> <u>PRA107 (21)</u>	PRA104 (9) PRA105 (9) PRA106 (9) PRA107 (9)				
Memorandum items	PRA 108 (2)	<u>PRA 108 ((2),(22))</u>	PRA 108 (2)				
Solo consolidation data	FSA016 (5)	<u>FSA016 (5)</u>	FSA016 (5)				
Interest rate gap report	FSA017	<u>FSA017 (22)</u>	FSA017				
Sectoral information, including arrears and impairment	FSA015 (2)	<u>FSA015 (2)</u>	FSA015 (2)				
IRB portfolio risk	FSA045 (11)	<u>FSA045 ((11), (22))</u>	FSA045 (11)				
Daily Flows	FSA047 ((13), (16) and (18))	<u>FSA047 ((13), (16) and (18))</u>	FSA047 ((13), (16) and (18))	FSA047 ((13), (15), (16) and (18))	FSA047 ((13), (15), (16) and (18))		
Enhanced Mismatch	FSA048 ((13),	<u>FSA048 ((13),</u>	FSA048 ((13),	FSA048 ((13),	FSA048 (Notes		

Report	(16) and (18))	<u>(16) and (18))</u>	(16) and (18))	(15), (16) and (18))	13, 15, 16 and 18)		
<u>Intragroup exposures</u>		<u>PRA109 (23)</u>					
<u>Intragroup funding</u>		<u>PRA110 (23)</u>					
<u>Intragroup financial reporting (core)</u>		<u>PRA111 (23)</u>					
<u>Intragroup financial reporting (detailed breakdown)</u>		<u>PRA112 (23)</u>					
<u>Joint and several liability arising from taxes</u>		<u>PRA113 (24)</u>					
<u>Excluded activity entities</u>		<u>PRA114 (24)</u>					
<u>Use of financial market infrastructures</u>		<u>PRA115 (24)</u>					
<u>Excluded activities and prohibitions</u>		<u>PRA 116</u>					

...

(21) Ring-fenced bodies that are within a sub-consolidation group must submit this data item at the UK consolidation group level and on a sub-consolidated basis only. Ring-fenced bodies that are not within a sub-consolidation group but are within a UK consolidation group must submit this data item at the UK consolidation group level only.

(22) Ring-fenced bodies within a sub-consolidation group must also submit the data item on a sub-consolidated basis.

(23) Ring-fenced bodies within a sub-consolidation group must submit the data item on a sub-consolidated basis only.

(24) The data item may be submitted by a single ring-fenced body in a sub-consolidation group.

7.2 The applicable reporting frequencies for submission of *data items* and periods referred to in 7.1 are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data item	Unconsolidated UK banks and building societies	Individual consolidated UK banks and building societies	Report on a UK consolidation group or, as applicable, defined liquidity group or sub-consolidation group basis, as applicable, by UK banks and building societies	Other members of RAG 1
...				
<u>PRA109</u>	Quarterly (2)			
<u>PRA110</u>	Quarterly (2)			
<u>PRA111</u>	Quarterly (9)			
<u>PRA112</u>	Annually (9)			
<u>PRA113</u>	Annually			
<u>PRA114</u>	Annually (2)			
<u>PRA115</u>	Annually (2)			
<u>PRA116</u>	Annually (2)			

...

7.3 The applicable due dates for submission referred to in the table in 6.1 are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in 7.2, unless indicated otherwise.

RAG 1						
Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annually
...						
FSA005				20 <i>business days</i>	45 <i>business days</i> (6)	
...						
FSA017				20 <i>business days</i>	45 <i>business days</i> (6)	
...						
FSA045				20 <i>business days</i>	45 <i>business days</i> (6)	
...						
<u>PRA109</u>				30 <i>business days</i> (7)		
<u>PRA110</u>				30 <i>business days</i> (7)		
<u>PRA111</u>				30 <i>business days</i> (7)		

<u>PRA112</u>						<u>45 business days (7)</u>
<u>PRA113</u>						<u>45 business days (7)</u>
<u>PRA114</u>						<u>45 business days (7)</u>
<u>PRA115</u>						<u>45 business days (7)</u>
<u>PRA116</u>						<u>45 business days (7)</u>

...

(6) A ring-fenced body's first submission of the data item on a sub-consolidated basis must relate to a period starting on the date that the firm became subject to the Ring-fenced Bodies Part of the PRA Handbook.

(7) A ring-fenced body's first submission of the data item must relate to a period starting on the date that the firm became subject to the Ring-fenced Bodies Part of the PRA Handbook.

13 PRUDENT VALUATION REPORTING

...

13.3A If a firm is a ring-fenced body within a sub-consolidation group it must also comply with 13.2 on a sub-consolidated basis.

...

16 DATA ITEMS AND OTHER FORMS

...

16.35 PRA109 can be found here.

16.36 PRA110 can be found here.

16.37 PRA111 can be found here.

16.38 PRA112 can be found here.

16.39 PRA113 can be found here.

16.40 PRA114 can be found here.

16.41 PRA115 can be found here.

16.42 PRA116 can be found here.

17 COMPLIANCE REPORTS

...

17.2 A firm other than a ring-fenced body must submit to the PRA the duly completed data items described in and in accordance with the following table, which sets out:

- (1) the applicable *data items*;
- (2) the applicable reporting frequencies for submission of *data items*; and
- (3) the applicable due dates for submission. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period.

...

17.3 A ring-fenced body must submit to the PRA the following *data items*:

- (1) a list of all *overseas regulators* for each legal entity in the *ring-fenced body's group*; and
- (2) a single organogram which sets out:
 - (a) each *authorised person* in the *ring-fenced body's group*;
 - (b) each *subsidiary* of any *ring-fenced body* within the *group* that is not an *authorised person*;
 - and
 - (c) each *person* that is not an *authorised person* in the *ring-fenced body's sub-consolidation group*.

17.4 The *data items* referred to in 17.3 must be submitted by a *ring-fenced body* annually within 6 months after its *accounting reference date*.

17.5 A single *ring-fenced body* may submit the *data items* referred to in 17.3 if its *group* contains more than one *ring-fenced body*.

...

19 NOTIFICATIONS REGARDING FINANCIAL INFORMATION REPORTING

...

19.3A A *firm* which is required to complete any of the following *data items* must notify the *PRA* if it adjusts its reporting reference dates for the *data item* from the calendar year to its accounting year-end:

- (1) Any of templates 1.1,1.2, 1.3, 2 and 3 at Annexes III and IV of the *Supervisory Reporting ITS*;
- (2) PRA104;
- (3) PRA105;
- (4) PRA106; ~~and~~
- (5) PRA107;~~;~~
- (6) PRA111; and
- (7) PRA112.

...

20 CAPITAL+ REPORTS

...

20.13 A *firm* satisfies *Capital+ condition 1*:

- (1) if the *firm* is a *parent institution in a Member State*, where it has *retail deposits* equal to or greater than £50 billion and *total assets* equal to or greater than £320 billion on the basis of its *consolidated situation*;
- (2) if the *firm* is controlled by a *parent financial holding company in a Member State* or by a *parent mixed financial holding company in a Member State* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis* under Article 111 of the *CRD*, where it has *retail deposits* equal to or greater than £50 billion and *total assets* equal to or greater than £320 billion on the basis of the *consolidated situation* of that holding company;~~or~~
- (3) if the *firm* is not part of a *consolidation group*, where it has *retail deposits* equal to or greater than £50 billion and *total assets* equal to or greater than £320 billion on an individual basis;~~or~~ or
- (4) if the *firm* is a *ring-fenced body* that is part of a *sub-consolidation group*, where it has *retail deposits* equal to or greater than £50 billion and *total assets* equal to or greater than £320 billion on a *sub-consolidated basis*.

...

20.15 A *firm* satisfies *Capital+ condition 3*:

- (1) if the *firm* is a *parent institution in a Member State*, where it has *retail deposits* equal to or greater than £50 billion and *total assets* greater than £5 billion but less than £320 billion on the basis of its *consolidated situation*;
- (2) if the *firm* is controlled by a *parent financial holding company in a Member State* or by a *parent mixed financial holding company in a Member State* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis* under Article 111 of the *CRD*, where it has *retail deposits* greater than or equal to £50 billion and *total assets* greater than £5 billion but less than £320 billion on the basis of the *consolidated situation* of that holding company; ~~or~~
- (3) if the *firm* is not part of a *consolidation group*, where it has *retail deposits* greater than £50 billion and *total assets* greater than £5 billion but less than £320 billion on an individual basis; or
- (4) if the *firm* is a *ring-fenced body* that is part of a *sub-consolidation group*, where it has *retail deposits* equal to or greater than £50 billion and *total assets* greater than £5 billion but less than £320 billion on a *sub-consolidated basis*.

...

20.17 A *firm* satisfies *Capital+ condition 5* if it:

- (1) is part of a *consolidation group*;
- (2) has *total assets* greater than £5 billion:
 - (a) if the *firm* is a *parent institution in a Member State*, on the basis of its *consolidated situation*; or
 - (b) if the *firm* is controlled by a *parent financial holding company in a Member State* or by a *parent mixed financial holding company in a Member State* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis* under Article 111 of the *CRD*, on the basis of the *consolidated situation* of that holding company; and
- (3) does not satisfy *Capital+ condition 1* on the basis of 20.13(1) or 20.13(2) or ~~or~~ *Capital+ condition 3* on the basis of 20.15(1) or 20.15(2).

20.17A A *firm* satisfies *Capital+ condition 5* if it is a *ring-fenced body* that is part of a *sub-consolidation group* and has *total assets* greater than £5 billion on a *sub-consolidated basis* and does not satisfy *Capital+ condition 1* on the basis of 20.13(4) or *Capital+ condition 3* on the basis of 20.15(4).

...

20.21 The *Capital+ reporting table* below sets out, in respect of the requirements to submit *data items* under 20.3, 20.8 and 20.10:

- (1) in column (1), the *Capital+ conditions* to which the obligations to submit *data items* relate;
- (2) in column (2), the *data items* which must be submitted by a *firm* where the *firm* meets any *Capital+ condition* set out in column (1);
- (3) in column (3), the frequency at which a *firm* must submit each *data item*;

- (4) in column (4), the due date for submission of each *data item*, being the last day of the period starting from the end of each frequency period and ending with the number of calendar days set out in column (4); and
- (5) in column (5), the rule which sets out the basis or bases on which each *data item* must be completed.

Capital+ reporting table

Column 1 (Capital+ condition)	Column 2 (data item)	Column 3 (frequency)	Column 4 (due date)	Column 5 (rules which sets out basis <u>or</u> bases on which data item should be completed)
Capital+ condition 1	PRA101	Monthly	15 calendar days	20.22, 20.22A
Capital+ condition 2	PRA101	Monthly	15 calendar days	20.23
Capital+ condition 3	PRA101	Quarterly	15 calendar days	20.22, 20.22A
Capital+ condition 4	PRA101	Quarterly	15 calendar days	20.23
Capital+ condition 5	PRA102	Half yearly	42 calendar days	20.24, 20.22A
Capital+ condition 6	PRA102	Half yearly	42 calendar days	20.23
Capital+ condition 7	PRA103	Annually	42 calendar days	20.24
Capital+ condition 8	PRA103	Annually	42 calendar days	20.23

20.22 Where a firm is required to submit a data item in accordance with this rule, that data item should be completed:

- (1) if the ~~a~~-firm is not part of a *consolidation group* and the *firm* satisfies *Capital+ condition 1* on the basis of 20.13(3) or *Capital+ condition 3* on the basis of 20.15(3), on an individual basis;

(2) if the *firm* is a *parent institution in a Member State* and the *firm* satisfies *Capital+ condition 1* on the basis of 20.13(1) or *Capital+ condition 3* on the basis of 20.15(1), on the basis of its *consolidated situation*; or

(3) if the *firm* is controlled by a *parent financial holding company in a Member State* or by a *parent mixed financial holding company in a Member State* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis* under Article 111 of the *CRD* and the *firm* satisfies *Capital+ condition 1* on the basis of 20.13(2) or *Capital+ condition 3* on the basis of 20.15(2), on the basis of the *consolidated situation* of that holding company.

20.22A If a *firm* meets a *Capital+ condition* on the basis of 20.13(4), 20.15(4) or 20.17A, it must submit the *data item* on a *sub-consolidated basis* in addition to meeting any requirement to submit a *data item* on an individual basis or on the basis of its or its holding company's *consolidated situation*.

20.24 Where a firm is required to submit a data item in accordance with this rule, that data item should be completed:

(1) if the *firm* is a *parent institution in a Member State* and the *firm* satisfies *Capital+ condition 5* on the basis of 20.17(2)(a) or *Capital+ condition 7* on the basis of 20.19, on the basis of its *consolidated situation*; or

(2) if the *firm* is controlled by a *parent financial holding company in a Member State* or by a *parent mixed financial holding company in a Member State* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis* under Article 111 of the *CRD* and the *firm* satisfies *Capital+ condition 5* on the basis of 20.17(2)(b) or *Capital+ condition 7* on the basis of 20.19, on the basis of the *consolidated situation* of that holding company.

...

Annex B

Amendments to the Notifications Part

In this Annex, new text is underlined.

Part

Notifications

Chapter content

1. APPLICATION AND DEFINITIONS
2. GENERAL NOTIFICATION REQUIREMENTS
3. LLOYD'S OF LONDON
4. NOTIFIED PERSONS
5. CORE INFORMATION REQUIREMENTS
6. INACCURATE, FALSE OR MISLEADING INFORMATION
7. FORM AND METHOD OF NOTIFICATION
8. SPECIFIC NOTIFICATIONS
9. FINANCIAL CONGLOMERATE NOTIFICATIONS
10. FORMS
11. CONDUCT RULES: NOTIFICATIONS
12. RING-FENCING NOTIFICATIONS

1. APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

Core Activities Order

means the Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014 (SI 2014/1960).

core deposit

has the meaning given in article 1(3) of the *Core Activities Order*.

core deposit level condition

means the condition referred to in articles 11(1)(d) and 12 of the *Core Activities Order*.

...

relevant group member

means a member of a *group* that is a *UK bank* and does not carry out *insurance business* acting as principal in accordance with a *Part 4A permission*.

...

12. RING-FENCING NOTIFICATIONS

12.1 This Chapter applies to *UK banks* that do not carry out *insurance business* acting as principal in accordance with a *Part 4A permission*.

12.2 A *firm* must notify the *PRA* within 30 days after it becomes aware, or has information which reasonably suggests, that any of the following has occurred:

(1) if the *firm* is not in a *group*, its total *core deposits*:

(a) have increased over £25 billion; or

(b) have decreased to less than or equal to £25 billion,

(2) if the *firm* is in a *group*, the sum of *core deposits* of all *relevant group members*:

(a) has increased over £25 billion; or

(b) has decreased to less than or equal to £25 billion.

12.3 A *firm* must notify the *PRA* promptly, but in any event within 30 days, if it reasonably expects or has information that reasonably suggests that it will cease to meet or that it will start to meet the *core deposit level condition* within the next three years.

Annex C

Amendments to the Reporting Pillar 2 Part

In this Annex new text is underlined and deleted text is struck through.

...

4 DATA ITEMS

4.1 FSA071 can be found ~~here~~ here.

...

Annex D

Amendments to the Ring-fenced Bodies Part

In this Annex, deleted text in the Ring-fenced Bodies Part is struck through and new text is underlined.

1. APPLICATION AND DEFINITIONS

...

central securities depository

has the meaning set out in Article 2.1(1) of Regulation (EU) No 909/2014, and includes a 'securities settlement system' as defined in that regulation.

...

FMI

means any of the following: an *interbank payment system*, a *central securities depository* or a *central counterparty*.

...

participant

has the meaning set out in Article 2.1(19) of Regulation (EU) No 909/2014.

...

~~*sub-consolidation group*~~

~~means the *undertakings* included in the scope of consolidation as a result of a requirement imposed on a *ring-fenced body* under Article 11(5) of *CRR*.~~

...

9. CONTINUITY OF PROVISION OF SERVICES

9.1 (1) Where a *ring-fenced body* receives services and accesses facilities that it requires on a regular basis from an entity in its *group*, it may do so, whether directly or indirectly, only where that entity is a *permitted supplier*.

(2) (1) does not apply to the extent the *group* member is:

- (a) a direct *participant* in an *FMI*; and
- (b) acting as an intermediary for the *ring-fenced body* to access the *FMI*.

(3) For the avoidance of doubt:

- (a) the definition of *central counterparty* applies for the purposes of this Chapter whether or not the *central counterparty* is regulated by Regulation (EU) No. 648/2012, or is established in an EEA state or elsewhere; and
- (b) the definitions of *central securities depository* and *participant* apply for the purposes of this Chapter whether or not the *central securities depository* or *participant* is regulated by Regulation (EU) No. 909/2014, or is established in an EEA state or elsewhere.

...

16 ACCESS TO CENTRAL COUNTERPARTIES AND CENTRAL SECURITIES DEPOSITORIES

- 16.1 This Chapter applies if a *ring-fenced body* accesses the services of:
- (1) a *central counterparty* whether as a *clearing member* or otherwise; or
 - (2) a ~~central securities depository~~central securities depository whether as a ~~participant~~participant or otherwise.
- 16.2 In this Chapter:
- (1) ~~central securities depository~~ has the meaning set out in Article 2.1(1) of Regulation (EU) No 909/2014, and includes a ‘*securities settlement system*’ as defined in that regulation;
 - (2) ~~participant~~ has the meaning set out in Article 2.1(19) of Regulation (EU) No 909/2014; and
 - (3) ~~for the avoidance of doubt:~~
 - (a)(1) the definitions of *central counterparty* and *clearing member* apply for the purposes of this Chapter whether or not the *central counterparty* or *clearing member* is regulated by Regulation (EU) No. 648/2012, or is established in an *EEA state* or elsewhere; and
 - (b)(2) the definitions of ~~central securities depository~~central securities depository and ~~participant~~participant apply for the purposes of this Chapter whether or not the ~~central securities depository~~central securities depository or ~~participant~~participant is regulated by Regulation (EU) No. 909/2014, or is established in an *EEA state* or elsewhere.
- 16.3 For the purposes of this Chapter, if a *ring-fenced body* accesses the services of a *central counterparty* or a ~~central securities depository~~central securities depository not established in an *EEA state* or any part of whose operations are not subject to the law of an *EEA state*, the *ring-fenced body* will be considered to comply with the *rules* in this Chapter if it has taken necessary steps to ensure that its positions, if applicable, and assets are identifiable separately from the positions, if applicable, and assets of any other *person* by measures that deliver outcomes comparable to those set out in the *rules* in this Chapter.
- ...
- 16.6 If a *ring-fenced body* accesses the services of a ~~central securities depository~~central securities depository as a ~~participant~~participant, it must ensure any assets held for its account at the ~~central securities depository~~central securities depository are distinguished in accounts at the ~~central securities depository~~central securities depository from the assets held for the account of any other ~~participant~~participant and of the ~~central securities depository~~central securities depository.
- 16.7 If a *ring-fenced body* accesses the services of a ~~central securities depository~~central securities depository through a ~~participant~~participant, it must ensure any assets held for its account are distinguished:

- (1) in accounts at the ~~central securities depository~~ central securities depository from the assets held for the account of the ~~participant~~ participant and of all other clients of that ~~participant~~ participant; and
- (2) in accounts at the ~~participant~~ participant from the assets held for the account of the ~~participant's~~ participant's other clients and of the ~~participant~~ participant.

Annex E

Amendments to the Glossary

In the Glossary Part of the PRA Rulebook, insert the following new definition:

sub-consolidation group

means the *undertakings* included in the scope of consolidation as a result of a requirement imposed on a *ring-fenced body* under Article 11(5) of *CRR*.

Externally defined glossary terms

Term	Definition source
<i>central counterparty</i>	Article 4(1)(34) CRR
<i>clearing member</i>	Article 300(3) CRR
<i>interbank payment system</i>	Article 13(11) of the FSMA (Excluded and Prohibited Activities) Order 2014
<i>regulated activity</i>	Section 22 FSMA
<i>ring-fenced body</i>	Section 417(1) FSMA
<i>sub-consolidated basis</i>	Article 4(1)(49) CRR

Appendix 2: Draft amendments to SS34/15 'Guidelines for completing regulatory reports'

In this Appendix, new text added to paragraph 1.4 of SS34/15 'Guidelines for completing regulatory reports' is underlined and deleted text is struck through.

1. Overview

...

1.4 The guidance on completing data items is set out in a series of appendices to this supervisory statement:

Appendix	Data items	Description
1	FSA005 to FSA053; PRA101 to PRA108 <u>PRA116</u>	Guidelines for completing data items FSA005 to FSA053; PRA101 to PRA108 <u>PRA116</u>
2	MLAR	Notes for completing Mortgage Lenders and Administrators Return
3a	CO	Notes for completing the quarterly return for Credit Unions
3b	CY	Notes for completing the annual return for Credit Unions
4	Prudent Valuation	Guidelines for completing the prudent valuation return
5	Close links monthly report	Guidelines for completing the close links monthly report
6	Close links annual report	Guidelines for completing the close links annual report
7	Controllers report	Guidelines for completing the controllers report

...

Appendix 3: New templates (PRA110 – PRA116) and instructions

Name		Data item	Instructions
PRA109	Intragroup exposures	www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp25appendix3_109.xlsx	www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp25appendix3_109.pdf
PRA110	Intragroup funding	www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp25appendix3_110.xlsx	www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp25appendix3_110.pdf
PRA111	Intragroup financial reporting (core)	www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp25appendix3_111.xlsx	www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp25appendix3_111.pdf
PRA112	Intragroup financial reporting (detailed breakdown)	www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp25appendix3_112.xlsx	
PRA113	Joint and several liability arising from taxes	www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp25appendix3_113.xlsx	www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp25appendix3_113.pdf
PRA114	Excluded activity entities	www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp25appendix3_114.xlsx	www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp25appendix3_114.pdf
PRA115	Use of financial market infrastructures	www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp25appendix3_115.xlsx	www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp25appendix3_115.pdf
PRA116	Excluded activities and prohibitions	www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp25appendix3_116.xlsx	www.bankofengland.co.uk/pr/Documents/publications/cp/2016/cp25appendix3_116.pdf

Appendix 4: Draft amendments to Supervisory Statement 8/16 – Ring-fenced bodies (RFBs)

This appendix outlines proposed amendments to SS8/16 ‘Ring-fenced bodies (RFBs)’. Underlining indicates new text and striking through indicates deleted text.

Contents

...

10 Exceptions to excluded activities and prohibitions

11 Reporting

...

1 Introduction

1.1 This Prudential Regulation authority (PRA) supervisory statement is aimed at ring-fenced bodies (RFBs), as defined in Section 142(A) 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-
authorised persons that are members of a group containing an RFB. Chapter 11 of this supervisory statement is also aimed at firms currently below the core deposits threshold for ring-fencing of £25 billion but which may approach that threshold over time. The purpose of this supervisory 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.

1.2 This statement should be read alongside the PRA Rulebook, the Capital Requirements Regulation (CRR)¹ and ring-fencing legislation set out in the Act and statutory instruments.² The Ring-fenced Bodies Part of the PRA Rulebook in particular sets out PRA rules applicable to RFBs. Chapter 11 of this supervisory statement should be read alongside the Regulatory Reporting Part of the PRA Rulebook.

...

4 Application of capital and liquidity standards to an RFB sub-group

4.1 This chapter sets out the PRA’s expectations in relation to the application of capital and liquidity requirements to RFB sub-groups, in particular the ICAA rules and the ILAA rules. It also sets out the PRA’s expectations concerning an RFB’s use of internal risk models when calculating risk-weighted exposure amounts or own funds requirements; the use by a UK parent of an RFB of funding instruments of a lower quality to fund regulatory capital instruments and buffers set on a sub-consolidated basis where an RFB sub-group is in place (‘double leverage’); and recovery planning.

...

¹ Regulation (EU) No 575/2013.

² SI 2014/1960 The Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014; SI 2014/2080 The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014; and SI 2015/547 The Financial Services and Markets Act 2000 (Banking Reform) (Pensions) Regulations 2015.

Reverse stress testing

...

4.23 The PRA expects an RFB to assess the impact of a failure of group entities that are not members of the RFB sub-group as part of reverse stress testing. The PRA expects this analysis to include direct impacts on capital, liquidity, funding, income, profitability and franchise value. It should also include an assessment of how its business model may need to change as a result of group failure.

4.24 As part of this assessment, the PRA also expects an RFB to consider any dependencies on group entities that are not members of the RFB sub-group, such as on joint income and product offerings, how these would be impacted under stress and what management action would be taken where dependencies occurred. Consistent with wider reverse stress testing, the design and results of an RFB's assessment should be reviewed and approved at least annually by the firm's senior management or governing body.

[Current paragraphs 4.23 to 4.33 to be re-numbered as 4.25 to 4.35]

...

Double leverage

4.36 The PRA recognises that a consolidated group's prudential requirements may not reflect fully the increased prudential requirements applicable at the level of the RFB sub-group. This could expose the consolidated group (to which the RFB belongs) to the risk of having insufficient capital resources (of appropriate quality and distribution across it) to cover the risks it faces. The consequential contagion risk, in the event of a stress outside the RFB sub-group increases the vulnerability of the RFB and its ring-fenced affiliates, posing risks to the group ring-fencing purposes under the Act.

4.37 The PRA therefore expects a firm that is a member of a consolidation group containing an RFB sub-group to ensure that meeting prudential requirements at the level of the RFB sub-group does not result in the consolidated group having insufficient capital within it (or an inappropriate distribution of capital across it), to cover its risks.¹

4.38 In order to ensure that the RFB group risk is adequately covered in the consolidated group, the PRA expects firms to take account of this type of group risk² when carrying out an ICAAP on a consolidated basis. In making this assessment of RFB group risk, firms should have regard to PRA Supervisory Statement SS31/15 'The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)' and the PRA's Statement of Policy 'The PRA's methodologies for setting Pillar 2 capital'.

....

¹ PRA Supervisory Statement SS31/15 defines 'RFB group risk', in relation to a consolidation group containing an RFB sub-group, as [the risk that the financial position of a firm on a consolidated basis may be adversely affected by the minimum capital and buffers applicable at the level of the RFB sub-group, such that there is insufficient capital within (or an inappropriate distribution of capital across) the consolidated group, to cover the risks of the consolidated group].

² Group risk, as defined in the PRA Rulebook (Internal Capital Adequacy Assessment 1.2), means the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risk which may affect the financial position of the whole group, including reputational contagion.

Recovery planning

4.39 The PRA expects a group containing an RFB to include recovery options for the RFB sub-group in the group recovery plan. This supervisory statement should be read in conjunction with the Recovery and Resolution Part of the PRA Rulebook and Supervisory Statement 19/13 'Resolution Planning.'

8 Continuity of services and facilities of RFBs

...

8.3 'Services and facilities' includes the following types of services and facilities that support the business of the RFB: data-processing services; property management services; information technology; data centres; and back office functions (including FMI-related back office functions). Note that this is not an exhaustive list.

...

11 Reporting Requirements

11.1 The PRA sets out below its expectations in relation to the Reporting Requirements Part of the PRA Rulebook, which sets out reporting requirements for RFBs.

Financial reporting by RFB sub-groups

11.2 The application of CRR Part Two to the RFB sub-group means that, where the RFB meets the criteria set out in CRR article 99(2), the RFB must satisfy CRR financial reporting requirements (FINREP) on a sub-consolidated basis. Where the RFB does not meet the criteria set out in CRR article 99(2), the PRA expects to require that the RFB should nonetheless comply with FINREP requirements on a sub-consolidated basis. Similarly, the PRA expects to require the parent entity in an RFB sub-group to submit to the PRA audited group accounts, produced in line with the requirements outlined in the Companies Act 2006, if these would not otherwise be produced under the requirements set out in that Act.

Application of Remuneration Part of the PRA Rulebook

11.3 Chapter 18 of the Ring-fenced Bodies Part applies the Remuneration Part of the PRA Rulebook to an RFB on a sub-consolidated basis. Within the Remuneration Part, there are reporting requirements relating to Remuneration Benchmarking and High Earners reporting requirements. The PRA expects information collected through existing remuneration annual review processes would satisfy these requirements for an RFB on a sub-consolidated basis and would not expect an RFB to submit additional sub-consolidated information using pre-defined templates.

Annual SMF attestation of the inclusion of intragroup OTC derivative transactions into the scope of the own funds requirements for CVA risk

11.4 The PRA expects that an appropriate individual performing a Senior Management Function (SMF) in the RFB provides to the PRA on an annual basis written attestation that for the purposes of calculating the own funds requirement for CVA risk:

- on an individual basis, the RFB has included intragroup OTC derivative transactions undertaken with group members that are outside of the RFB sub-group; and

- on a sub-consolidated basis, the RFB has included intragroup OTC derivative transactions undertaken by all PRA-regulated entities within the RFB sub-group that are required by the CRR to calculate own funds requirements for CVA risk, with group members outside of the RFB sub-group.

11.5 Similarly, the PRA also expects that each PRA-regulated entity within the RFB sub-group that is required to calculate own funds requirements for CVA risk on an individual basis should ensure that an appropriate individual performing a SMF provides to the PRA on an annual basis written attestation that the firm has included intragroup OTC derivative transactions undertaken with group members outside of the RFB sub-group.

11.6 In all of the cases above, the PRA expects this additional responsibility to be expressly reflected in the Statement of Responsibilities of the relevant appropriate individual performing a SMF.

Core Deposits

11.7 Notifications 12.2 of the PRA Rulebook requires a UK deposit taker to notify the PRA within 30 days if its core deposits or, if it is a member of a group, the aggregate core deposits of each relevant group member, exceed, or have decreased to below, £25bn. Notifications 12.3 also requires a UK deposit taker to notify the PRA within 30 days if it reasonably expects or has information that reasonably suggests that it will meet or cease to meet the core deposit level condition within the next three years. Core deposit has the meaning given in article 1(3) of the Core Activities Order¹ ('the Order'). The core deposit level condition has the meaning given in articles 11(1)(d) and 12 of the Order.

11.8 Core deposits may represent a subset of a firm's total deposits. The PRA therefore expects firms to consider this proportion when assessing the extent to which they need to actively monitor core deposits. The PRA would expect this monitoring to increase as appropriate as a bank's deposit level increases, depending on, among other factors, their proportion of core deposits and the rate of deposit growth. The PRA expects firms to consider the core deposit level condition as part of their general business planning, taking into account the expected growth in deposits over time.

¹ SI 2014/1960 The Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities Order).

Appendix 5: Draft amendments to SS31/15 'The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)'

This appendix outlines proposed amendments to SS31/15 'The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)'

Underlining indicates new text and striking through indicates deleted text.

...

1.7 This supervisory statement should be read in conjunction with the *PRA Statement of Policy, 'The PRA's methodologies for setting Pillar 2 capital'*¹. For ring-fenced bodies (RFBs), as defined in the Financial Services and Markets Act 2000 (FSMA), section 142A, and banking groups containing RFBs, this statement should be read alongside the PRA's Supervisory Statement SS 8/16 'Ring-fenced Bodies (RFBs).'²

...

Group risk

2.16 Under ~~the Systems Sourcebook, SYSC 12.1.8R, of the PRA Handbook Rulebook~~ a firm is required to have adequate, sound and appropriate risk management processes and internal control mechanisms for the purpose of assessing and managing its own exposure to group risk,⁴ including sound administrative and accounting procedures.³

2.17 Group risk, as defined in the PRA Rulebook,⁴ means the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risk which may affect the financial position of the whole group, including reputational contagion.

Ring-fenced body (RFB) group risk

2.18 RFB group risk means, in relation to a consolidation group containing an RFB sub-group,^{5,6} the risk that the financial position of a firm on a consolidated basis may be adversely affected by the minimum capital and buffers applicable at the level of the RFB sub-group, such that there is insufficient capital within (or an inappropriate distribution of capital across) the consolidated group to cover the risks of the consolidated group.

2.19 The PRA therefore expects a firm that is a member of a consolidation group containing an RFB sub-group to ensure that the minimum capital and buffers applicable at the level of the

¹ www.bankofengland.co.uk/pr/Pages/publications/sop/2016/p2methodologiesupdate.aspx.

² www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss816.aspx.

³ Group Risk Systems 2.1.

⁴ ~~Group risk, as defined in the PRA Rulebook, means the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risk which may affect the financial position of the whole group, including reputational contagion.~~

⁴ Internal Capital Adequacy Assessment 1.2.

⁵ An RFB sub-group is a sub-set of related group entities within a consolidation group, consisting of one or more RFBs and other legal entities, which is established when the PRA gives effect to Article 11(5) of the CRR. See SS8/16 'Ring fenced bodies (RFBs)' for more detail.

⁶ In the event that an RFB is not part of an RFB sub-group, the PRA expects to apply an equivalent approach in the event that prudential requirements are applicable to the RFB on an individual basis.

RFB sub-group do not result in the consolidated group having insufficient capital within it, or an inappropriate distribution of capital across it, to cover the risks faced by the consolidation group; and in order to ensure that RFB group risk is adequately covered in consolidated group capital, firms are expected to take account of this risk when carrying out an ICAAP on a consolidated basis.

2.20 When a firm is assessing RFB group risk as part of its ICAAP on a consolidated basis, the PRA expects it to consider the following:

- the extent to which any systemic risk buffer (SRB) exceeds the RFB sub-group's share¹ of any group-wide global systemically important bank (G-SIB) buffer;
- any minimum capital and buffers applicable at the level of the RFB sub-group attributable to risk-weighted exposures of the RFB sub-group to group entities that are not members of the RFB sub-group;
- the extent to which the amount of capital applicable at the level of the RFB sub-group to cover the credit concentration risk on a sub-consolidated basis exceeds the RFB sub-group's share² of the capital applicable at the level of the consolidated group to cover the credit concentration risk on a consolidated basis; and
- as appropriate, the amount by which the minimum capital or buffers applicable at the RFB sub-group level to cover any other risk exceed the RFB sub-group's minimum capital or buffers applicable at the consolidated group level to cover the same risk. (This could include, for example, operational risk or the risk of the consolidated group being undercapitalised following the application of PRA rules on deduction of significant investments in financial sector entities at the level of the RFB sub-group.)³

2.21 Pension obligation risk: As set out in SS8/16 'Ring fenced bodies (RFBs)', the PRA expects an RFB to ensure it has fully and appropriately considered group risk arising in respect of its pension arrangements when conducting its assessment of pension obligation risks at the level of the RFB sub-group. The PRA expects an RFB to consider all relevant factors when performing its assessment, including, but not limited to, its current share of consolidated group pension obligations, and its expected future share where it is making changes to its pension arrangements. An RFB's assessment should not be limited to a simple allocation of a share of the consolidated group's pension obligation risk. A full assessment may therefore result in a higher capital requirement than if the RFB were to apply a 'share-of-group' approach, particularly in the period prior to 1 January 2026. The PRA also expects to apply its existing policy, as set out in this supervisory statement, when assessing the pension obligation risk of a consolidated group containing an RFB. Given:

- the transitional nature of the risk, and
- assuming the sum of the amount of pension risks at the level of the RFB sub-group and group entities that are not members of the RFB sub-group is not expected to increase to a level above that of the consolidated group in the event that the RFB will have to assume the pension liabilities of group entities that are not members of the RFB sub-group,

¹ This share can be determined by multiplying the Global-Systemically Important Bank (G-SIB) buffer by the proportion of the consolidated group's Pillar 1 RWAs (the total risk exposure amount calculated in accordance with Article 92(3) of the CRR) that are attributable to the RFB sub-group.

² This share can be determined by multiplying the capital applicable at the level of the consolidated group to cover the credit concentration risk on a consolidated basis by the proportion of the consolidated group's credit risk RWAs that are attributable to the RFB sub-group.

³ See paragraphs 2.1 and 2.2 in the Definition of Capital Part of the PRA's Rulebook.

the PRA expects the assessment of RFB group risk at group level to be unaffected by the assessment of the pension obligation risk for the RFB sub-group.

2.22 In respect of the obligation under Internal Capital Adequacy Assessment 13.1, the PRA expects that firms should provide in their ICAAP document sufficient supplementary evidence, to an auditable standard, to demonstrate clearly how the additional capital to cover the RFB group risk is calculated. Specifically, breaking down the total amount of the additional capital to identify the amount of capital attributable to each part of the assessment referred to in paragraph 2.20.

[Current paragraphs 2.17 to 2.38 to be re-numbered as 2.23 to 2.44]

...

4 Reverse Stress Testing

...

4.7. In carrying out its reverse stress testing, a firm should consider scenarios in which the failure of one or more of its major counterparties or a significant market disruption arising from the failure of a major market participant, whether or not combined, would cause the firm's business to fail. For an RFB, this supervisory statement should be read in conjunction with SS8/16 'Ring-fenced bodies (RFBs)'. SS8/16 sets out the PRA's expectation that an RFB sub-group should consider the failure of group entities that are not members of the RFB sub-group as part of reverse stress testing.

5 The SREP

...

5.6 Where groups contain an RFB sub-group, the SREP will also consider RFB group risk.

[Current paragraphs 5.6 to 5.14 to be re-numbered as 5.7 to 5.15]

...

The setting of ICG and the PRA buffer

ICG

~~5.15~~ 5.16 The PRA will set ICG for firms which must comply with the overall financial adequacy rule in Internal Capital Adequacy Assessment 2.1 on a consolidated basis and, where groups contain an RFB sub-group, on a sub-consolidated basis. The PRA may decide not to set ICG on an individual basis to members of a group where firms are able to demonstrate that capital has been adequately allocated among subsidiaries and that there are no impediments to the transfer of capital within the group. This does not absolve individual firms or members of the group of their obligation to comply with the overall financial adequacy rule in Internal Capital Adequacy Assessment 2.1, which applies to all firms on an individual basis whether or not it also applies to the firm on a consolidated basis or on a sub-consolidated basis.

[Current paragraphs 5.16 to 5.19 to be re-numbered as 5.17 to 5.20]

...

The PRA buffer

...

[Current paragraphs 5.20 to 5.23 to be re-numbered as 5.21 to 5.24]

5.24 5.25 The PRA may set a firm's PRA buffer either as an amount of capital which it should hold from the time of the PRA's notification following the firm's SREP or, in exceptional cases, as a forward-looking target that a firm should build up over time. Where the general stress and scenario testing rule, as part of the ICAAP rules, applies to a firm on a consolidated and/or sub-consolidated basis the PRA may notify the firm that it should hold a PRA buffer on a consolidated and/or sub-consolidated basis (as applicable). The PRA may in certain circumstances notify a firm that it should hold a PRA buffer on an individual basis.

[Re-number rest of chapter]

Appendix 6: Draft amendments to ‘FSA071 Firm information and Pillar 2A summary’ reporting template and instructions

This appendix outlines proposed changes to ‘FSA071 Firm information and Pillar 2A summary’ reporting template and instructions.

Underlining indicates new text and striking through indicates deleted text.

FSA071 Firm Information and Pillar 2 Summary – template

	P2A add-on categories	Pillar 1 amount, (firms can provide this information at the ICAAP reference date to facilitate PRA review)	Pillar 2 amount	Comments
		010	020	030
010	Total P1			
020	Credit			
030	Market			
040	Operational (total)			
050	Conduct			
060	Non-conduct			
070	Concentration (total)			
080	Single name			
090	Sector			
100	Geographical International			
110	Other concentration			
120	Pensions			
130	Interest Rate Risk in the Banking Book			
<u>135</u>	<u>Pillar 2A RFB group risk add-on (total)</u>			
<u>136</u>	<u>RFB group risk add-on 1</u>			
<u>137</u>	<u>RFB group risk add-on 2</u>			
<u>138</u>	<u>RFB group risk add-on 3</u>			
<u>139</u>	<u>RFB group risk add-on 4</u>			
140	Other P2 add-on			
150	Other add-on 1			
160	Other add-on 2			
170	Other add-on 3			
180	Other add-on 4			
190	Other add-on 5			
200	Total P2A			
210	Total ICG			
220	Total ICG, % of Pillar 1 RWAs			

The PRA proposes to amend the instructions for completion of FSA071 as follows:

FSA071 – Firm information and Pillar 2A summary – instructions

Firms are expected to report their own assessment of the Pillar 2 capital they consider adequate to cover the risks assessed in accordance with the Internal Capital Adequacy Assessment (ICAA) part of the PRA Rulebook.

General information

Firm should complete the following mandatory fields:

- the basis of their reporting – UK consolidated, solo consolidation, UK consolidation group or capital sub-group;
- the submission number – firms should enter ‘1’ and increase this number by ‘1’ in case of resubmission;
- the unique ‘firm reference number’ (FRN);
- the name of the firm;
- the reporting period start and end dates – these dates should coincide with the ICAAP assessment period. In particular, the reporting end date is the balance sheet end date used for purposes of the ICAAP assessment; and
- the reporting currency – firms should report in the currency of their ICAAP ie Pounds Sterling (GBP), US Dollars (USD), Euros (EUR), Canadian Dollars (CAD), Swiss Francs (CHF), Japanese Yen (JPY) or Swedish Krona (SEK).

Units

All amounts should be reported in absolute values rounded to the nearest whole number in reporting currency.

Where values correspond to percentages, these should be entered as decimal numbers up to 2 decimal places. For example, ‘70.00%’.

Definitions

All definitions are in line with implementing technical standards (ITS) on Supervisory Reporting, and CRD IV, unless otherwise specified.

Comments

Comment boxes are limited to 255 characters. Any additional information should be sent to the PRA via electronic means.

RFB group risk add-on

In relation to a consolidation group containing an RFB sub-group, firms should provide the total amount of any Pillar 2A RFB group risk add-on (line 135) together with a breakdown of the constituent parts (lines 136 to 139). A description of each constituent part should be provided in the comments boxes.

These lines should be left blank if the relevant consolidation group does not contain an RFB sub-group.

Appendix 7: Draft amendments to ‘Guidance on terms used in data items FSA071 to FSA082’

The PRA proposes to amend ‘Guidance on terms used in data items FSA071 to FSA082’ to include a new definition.

Underlining indicates new text and striking through indicates deleted text.

Pillar 2A RFB group risk add-on: The consolidated Pillar 2A capital to cover RFB group risk. RFB group risk means, in relation to a consolidation group containing an RFB sub-group,^{1,2} the risk that the financial position of a firm on a consolidated basis may be adversely affected by the minimum capital and buffers applicable at the level of the RFB sub-group, such that there is insufficient capital within (or an inappropriate distribution of capital across) the consolidated group to cover the risks of the consolidated group.

¹ An RFB sub-group is a sub-set of related group entities within a consolidation group, consisting of one or more RFBs and other legal entities, which is established when the PRA gives effect to Article 11(5) of the CRR. See SS8/16 ‘Ring fenced bodies (RFBs)’ for more detail.

² In the event that an RFB is not part of an RFB sub-group, the PRA expects to apply an equivalent approach in the event that prudential requirements are applicable to the RFB on an individual basis.

Appendix 8: Draft amendments to Statement of Policy ‘The PRA’s methodologies for setting Pillar 2 capital’

This appendix outlines proposed amendments to Statement of Policy ‘The PRA’s methodologies for setting Pillar 2 capital’

Underlining indicates new text and striking through indicates deleted text.

Contents

...
9 ~~The PRA buffer~~ Pillar 2A for RFB group risk

Section II: Pillar 2B

~~9-10~~ The PRA buffer

1 Introduction

...
1.2 Section I: *Pillar 2A methodologies* sets out the methodologies the PRA will use to inform the setting of a firm’s Pillar 2A individual capital guidance for credit risk, market risk, operational risk, counterparty credit risk, credit concentration risk, interest rate risk in the non-trading book (hereafter referred to as interest rate risk in the banking book (IRRBB)) ~~and~~ pension obligation risk and RFB group risk.

1.3 Section II: Pillar 2B provides information on the purpose of the PRA buffer, how it is determined and how it relates to the CRD IV buffers. Section II also provides details on the PRA’s approach to tackling weak governance and risk management under Pillar 2B and RFB group risk.

...

9 Pillar 2A for RFB group risk

9.1 This chapter sets out the methodology the PRA uses to inform the setting of a firm’s Pillar 2A individual capital guidance for RFB group risk, where groups contain an RFB sub-group.

Definition and scope of application

9.2 Group risk, as defined in the PRA Rulebook¹, means the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risk which may affect the financial position of the whole group, including reputational contagion.

9.3 RFB group risk means, in relation to a consolidation group containing an RFB sub-group,^{2,1} the risk that the financial position of a firm on a consolidated basis may be adversely affected

¹ Internal Capital Adequacy Assessment 1.2

² An RFB sub-group is a sub-set of related group entities within a consolidation group, consisting of one or more RFBs and other legal entities, which is established when the PRA gives effect to Article 11(5) of the CRR. See SS8/16 ‘Ring fenced bodies (RFBs)’ for more detail.

by the minimum capital and buffers applicable at the level of the RFB sub-group, such that there is insufficient capital within (or an inappropriate distribution of capital across) the consolidated group to cover the risks of the consolidated group.

Methodology

9.4 Where minimum capital (Pillar 1 or Pillar 2A) of the RFB sub-group for an identified risk is higher than the RFB sub-group's share of the minimum capital for that risk on a consolidated basis, the difference will usually be reflected in Pillar 2A individual capital guidance on a consolidated basis to reflect the associated RFB group risk at the consolidated group level.

9.5 The PRA's assessment of the total amount of the Pillar 2A individual capital guidance for RFB group risk will be informed by the following:

- any minimum capital applicable at the level of the RFB sub-group that is attributable to risk-weighted exposures of the RFB sub-group to group entities that are not members of the RFB sub-group;
- the difference between:
 1. the amount of capital applicable at the RFB sub-group level to cover credit concentration risk identified on a sub-consolidated basis, and
 2. the RFB sub-group's share of the capital held by the consolidated group to cover credit concentration risk identified for the consolidation group.

The share referred to in point 2 above will be calculated as:

- a. the amount of capital applicable at the level of the consolidated group to cover the credit concentration risk identified for the consolidation group, multiplied by
 - b. the proportion of the consolidated group's credit risk RWAs that are attributable to the RFB sub-group;² and
- as appropriate, the amount by which the minimum capital applicable at the RFB sub-group level to cover any other risk exceeds the amount of minimum capital applicable at the consolidated group level to cover the same risk. (This could include, for example, operational risk or the risk of a consolidation group being undercapitalised following the application of PRA rules on deduction of significant investments in financial sector entities at the level of the RFB sub-group.)³

9.6 Pension obligation risk: As set out in SS8/16 'Ring-fenced bodies (RFBs), the PRA expects an RFB to ensure it has fully and appropriately considered group risk arising in respect of its pension arrangements when conducting its assessment of pension obligation risks at the level of the RFB sub-group. The PRA expects an RFB to consider all relevant factors when performing its assessment, including, but not limited to, its current share of consolidated group pension obligations, and its expected future share where it is making changes to its pension arrangements. An RFB's assessment should not be limited to a simple allocation of a share of the consolidated group's pension obligation risk. A full assessment may therefore result in a

¹ In the event that an RFB is not part of an RFB sub-group, the PRA expects to apply an equivalent approach in the event that requirements are applicable to the RFB on an individual basis.

² The proportion of the consolidated group's credit risk RWAs that are attributable to the RFB sub-group is calculated as the RFB sub-group's credit risk RWAs (calculated on a sub-consolidated basis) minus the risk-weighted exposures of the RFB sub-group to group entities that are not members of the RFB sub-group.

³ See paragraphs 2.1 and 2.2 in the Definition of Capital Part of the PRA's Rulebook.

higher capital requirement than if the RFB were to apply a 'share-of-group' approach, particularly in the period prior to 1 January 2026. The PRA also expects to apply its existing policy, as set out in SS31/15, when assessing the pension obligation risk of a consolidated group containing an RFB. Given:

- the transitional nature of the risk, and
- assuming the sum of the amount of pension risks at the level of the RFB sub-group and group entities that are not members of the RFB sub-group is not expected to increase to a level above that of the consolidated group in the event that the RFB will have to assume the pension liabilities of group entities that are not members of the RFB sub-group,

the PRA expects the assessment of RFB group risk at group level to be unaffected by the assessment of the pension obligation risk for the RFB sub-group.

Reporting

9.7 Firms are required to submit data in respect of the Pillar 2A RFB group risk add-on in FSA071.

Section II: Pillar 2B

9 10 The PRA buffer

[Renumber current paragraphs 9.1 to 9.5 as 10.1 to 10.5]

...

10.6 Where a particular buffer applicable on a sub-consolidated basis for the RFB sub-group is higher than the RFB sub-group's share¹ of the corresponding buffer on a consolidated basis, the difference will generally be reflected in the setting of the consolidated group's PRA buffer to reflect the associated RFB group risk at the consolidated group level.

10.7 Where the PRA sets additional capital in the consolidated PRA buffer to cover RFB group risk, it should not be reduced as the CRD IV buffers phase in, for the purposes of that part of the PRA buffer assessment.

[Re-number current paragraphs 9.6 to 9.33 as 10.8 to 10.35]

...

Other factors affecting the PRA buffer assessment

...

Pillar 2B for RFB group risk

¹ The RFB sub-group's share of a particular consolidated group buffer can be determined by multiplying that consolidated group buffer by the proportion of the consolidated group's Pillar 1 RWAs that are attributable to the RFB sub-group. The consolidated group's RWAs that are attributable to the RFB sub-group is calculated as the RFB sub-group's Pillar 1 RWAs (calculated on a sub-consolidated basis) minus the risk-weighted exposures of the RFB sub-group to group entities that are not members of the RFB sub-group.

10.36 The PRA's assessment of the total amount of the PRA buffer at consolidated group level for RFB group risk will be informed by the following:

- the amount by which any systemic risk buffer (SRB) exceeds the RFB sub-group's share of any Global Systemically Important Bank (G-SIB) buffer at the consolidated group level;¹
- the amount by which any other buffer applicable on a sub-consolidated basis for the RFB sub-group is higher than the RFB sub-group's share of the corresponding buffer on a consolidated basis; and
- any other buffer capital applicable at the level of the RFB sub-group that is attributable to the risk-weighted exposures of the RFB sub-group to group entities that are not members of the RFB sub-group.

¹ Where the G-SIB buffer is not applicable, the amount of the G-SIB buffer will usually be set as zero for the purposes of this assessment.