



Supervisory Statement | Draft for consultation

International banks: The PRA's approach to branch and subsidiary supervision

January 2021





BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

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1 Introduction

1.1 This Supervisory Statement (SS) expands on the Prudential Regulation Authority's (PRA's) approach to banking supervision.¹ It applies to PRA-authorized banks and designated investment firms² that are headquartered outside of the UK or are part of a group based outside of the UK. In this SS, such firms are referred to as 'international banks'. It therefore includes those firms operating in the UK through a branch. Accordingly, this statement replaces SS1/18 'International banks: the Prudential Regulation Authority's approach to branch authorisation and supervision'.³

1.2 Although this SS largely consolidates the PRA's existing approach to international banks, the PRA recognises that firms operating with deemed authorisations under the temporary permissions regime (TPR)⁴ may need additional time to adjust. Accordingly, these firms will not need to meet the expectations in this SS immediately, but will need to do so as soon as practicable (taking into account their individual business model and systemic impact), and in any event by the time they are authorised by the PRA and exit the TPR. As part of pre-authorisation discussions, the PRA will expect such firms to demonstrate how they intend to meet these expectations.

1.3 This SS sets out the PRA's expectations for receiving information concerning the risks in the wider group⁵ and co-operation from other supervisory authorities concerned with the firm or its wider group. This is necessary for the PRA to be satisfied that the international bank is meeting threshold conditions, particularly the threshold condition concerning the effective supervision of the firm. This SS also sets out expectations of international banks in meeting the threshold condition on the prudent conduct of business, including their systems and controls and risk management. While this SS draws out and elaborates on matters discussed in other SS that are particularly relevant for international banks, it is to be read with, and does not replace, international banks' obligations under applicable legislation, the PRA's rules, and the expectations set out in its policy publications.⁶

1.4 This SS is structured as follows:

- Chapter 2 summarises the PRA's overall approach and the relationship between (i) a firm's size and systemic importance; (ii) the information, co-operation, and controls likely to be required to be effectively supervised; and (iii) the degree of independence between UK and overseas business.
- Chapter 3 then elaborates on the first of those points – the relationship between a firm's size and systemic importance – as well as setting out some general expectations.
- Chapter 4 expands on the information, co-operation, and controls likely to be required to be effectively supervised.
- Chapter 5 explains how the degree of independence between UK and overseas business in the firm or group needs to be commensurate with the two factors above and, in particular, how the PRA may use its supervisory tools, if necessary, to ensure that this is achieved.

1 'The PRA's approach to banking supervision', October 2018. Available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors>.

2 PRA designated investment firms list: www.bankofengland.co.uk/prudential-regulation/authorisations/which-firms-does-the-pra-regulate.

3 March 2018: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/international-banks-pras-approach-to-branch-authorisation-and-supervision-ss>.

4 <https://www.bankofengland.co.uk/eu-withdrawal/temporary-permissions-regime>.

5 In this SS, references to a group include, in the case of a branch, the legal entity of which the branch forms part.

6 Available at: <https://www.bankofengland.co.uk/prudential-regulation/policy>.

- Chapter 6 explains additional expectations the PRA has for firms operating in the UK through a branch, whether or not they are part of a wider group. In particular, it sets out in more detail the specific factors considered when deciding whether to authorise firms to undertake activities in the UK as a branch or a subsidiary instead.

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2 Overall approach of responsible openness

2.1 The PRA's supervisory approach is grounded in the risks to its statutory objective of promoting the safety and soundness of PRA authorised firms, particularly by seeking to avoid adverse effects on the stability of the financial system of the UK. The PRA has to be satisfied that a firm is capable of meeting threshold conditions on an ongoing basis, including the requirement that it is capable of being effectively supervised by the PRA. For international banks, this will depend in part on the risks in the wider group being visible to the PRA, and the level of co-operation and information it is receiving from the firm and relevant overseas supervisory and resolution authorities.⁷ This is because the PRA needs to understand what risks the UK branch or subsidiary is exposed to and how these are dependent on the business and risk profile of the rest of the firm or the group.

2.2 For UK subsidiaries of groups based outside the UK, the PRA applies the same regulatory requirements and follows the same supervisory framework as for firms that are based in the UK and are either not part of a group or are part of a group based in the UK. However, its supervisory approach takes into account the links between the subsidiary and the rest of the group of which it forms a part. Where that group is not based in the UK, the PRA will typically have less information on the risks arising in the group, and less ready access to those responsible for group risk management. The PRA tailors its supervisory approach according to the nature, scale, and complexity of a firm's UK operations and potential impact on financial stability in the UK, and also according to the extent to which the UK operations are integrated with overseas operations. Accordingly, the PRA's expectations of subsidiaries of groups based outside the UK may well differ in some areas from those of subsidiaries belonging to groups based in the UK. Details of how the PRA's expectations vary in this regard are set out in this SS.

2.3 Many of the expectations in this SS apply both to subsidiaries and to firms operating through a UK branch. However, the PRA will take into account which structure is being used and the effect this has on the risks to the PRA's objectives. For firms that operate through a UK branch, the branch forms part of a legal entity incorporated outside the UK. It follows that its operations are necessarily dependent on those of the legal entity as a whole. It will be subject to prudential regulation by its home state supervisory authority according to where it is based. Unlike UK subsidiaries, the PRA applies a different set of rules to such firms, recognising that while PRA authorisation applies to the whole firm, it is appropriate to rely on the home state supervisor for certain aspects of supervision. The expectations that the PRA has for information relevant to the PRA's objectives will therefore also vary in this regard.

2.4 The Financial Conduct Authority (FCA) is the conduct regulator for all banks and investment firms operating in the UK. Therefore, for such firms, whether operating as subsidiaries or through branches in the UK, the FCA's threshold conditions and conduct of business rules apply, including in areas such as anti-money laundering. Authorisation can be granted only where both the FCA and the PRA are satisfied that their respective requirements have been met. The FCA will independently assess applicants against its own requirements and objectives.

2.5 Subject to these foundations, the PRA recognises the efficiency benefits that banks' international operations can bring. As such it is open, in principle, to hosting subsidiaries of

⁷ Home jurisdiction and home state supervisor refer to the jurisdiction and supervisory authority that has assumed responsibility for consolidated prudential supervision where a firm is part of a group, together with any other jurisdiction or supervisory authority with a regime that is particularly relevant to the way in which an international bank does business in the UK. They also include the supervisory authority responsible for the prudential supervision of a firm with a UK branch. Home resolution authority refers to the resolution authority responsible for the resolution of the overall group and coordination of resolution plans.

international groups that operate a highly integrated global business model, and to allowing firms to operate in the UK through a branch or subsidiary.

2.6 The PRA recognises that many wholesale businesses, and investment banking and trading in particular, are operated on a global and highly integrated basis.

2.7 The PRA has different expectations for businesses that engage in retail banking activities, since those activities tend to have a greater effect on financial stability. Additional requirements would apply to firms that would fall within the scope of the UK's ring-fencing regime.⁸ Large retail banking activities can be more effectively supervised if they are separated from other activities in the wider group. Above certain thresholds,⁹ the PRA will consider authorising firms as subsidiaries in the UK rather than permitting them to operate through a UK branch, thereby increasing the separation of the UK retail business from risks arising overseas. However, below the threshold at which ring-fencing requirements apply, the PRA does not have any greater expectation for the separation of retail business. It does, however, expect to receive more information on any financial and operational dependencies (including cross-subsidies) between that retail business and wholesale business, whether within the same firm or between related group entities.

2.8 The PRA's overall approach can be summarised in Figure 1 (which may be read in conjunction with Figure 2, which specifically covers branches).

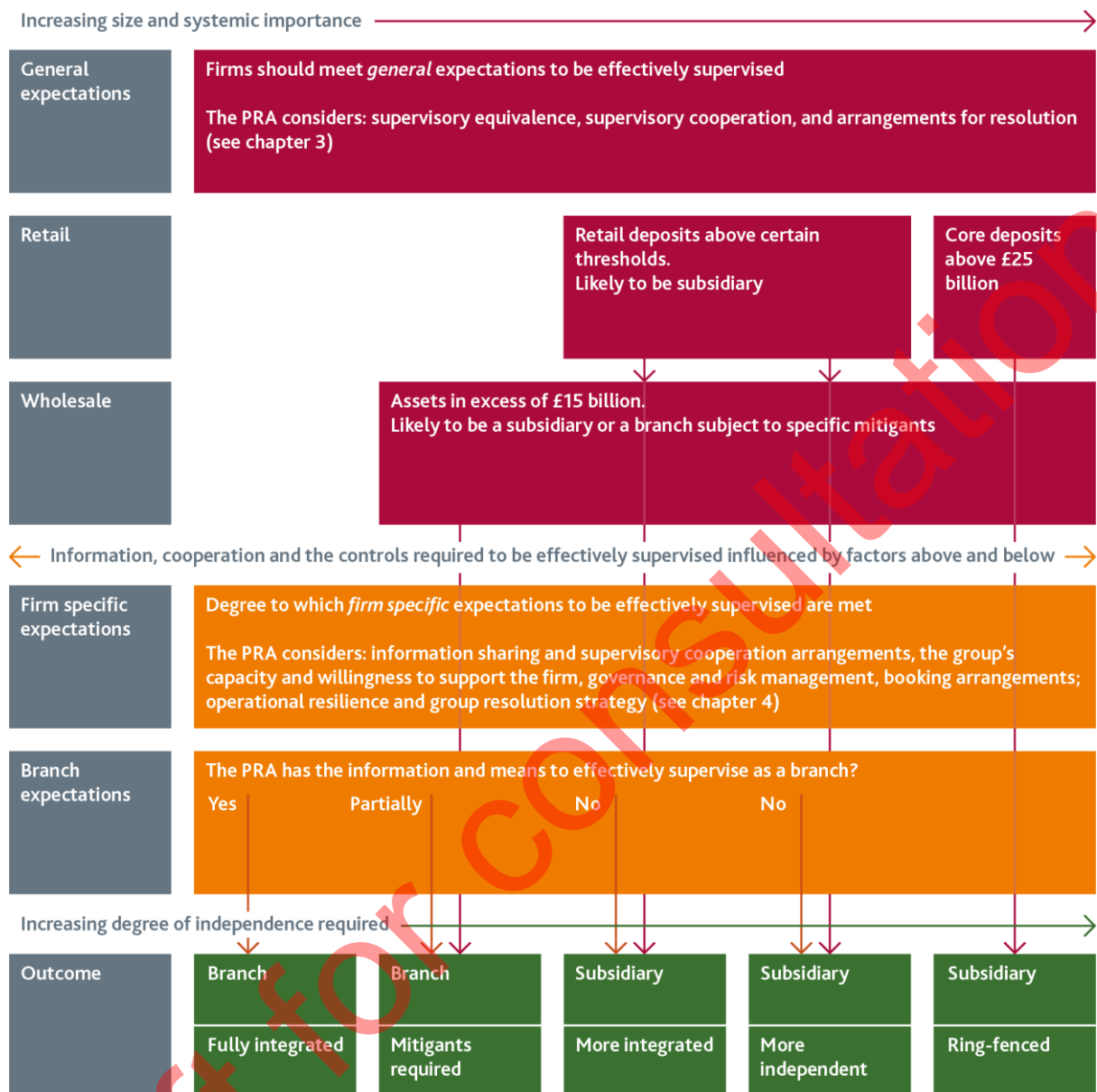
2.9 Each element in Figure 1 is considered below in more detail.

2.10 It should be noted, however, that apart from ring-fencing requirements, there is no automatic or fixed outcome that the PRA applies in terms of the degree of integration or separation that is appropriate. The PRA applies a graduated set of expectations which are tailored to each firm's circumstances. The exact measures that the PRA may take, according to the degree of integration or independence appropriate for a subsidiary or branch, are described in Chapter 5. The requirements imposed by the ring-fencing regime are in addition to the PRA's expectations concerning the information and controls required for a firm that is a ring-fenced body to be capable of being adequately supervised as a consequence of its membership of a wider group.

⁸ <https://www.bankofengland.co.uk/prudential-regulation/key-initiatives/ring-fencing>.

⁹ One threshold is £100 million of retail and small company transactional deposits, but the PRA also considers the number of such deposit accounts and the total potential liability to the Financial Services Compensation Scheme. See paragraphs 6.14 to 6.16 for full details.

Figure 1: PRA expectations for effective supervision



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3 General approach, size, and systemic importance

3.1 The PRA has general expectations that underpin its ability to effectively supervise banks and designated investment firms which are part of international groups or headquartered overseas. Subject to these, the PRA's expectations then vary according to the nature, size, and systemic importance of the UK operations. This, coupled with the degree of information available, the effectiveness of co-operation with the home state supervisor, and the controls that are in place, influences the degree of separation or integration that is acceptable to the PRA as an operational outcome.

General expectations for effective supervision

3.2 For firms that are part of international groups carrying on banking business in the UK, the PRA first assesses the general factors that must be in place for effective supervision to be possible, and then assesses the factors specific to each international bank and any group of which it is a member.

3.3 The general factors the PRA considers are:

- (a) whether the home jurisdiction's prudential supervision regime is sufficiently equivalent to the UK regime;
- (b) whether there is sufficient supervisory co-operation with the home state supervisor; and
- (c) the efficacy of the arrangements for resolution. Consistent with the expectations set out in Fundamental Rule 8 and the Bank of England's (the Bank) Resolvability Assessment Framework,¹⁰ these arrangements will be assessed in consultation with the Bank as the UK resolution authority.

a) Equivalence

3.4 The PRA assesses the degree to which the home jurisdiction's prudential supervision regime is equivalent, taking account of the following characteristics of the home state supervisor (this is not an exhaustive list):

- its regulatory framework;
- powers;
- general approach to the supervision of individual firms and the consolidated group;
- information sharing;
- confidentiality; and
- the competence and independence of supervision.

3.5 The PRA will make an overall assessment of whether the home state supervisor is sufficiently equivalent, and whether its regime is consistent with the UK regulatory framework in delivering appropriate outcomes that meet the PRA's objectives.¹¹ The PRA assesses these factors in their

¹⁰ Details available at: <https://www.bankofengland.co.uk/paper/2019/the-boes-approach-to-assessing-resolvability>.

¹¹ The PRA's assessment of equivalence is based on the outcomes achieved and is for the purposes of authorisation and supervision by the PRA, which is separate from advice the PRA may provide to HM Treasury where HM Treasury may make determinations of equivalence for other purposes. The PRA may give advice to HM Treasury pursuant to Regulation 4 of The Equivalence Determinations for Financial Services and Miscellaneous Provisions (Amendment etc.) (EU Exit) Regulations 2019 (SI 2019/541).

totality, but will place considerable weight on assessing the extent and quality of co-operation with the home state supervisor. The PRA will take into account the supervision of individual firms (including branches) and their consolidated group, and it will consider the nature and scale of a firm's activities in the UK.

3.6 Equivalence assessments are reviewed periodically. The frequency of review is determined by the number, size, and systemic importance of the firms from a home state. The assessments of the home state supervisor focus on the degree to which the home state supervisor's regime is compliant with the Basel principles in terms of supervisory approach, tools, and practices. In performing the assessments, the PRA will base its analysis on the Basel capital and group supervision standards, the Basel Committee's Regulatory Consistency Assessment Programme reviews,¹² the International Monetary Fund's Financial Sector Assessment Programme reviews,¹³ and the Financial Stability Board's (FSB) peer reviews¹⁴ where appropriate, supplemented by other sources as necessary. The PRA will also take account of its own experiences in its interactions with the home state supervisors. It will also be important for the PRA to factor in any conduct concerns that the FCA may raise concerning a jurisdiction.

3.7 Where in the PRA's view a home state supervisor is sufficiently equivalent but there are weaknesses in the way the firm operates, the PRA may propose to add limitations to the nature and scale of activities performed in the UK. In exceptional circumstances, the PRA may not be satisfied that a home jurisdiction delivers equivalent outcomes, but may still authorise a firm to operate as a subsidiary in the UK. However, the limitations that are likely to be appropriate in those circumstances may be such that the UK subsidiary is as independent of the overseas operations as possible, and that the PRA has a high degree of direct supervisory influence on the group in relation to the activities of the subsidiary.

b) Supervisory co-operation

3.8 In considering whether there is sufficient supervisory co-operation with the home and other relevant supervisors, the PRA has the following approach.

3.9 Supervisory co-operation is usually underpinned by the PRA entering into a memorandum of understanding (MoU) with the relevant home state supervisory authority.¹⁵ These establish a formal basis for: co-operation, including the exchange of information and investigative assistance; the facilitation of timely and effective supervision; and for the identification of risks to the financial system, including emergency situations.

3.10 In developing this co-operation framework, the PRA has taken account of the following Bank for International Settlements publications: 'High-level principles for the cross-border implementation of the New Accord',¹⁶ 'Principles for effective supervisory colleges',¹⁷ and Principle 13: Home-host relationships in 'Core Principles for Effective Banking Supervision'.¹⁸

3.11 The PRA considers not just whether such arrangements have been agreed, but how well in practice their aims are achieved. The high-level outcomes the PRA expects to see include: transparency over the financial and operational resilience of the group, and the group's capacity to

¹² November 2019: <https://www.bis.org/bcbs/publ/d482.htm>.

¹³ <https://www.imf.org/external/NP/fsap/fsap.aspx>.

¹⁴ https://www.fsb.org/work-of-the-fsb/implementation-monitoring/peer_reviews/.

¹⁵ The PRA has entered into a new MoU with the EBA, and MoUs with other competent authorities in the EEA, to facilitate continued supervisory co-operation and information sharing. All current MoUs are available here: <https://www.bankofengland.co.uk/about/governance-and-funding>.

¹⁶ August 2003: <https://www.bis.org/publ/bcbs100.pdf>.

¹⁷ June 2014: <https://www.bis.org/publ/bcbs287.pdf>.

¹⁸ September 2012: <https://www.bis.org/publ/bcbs230.pdf>.

support the international bank; appropriate equivalence of the home state supervision in practice; and transparency over when and how the home state regulator might intervene to remedy non-compliance with prudential standards along with any triggers for pre-emptive action. To achieve this, the PRA expects there to be regular structured engagement with the home state supervisor, either through a college or bilateral meetings or both, as appropriate, which should facilitate a technical discussion of the material risks and risk management practices at the firm.

3.12 The degree of co-operation with the home state supervisor that the PRA expects is commensurate with the size of the firm, the degree of cross-border integration of its business, and the systemic nature of any wholesale branches operating in the UK.

c) The efficacy of the arrangements for resolution

3.13 This will be a factor in the PRA's judgements when forming a view on its risk appetite towards subsidiaries and branches operating in the UK. For firms and branches that perform critical functions in the UK,¹⁹ the PRA, in consultation with the Bank as UK resolution authority, will assess:

- the degree of equivalence of the home resolution authority's resolution regime (including its compliance with the FSB Key Attributes);²⁰
- the ability of the PRA, in consultation with the Bank, to rely on the home state supervisor and home resolution authority to execute the resolution strategy for the group and firm, including the home state supervisor and home resolution authority's operational capability to implement a resolution and to put in place adequate co-ordination mechanisms between home and host authorities;
- the adequacy of the group's and firm's resolution arrangements, taking into account the Bank's views as to whether the capabilities of the resolution group would deliver resolvability outcomes that are broadly comparable to those set out in the Statement of Policy (SoP) 'The Bank of England's Approach to Assessing Resolvability';²¹ and
- the willingness of the home resolution authority to share resolution plans with the PRA on request, and to engage in a dialogue with the PRA and the Bank regarding progress on resolvability and the implications of the resolution strategy for any UK subsidiary or branch operating in the UK.

Structural profitability

3.14 The PRA has a minimum expectation that UK subsidiaries of international groups should be on a path to being structurally profitable on a standalone basis (or that the group's viability depends on supporting the UK operations). That is, they should not be solely cost centres for the group with accumulated costs that are extinguished by periodic capital injections from the group. Rather, the firm should be capable of accreting at least some of its own capital (or contributing to the accretion of group capital), so that operating costs of the international bank are covered on a day-to-day basis by income that it generates. That income may be in the form of service charges to the rest of the group or cross-subsidies built into the pricing and funding arrangements between wholesale and retail business in the firm or other group companies. It is important that the firm and PRA understand the extent of such cross-subsidies in order to assess the soundness of the business. The

¹⁹ Critical functions are defined in section 3(1) of the Banking Act 2009. Available at: <https://www.legislation.gov.uk/ukpga/2009/1/section/3>.

²⁰ 'Key Attributes of Effective Resolution Regimes for Financial Institutions', October 2014: www.fsb.org/wp-content/uploads/r_141015.pdf.

²¹ July 2019: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-englands-approach-to-assessing-resolvability-sop.pdf>.

PRA may request that firms provide evidence that parental support will be provided and the parent has a clear strategy to do so.

3.15 New retail businesses in particular may be loss-making, but as they mature and as they become larger, the PRA expects them to become more profitable and secure. Accordingly, the PRA expects to receive information on the degree of cross-subsidy between the UK retail business and wholesale business within the firm and between the firm and the rest of the group.

3.16 The PRA's expectation of structural profitability for authorised firms does not preclude the use of group service companies by firms, whether engaged in retail business or wholesale business, provided operational resilience and operational continuity expectations are met.

Specific considerations for retail business

3.17 The consideration of retail business is of sufficient weight that the PRA considers that good visibility of the risks in the wider group and good supervisory co-operation are not always sufficient to mitigate risks to the PRA's objectives without separation from the wider group. Chapter 6 of this SS sets out the additional factors that the PRA considers when deciding whether authorisation for a firm to operate a UK branch is appropriate, including certain thresholds above which retail deposits may lead the PRA to conclude that separation of the UK business into a UK subsidiary would be more appropriate (see paragraph 6.15). Significantly greater amounts of UK retail business may take a firm above the threshold at which it is required to ring-fence its 'core activities'²² under Part IX B of the Financial Services and Markets Act 2000 (as amended) (FSMA). This effectively leads to that business being required to have a further degree of separation from the rest of the group.

3.18 Where ring-fencing is not required, the PRA does not expect any greater separation to be necessary to mitigate risks to retail business in the UK operations. In general, the degree of separation appropriate will therefore follow the same framework as for wholesale business, as set out below. However, there are three areas which are worth emphasising for firms that are part of international groups regarding their compliance with PRA rules applicable to the international bank:

- When branches or subsidiaries outsource to parent or affiliated companies outside the UK, they should ensure that the outsourced service is provided in compliance with UK legal and regulatory requirements, even if these firms are bound by policies, procedures, or written agreements set by their overseas group or parent companies.
- Depositor protection in the UK may be different from that applicable to the overseas group or head office, and so the PRA will pay particular attention to compliance with the Depositor Protection Part of the PRA Rulebook, including the Single Customer View Requirements.
- While the PRA does not require any separation of a firm's retail business from the rest of the group, or from its wholesale activities, the PRA does expect to receive information on the degree of financial, operational, and other business dependencies (including cross-subsidies) between the UK retail business and wholesale business within the firm and between the firm and the rest of the group.

Specific considerations for wholesale business

3.19 Wholesale business poses risks to financial stability, particularly when it reaches a scale in the UK that significant losses or operational dependences could cause problems in financial markets or the failure of other financial institutions. The PRA considers size to be a factor when deciding

²² £25 billion of 'core deposits', as specified in the Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014. Available at: <https://www.legislation.gov.uk/ukdsi/2014/978011117118>.

whether to designate investment firms as PRA-regulated firms. The PRA's approach to this is set out in the SoP 'Designation of investment firms for prudential supervision by the Prudential Regulation Authority'.²³ The SoP sets out the factors that the PRA considers, which include a firm's total gross assets, or the total gross assets of investment firms in the same group, exceeding £15 billion.

3.20 For international banks with UK branches undertaking wholesale business, in assessing whether the branch is systemically important, the PRA considers, among other things, a similar threshold, where the total gross assets attributed to the branch, and where relevant other UK branches in the group, exceed an average of £15 billion. This is discussed in detail in paragraph 6.20.

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²³ March 2013: <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/designation-of-investment-firms-for-prudential-supervision-by-the-pra>.

4 Information, co-operation, and controls to be effectively supervised

Firm-specific expectations for effective supervision

4.1 The factors that the PRA considers in assessing its ability to effectively supervise a particular international bank when it belongs to a group based overseas include whether:

- (a) the PRA receives sufficient co-operation, and financial and regulatory information on the overseas risks and financial position connected with the firm, from its group or head office and relevant overseas supervisory authorities (see Box 1);
- (b) any wider group to which the firm belongs has the capacity and willingness to support the firm;
- (c) where the firm's governance is provided by individuals with roles in a wider group, that governance is effective in taking into account the risks to the firm and, conversely, where the firm's governance is provided by individuals whose only role is within the firm, those individuals have appropriate influence within the wider group's management;
- (d) booking arrangements are transparent and effective, and the firm appropriately manages the risks that it originates, receives, and transfers out to affiliates (see Box 2);
- (e) operational resilience arrangements that are in place with other group members are sufficient to allow compliance with PRA operational resilience requirements; and
- (f) a credible group resolution strategy, or plans to support or wind up the firm in line with the Bank's resolution objectives, are in place.

a) Financial and regulatory information, and co-operation

4.2 The PRA expects to have access to certain categories of financial and regulatory information for every international bank in order to be able to assess whether it would meet threshold conditions on authorisation and continue to meet them on an ongoing basis, and to assess the impact that the firm's activities may have on the stability of the UK financial system. The level of detail will vary according to the size and complexity of the firm's business. The PRA also expects to receive a broader range of information in situations where the international bank is larger and hence poses a higher risk to financial stability, or where its business is more highly integrated with overseas operations and hence more at risk from activities outside of the PRA's direct supervision.

4.3 The PRA also follows, and expects other supervisory authorities to follow, the guidance provided by relevant international committees (the Basel Committee on Banking Supervision in particular) concerning supervisory co-operation. In practice, the PRA finds certain aspects particularly conducive to constructive relationships and effective supervision. These matters of what might be regarded as 'good practice' are included in Box 1 below under 'Examples of information that the PRA sees when a strong and co-operative relationship exists with home state supervisors and firms'. These are illustrative rather than a substitute for internationally agreed standards of co-operation.

4.4 Appropriate visibility of group risks is achieved by a combination of an effective co-operative relationship with the home state supervisor and appropriate information sharing by the home state supervisor and the firm. For each firm that is part of an international group, commensurate with its systemic importance and the degree of cross-border integration of its UK business, the PRA:

- aims to contribute to the supervisory strategy for the group as a whole, and to have insight into the group supervisory strategy, as necessary to achieve the PRA's objectives;
- expects to agree with the home state supervisor how best to co-ordinate supervisory work where common areas of interest are identified, and to undertake supervisory work in conjunction with the home state supervisor. This could include joint visits to the UK subsidiary or branch in appropriate cases where both the PRA and the home state supervisor have prioritised work in particular areas, It could also include the PRA having direct access to management in the international group or parent where that is relevant to the PRA's understanding of strategy and risks that may affect the UK operations;
- expects to have a regular and proactive exchange of supervisory assessments with the home state supervisor, such as the results of firm visits or analyses in areas that are of particular relevance to the UK entity;
- expects a prompt exchange of information and proactive notification of issues materially relevant to the UK entity;
- expects to have access to information on governance and financial resilience for the firm as a whole, and the group of which it is part, where it is relevant for the supervision of the international bank and the PRA's objectives; and
- needs to be satisfied, in consultation with the Bank as UK resolution authority, that the resolution authority or authorities in the relevant home jurisdictions for the group have adequate powers and plans for the group's resolution.

4.5 Box 1 sets out the group information that the PRA expects, according to the size and nature of the UK operations. In broad terms, the PRA has no specific expectation as to how this information is provided. For example, it could be provided in the form of management information prepared by the firm for internal purposes, in a structured way as provided to or agreed by relevant supervisory authorities, or through engagement at supervisory colleges. The PRA also has no specific expectation as to whether information prepared by entities in the group is provided by those entities, the UK entity, or any supervisor, or whether information prepared by supervisors is received directly from supervisors or provided by group entities. The PRA expects most of this information will typically be provided directly by firms (as agreed with the home state supervisor).

4.6 In taking this approach, the PRA aims to minimise the time and effort required to produce the information it needs from supervisory authorities, international banks, or their group entities. The PRA acknowledges that some information, such as supervisory assessments and peer group analyses, can only be provided by supervisory authorities. The PRA expects the information to be refreshed periodically to ensure that it remains relevant over practical timescales.

4.7 The precise information and data that the PRA will expect to receive may change over time, especially as events and risks crystallise. The PRA will keep its expectations under review and will aim to be proportionate in its requests.

Box 1: The PRA's expectations for information sharing

The PRA's expectations for access to information to ensure appropriate visibility of the financial and operational risks of international banks

The PRA needs sufficient information on risks in the group to which the international bank belongs to be satisfied that the threshold condition relating to the PRA's ability to supervise the firm effectively is met.

The information that the PRA expects to have access to will be proportionate, and will vary according to:

- the firm's potential impact on the financial stability of the UK economy;
- the degree of interconnection with the overseas part of the firm and group;
- whether the markets in which the firm and group operates are functioning normally or are stressed; and
- any idiosyncratic stresses affecting the firm and its proximity to failure.

The firms and groups in respect of which the PRA would expect to receive the most information are therefore the largest UK subsidiaries and the systemic branches, including those belonging to groups designated as globally systemically important, and those which are most interconnected with the group's overseas business.

During group or market-wide stress events, the PRA will expect information on the nature, cause, and extent of any idiosyncratic stress, and the frequency of the information shared in some key areas, notably liquidity, will need to increase.

Baseline information

The PRA expects, when requested, access to certain categories of information from all international banks, both in times of crisis and normal business, namely proportionate and timely information on:

- the nature of the firm's and group's business model, and any material changes in it, to the extent that they could have a material impact upon the firm or the group's ability or willingness to support it;
- the financial resilience of the firm and the firm's immediate (and ultimate, if different) overseas parent, or the consolidated international financial group to which the firm belongs. Information on financial resilience includes capital and liquidity positions relative to relevant regulatory requirements;
- the operational resilience of the firm and group, including risks arising elsewhere in the group that may affect the ability of the firm to deliver its important business services (such as those provided through intragroup outsourcing or other inter-affiliate arrangements);
- material risks to the firm's survival emanating from any group to which it belongs, including enforcement or legal actions; and
- resolution planning, including information regarding the group's preparations for resolution consistent with Fundamental Rule 8.

Additional information expected for highly integrated or systemically significant businesses

The PRA expects to receive additional information in situations where a firm's business model or operations are highly integrated with its group's overseas business and where it is significant systemically.

Firms typically run their investment banking and trading activities on a global basis, with complex booking arrangements (see also Box 2). The PRA needs to understand the portion of global risk that is managed in the UK, what UK risk is managed elsewhere, and how the UK business performance sits within the overall performance of the firm and group. For trading activities, timely information on business line performance is a critical indicator of emerging market and firm-specific risks.

For highly integrated firms that rely on global systems, including custodians, the PRA may expect additional information relating to group operational resilience and the performance of group IT systems.

Examples of information that the PRA sees when a strong and co-operative relationship exists with home state supervisors and firms

For the largest firms with the most potential impact on UK financial stability, the PRA agrees arrangements for the sharing of information with the key home state supervisors, and with the individual banks, on group performance and risks. Illustrative examples of such information include:

- the provision by the firm of daily or weekly profit and loss figures covering global and local business lines;
- information on the firm's structural profitability and any material element of cross-subsidy between business lines;
- weekly or monthly group market risk reports;
- provision by the home state supervisory authorities of the outputs from reviews, for example, the Supervisory Review and Evaluation Processes;
- provision by the home state supervisory authorities and the firms of information on their stress tests and how these affect the UK branch or subsidiary;²⁴
- provision by both the home state supervisory authorities and the relevant firms of group liquidity information, regularly in business-as-usual periods and more frequently once there is agreement that we have entered a period of market stress;
- any material change in the operational resilience of the firm or group, for example, cyber-attacks that may affect the group systems that are used by the UK business or which threaten the survival of the firm or group;
- material findings from internal risk or audit functions, or external audit reviews (particularly where there are common group wide systems and controls); and
- from the home resolution authority or through crisis management groups, and the group's resolution planning information, including the group's plans and capability to wind down trading activities in an orderly and solvent fashion insofar as these affect UK operations.

b) Capacity and willingness to support the international bank

4.8 As regards the group's capacity and willingness to support a subsidiary, the PRA expects UK subsidiaries to be financially resilient on a standalone basis. But beyond this, there are situations where the ability of the group to support other group entities, including the UK operations, needs to be taken into account. These are, for example, where assessments need to be made of the diversification of risks within the group and of the extent to which funding through debt at the parent level is used to support equity at a subsidiary level, increasing reliance on distributions from equity to service such debt. It is also a consideration when assessing intragroup large exposures and whether parental support to entities in the wider group mitigates the risk that amounts owed to UK subsidiaries will not be repaid. The PRA also has expectations concerning information on the firm's operational resilience where this depends on group systems (see paragraph 4.22).

4.9 There may be some situations where explicit guarantees of international banks are expected from another group entity, for example with respect to an international bank's ability to access central bank funding.

²⁴ UK investment banking subsidiaries of foreign owned banks are currently outside the UK system wide stress testing framework on the basis that the relevant results of home state testing are shared. See Box 5 of the 'The Bank of England's approach to stress testing' October 2015. Available at: <https://www.bankofengland.co.uk/-/media/boe/files/stress-testing/2015/the-boes-approach-to-stress-testing-the-uk-banking-system>.

4.10 The PRA will establish a view, at least at a minimum in qualitative terms, on the capacity and willingness of the group to support subsidiaries in stressed scenarios, and any barriers to that support arising from the regulatory regimes that apply to it.

4.11 The Bank already takes a similar approach when setting internal minimum requirements for own funds and eligible liabilities (MREL) for hosted subsidiaries. As set out in the Bank's MREL SoP,²⁵ in deciding whether to set internal MREL for a material sub-group or subsidiary above 75% scaling, the Bank will take into account the resolution strategy applicable to the group and the credibility of the resolution plan for delivering it, and the availability of other uncommitted resources within the group that could be readily deployed to support the material subsidiary, among other factors.

c) Governance and risk management

4.12 The PRA recognises the fiduciary duties of directors of subsidiaries. Subsidiary boards must also be capable of acting in the best interests of the firm for which they are responsible as well as safeguarding its safety and soundness.²⁶

4.13 The principles of good governance should apply to all PRA-regulated subsidiaries, including the principle that boards should have sufficient independence, to help ensure they can provide effective challenge to the business. Where a smaller and less complex subsidiary proposes not to have an independent non-executive chair, the firm should still be able to explain how its governance arrangements will otherwise satisfy the need for independent oversight of the executives. Moreover, all firms have an obligation to ensure that all their directors, in particular non-executives, act with sufficient independence of mind and 'make their own sound, objective and independent decisions and judgments when performing their functions and responsibilities.'²⁷ The non-executive directors on the board should hold management to account against the matters delegated, and be able to challenge the executive effectively and promptly. Firms should have regard to the expectations on board responsibilities outlined in SS5/16 'Corporate governance: Board responsibilities'.²⁸

4.14 The international bank should establish, implement, and maintain adequate risk management policies and procedures, including effective procedures for risk assessment, which identify the risks relating to its activities, processes, and systems, and where appropriate, set its risk appetite or the level of risk tolerated.²⁹ As noted in the PRA's approach to banking supervision,³⁰ senior management should embed the principle of safety and soundness in the culture of their organisation.

4.15 Where group risk management decisions are being taken which could have an effect on the UK subsidiary or branch, those decisions should take into account the views of representatives from the subsidiary or branch. Those representatives should be given sufficient access to, and influence in, the relevant decision-making committee(s). Firms should take into account their size and internal

²⁵ 'The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)', June 2018: <https://www.bankofengland.co.uk/paper/2018/boes-approach-to-setting-mrel-2018>.

²⁶ Section 12, SS5/16 'Corporate governance: Board responsibilities', March 2016: <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/corporate-governance-board-responsibilities-ss>.

²⁷ Joint ESMA and EBA Guidelines on the assessment of the suitability of members of the management body, Para 80. Available at: <https://eba.europa.eu/regulation-and-policy/internal-governance/joint-esma-and-eba-guidelines-on-the-assessment-of-the-suitability-of-members-of-the-management-body>. See also the General Organisational Requirements Part of the PRA Rulebook.

²⁸ March 2016: <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/corporate-governance-board-responsibilities-ss>.

²⁹ SS4/16 'Internal governance of third country branches', February 2016: <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/internal-governance-of-third-country-branches-ss>.

³⁰ Paragraph 42, October 2018: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/pr-a-approach-documents-2018>.

organisation and the nature, scale, and complexity of their activities when developing and implementing policies and procedures.³¹

4.16 To meet the PRA's expectations on information sharing, it is desirable to ensure appropriate connectivity between the firm and its head office or with the parent company board. For example, in the case of a UK subsidiary, a non-executive director from the group board may sit on the local board (or vice versa), or the local chairs of the Risk and Audit Committees may meet regularly with their counterparts at the parent.

4.17 Where the group has a large-scale operation comprising both a branch and subsidiary in the UK, and together they are systemically important, then even though the PRA generally expects branches and subsidiaries to have independent governance arrangements (to safeguard against conflicts of interest in how risks are booked into the UK), the need for there to be a holistic view of UK risks may be more important. In those circumstances, it may be appropriate to have either a UK or regional CEO overseeing the whole UK footprint, and potentially other arrangements to ensure it has a comprehensive view of the risks the firm runs in the UK.³²

Accountability of Senior Management Functions

4.18 A subsidiary should ensure that they have an appropriate number of Senior Management Functions (SMFs) according to its size, complexity, and governance structure, in line with the principles outlined in SS28/15 'Strengthening individual accountability in banking'.³³ Firms should particularly ensure that Management Responsibilities Maps and Statements of Responsibilities³⁴ are up to date and that responsibilities are allocated in accordance with the Allocation of Responsibilities Part of the PRA Rulebook and SS28/15.

4.19 Where applicable, the PRA expects firms to allocate the responsibility for overseeing the firm's booking arrangements to an SMF, and record this appropriately in their Statement of Responsibilities. Where individuals in the parent or in group entities exercise significant influence over the management or conduct of one or more aspects of the firm's UK regulated activities, it may be appropriate for them to be approved as a Group Entity Senior Manager (SMF7).

4.20 In the case of a firm that has a UK systemic wholesale branch which is part of a group based overseas, and an individual in a related group entity has significant influence over the branch's booking arrangements, that individual should seek approval as Group Entity Senior Manager (SMF7) (see Box 3).

d) Booking arrangements

4.21 The PRA's expectations with regard to booking arrangements are set out in Box 2.

31 European Banking Authority 'Guidelines on internal governance under Directive 2013/36/EU', para 18. Available at: [https://eba.europa.eu/sites/default/documents/files/documents/10180/1972987/eb859955-614a-4afb-bdcd-aaa664994889/Final%20Guidelines%20on%20Internal%20Governance%20\(EBA-GL-2017-11\).pdf](https://eba.europa.eu/sites/default/documents/files/documents/10180/1972987/eb859955-614a-4afb-bdcd-aaa664994889/Final%20Guidelines%20on%20Internal%20Governance%20(EBA-GL-2017-11).pdf).

32 This includes consideration of group risks; see for example the Risk Control and Group Risk Systems Parts of the PRA Rulebook.

33 July 2015: <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/strengthening-individual-accountability-in-banking-ss>.

34 Statements of Responsibilities are those required by section 60 (2A) of the Financial Services and Markets Act 2000. Available at: <https://www.legislation.gov.uk/ukpga/2000/8/section/60>.

Box 2: The PRA's expectations for booking arrangements

Booking arrangements should be transparent and the firm should appropriately manage the trading risks that it originates, receives, and transfers out to affiliates.

Transparency

For those international firms with large-scale trading businesses, characterised by global risk management hubs, it is essential that the risks in the relevant global business and how this affects the risk profile of UK operations are visible to the PRA and that the PRA and home state supervisor have the same understanding of those risks. With a global business line, risks may crystallise anywhere in the group. Given the UK's role as a global centre for trading, those risks are often observed first in the UK. Therefore, if the firm is to operate a fully integrated global business model, the PRA needs to understand the risk profile of an entity in the context of the global business lines of which that entity is a part.

The PRA has a number of expectations concerning how the local entity should organise its booking arrangements in order that it meets the threshold conditions on the prudent conduct of business and its obligations under Fundamental Rules 3, 5, 6, and 8, relating to risk management and resolvability. By booking arrangements, the PRA means the front-to-back life-cycle of trading from origination, trade execution, risk capture and transfer, through to back-office settlement.

Management and controls: PRA's expectations

1. Firms should set out a clear rationale for their booking arrangements, document the booking arrangements, and have them approved by the appropriate governance body.

Firms should have a policy document that sets out a clear rationale for their UK booking arrangements, and how those arrangements align with the business model for its UK authorised business. The firm's arrangements should be part of a coherent strategy for the group and firm. The policies should be drafted with sufficient coverage and detail, such that the role of the international bank within the group's global booking arrangements is clear.

This document should be approved by the relevant governance body in the UK. For example, this may be the board for a subsidiary or the executive management committee for a branch.

2. Firms should have adequate systems and controls in place to ensure that intended booking arrangements are followed in practice.

The PRA's rules³⁵ require firms to have comprehensive and proportionate controls and to review their adequacy regularly. The PRA has certain expectations as to how these booking arrangements should be controlled.

Firms should regularly assess the risks that they face due to the booking model choices they apply, rate them as for any other risk, and consider effective mitigations, including the need for new or modified controls. These controls should ensure that the intended booking arrangements are followed — ie a firm's booking policy should always be translated into appropriately enforced controls through its control framework to avoid ambiguity. This control framework should also be approved by the relevant governance body in the UK, as outlined in point 1 above.

For example, an international bank with a material trading business should have a mix of detective and preventative trading controls — ie pre-trade (soft and hard block) checks and post-trade checks.

- Remote bookers (traders in non-UK entities booking onto a UK entity) should be subject to appropriate controls and formal oversight, including an appropriate risk assessment. Where the UK entity allows material remote booking onto its books, but the trader is not subject to direct trader oversight by the UK entity (often called 'orphan books'), it may be appropriate to assign shared coverage of this remote book to a UK-based trader or to UK-based risk management

35 Including Fundamental Rules, General Organisational Requirements 2.1–2.2, Compliance and Internal Audit 2.1, Internal Governance of Third-Country Branches 2, 6, and 8, and Risk Control.

staff. This includes risks that may arise at all stages of the trade life-cycle, including back-office settlement.

- Where a firm relies on back-to-back booking extensively, a higher degree of assurance should be obtained through the use of automated trade mirroring, reconciliation, and monitoring processes.
- Management information related to trades undertaken or booked in the UK, booking risks, and compliance monitoring should be timely and comprehensive, disaggregating the relationship between the UK entities and those of affiliates and providing measures of change. It should distinguish between remote booking into and out of the UK entities. The management information should be routinely shared with the appropriate committees, and any breaches of the policy should be subject to appropriate sanctions.

Any deviations from the booking model policy should occur rarely and only by way of an explicitly approved exception process documented in the same policy with appropriate involvement of the UK entity.

These procedures are expected to be subject to internal audit assessment.

For an international group, the location of the resulting risks should be transparent to each legal entity. This requires an ability for the reporting of such risks to be readily disaggregated by entity.

3. Firms with major trading activities should ensure that responsibility for ensuring that there are appropriate controls in place to manage its booking arrangements, including remote booking, is allocated to a senior management function.

The responsibilities for ensuring that the firm's booking arrangements are appropriately controlled and monitored should be explicitly set out in the statement of responsibilities for the responsible senior management functions.

4. The international bank should have an appropriate local risk management capability.

While a firm may rely extensively on its group for booking, risk management, and other services, the PRA considers that the firm should have sufficient risk management capabilities if it is to satisfy the relevant threshold conditions and comply with the Fundamental Rules. In particular, it will need adequate financial and non-financial resources, including a sufficient number of qualified staff dedicated to the management and control of the UK branch or subsidiary. The risk management capabilities should be explicitly considered and sized appropriately during the approval of the UK booking model policy and the controls required, as described above.

The need for sufficient local risk management capabilities is primarily to support the entity's effective supervision of UK-based traders, but also aims to manage the risks to the UK entities arising from the global booking model. For example, the UK branch or subsidiary may hold risk that has been transferred to the UK from elsewhere in the group, rather than risk originated from UK client business.

Where there is risk transfer onto the firm's balance sheet, through remote or back-to-back booking from an affiliate, there should be appropriate controls around that process. If those risks are analogous to risks arising from dealings with external third parties, then they should be subject to commensurate controls, as would be appropriate for direct dealings with external third parties. Staff in the UK entity should have accountability for managing such risks.

Firms will also need sufficient local risk management capabilities if their booking structures, exposures, and associated risk management are to be resilient in the event of interruption to the flow of group services.

Having a portion of group risk managed in the UK is likely to facilitate an orderly group and local resolution. The more important the international bank is to the wider group, the more likely it is that its survival is essential to the group's resolution.

5. There should be a broad alignment of risk and returns at the entity level.

Subsidiaries should not be designed to be structurally-loss-making, but should aim to be solvent and viable.

Firms operating in the UK may act as service providers to their groups, but they should be appropriately remunerated for those services.

6. The firm's booking arrangements should not be an impediment to the firm's recovery and resolution or to any plan to wind down trading in a solvent and orderly fashion.

While a global booking model may not be considered a direct impediment under a single point of entry resolution strategy, it could add complexity to the restructuring of the group post resolution. Under a multiple-point-of-entry (MPE)³⁶ strategy, the inter-connectivity between the UK entity and the group associated to a global booking could be an impediment to resolution that the firm should address. Similarly, where contingency plans to be able to wind down trading books in a solvent and orderly fashion are important to any orderly exit, recovery, or resolution strategy, the PRA expects that the particular booking model adopted by a firm will have been fully taken into account in those plans.

e) Operational resilience

4.22 The PRA expects international groups to understand the services they provide to clients and counterparties in the UK and the potential impact operational disruption to those services could have.

4.23 The PRA considers that a detailed understanding of the operational resources that are used to deliver such services is required, regardless of geographic location.

4.24 In addition, the PRA will consider the robustness of the home state's operational resilience regime, to gain assurance that operational disruption at the group level does not represent undue risk to the group as a whole, and thereby provision of services by the UK business. This will be particularly relevant where functions are outsourced by the international bank to other parts of its group.

f) Group-specific resolution strategy

4.25 The PRA works with the Bank as UK resolution authority to ensure that where a firm fails, it does so in a way that avoids significant disruption to the supply of critical functions to its customers and other counterparties. It is the Bank's responsibility to set the resolution strategy, set MREL, and ultimately execute any resolution, but the PRA acts in co-operation with the Bank to ensure that firms have appropriate resolution arrangements in place as part of going concern supervision, consistent with Fundamental Rule 8. Consequently, resolvability is an important consideration in the PRA's supervisory approach to international banks. The effectiveness of the home state regime and the credibility of a group's resolution strategy, and the resolvability outcomes set out in the Bank's Resolvability Assessment Framework (RAF), where relevant, are an integral part of the assessment.

4.26 The PRA will consider in particular:

- the alignment of the firm's group resolution strategy set by the home resolution authority with the PRA's objectives, including whether it ensures the continuity of the firm's critical functions in the UK;

³⁶ Multiple point of entry (MPE) refers to a resolution strategy that envisages applying resolution powers to multiple entities within a group. See 'The Bank of England's approach to resolution', October 2017: <https://www.bankofengland.co.uk/paper/2017/the-bank-of-england-approach-to-resolution>.

- the credibility and feasibility of the firm’s group resolution strategy, including a clear process to identify and remove barriers to resolution by the home state supervisor or home resolution authority involving the host authorities, including the PRA; and
- the adequacy of the firm’s resolution arrangements, consistent with Fundamental Rule 8 and the RAF. The PRA will take into account the Bank’s assessments as to whether the capabilities of the group would deliver resolvability outcomes that are broadly comparable to those set out in the Bank’s SoP on the RAF.³⁷

Draft for consultation

³⁷ SoP ‘The Bank of England’s Approach to Assessing Resolvability’, July 2019: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/bank-of-englands-approach-to-assessing-resolvability-sop.pdf>.

5 Integration and independence

5.1 Once the PRA has considered the effectiveness of supervision that it is possible to exercise given the understanding it has of risks in the wider group, including the level of co-operation and information it is receiving and the controls in place, as well as the size and systemic importance of the international bank, it will consider whether the degree of operational integration or separation is commensurate with those factors. Integration and separation is considered for each of the following:

- a) governance;
- b) capital and liquidity;
- c) booking risk management;
- d) operational resilience;
- e) resolution strategy;
- f) structural profitability.

5.2 There is no automatic or fixed outcome that the PRA applies in terms of the degree of integration or separation that is appropriate, but the PRA applies a graduated set of expectations which are tailored to each firm's circumstances. The better expectations on effective supervision are met, the more the PRA is content for a business in the UK to be highly integrated with the wider foreign group, or with the foreign operations of the firm if it is operating through a branch.

5.3 Where the information or co-operation the PRA receives are such that the PRA's expectations for effective supervision are not fully met given the degree of operational integration that an international bank currently has, then the PRA will consider taking measures to require the UK operations of the international bank to be more independent.

a) Governance

5.4 The PRA is likely to expect that there is a greater degree of independence of the governance committees of an international bank subsidiary when the PRA has limited information on how much influence is being exerted by group management, when the degree of influence that UK management has on the group's strategy is inadequate, or when management of the UK entity is dominated by group strategy. This could be in the form of the proportion of independent non-executive directors on the board of the international bank, for instance.

5.5 As set out in SS5/16, the PRA also considers it generally undesirable for some key positions on the board of a subsidiary, such as chair, chair of the key board sub-committees, chief executive, or finance director, to be occupied by executive members of the group or parent board. In circumstances where these appointments may be permissible, such as for certain smaller less complex firms, the firm should be able to explain how its governance arrangements will otherwise satisfy the need for independent oversight of the executives.

5.6 Where the PRA has concerns about the effectiveness of supervision over UK branches owing to their relationship with their head office, other UK branches, or UK subsidiaries, or any wider group, additional governance requirements may be considered. For example, to ensure appropriate governance at the UK branch level, the PRA may require the firm to apply for additional SMFs (such

as Chief Risk Officer, Chief Finance Officer, Chief Operating Officer, or a group executive under SMF7), or to create a local management committee (or equivalent) for the branch.

b) Capital and liquidity requirements

Capital

5.7 The PRA's assessment of the PRA buffer will take into account the extent to which wider group risks are visible to the PRA, taking into consideration the systemic importance and the degree of integration of the international bank. Capital is not set at UK branch level.

5.8 As explained in the SoP 'The PRA's methodologies for setting Pillar 2 capital',³⁸ where the PRA assesses a firm's risk management and governance to be significantly weak, it may also set the PRA buffer to cover the risks posed by those weaknesses until they are addressed. This will generally be calibrated in the form of a scalar applied to the amount of Common Equity Tier 1 (CET1) capital required to meet the Total Capital Requirements (TCR). The scalar could be up to 40% of the total CET1 TCR.

5.9 A firm's exposures to entities in its own group are generally treated as exposures to a third party and are subject to large exposure limits. Firms can however apply to the PRA for a non-core large exposures group permission, which allows firms to apply a higher large exposure limit to certain entities within their group provided these entities meet certain conditions.³⁹

5.10 These permissions increase connectivity with the wider group and increase the contagion risk to the UK entity. For this reason, the PRA will still make a wider judgement whether it is appropriate to grant these permissions, even where the conditions are met. The PRA will consider whether group entities are strongly incentivised to support each other, and whether the treatment is consistent with the overall business model of the firm and furthers the PRA's safety and soundness objective.⁴⁰

Liquidity

5.11 In deciding what liquidity guidance to give a firm under Pillar 2,⁴¹ the PRA will consider how integrated the UK business is with that of the wider group, and the quality of its relationship and the information exchange with the home state supervisor.

5.12 The liquidity guidance may be flexed by adjusting the Pillar 2 liquidity add-ons, applying different preferential treatments of intragroup liquidity flows in the Liquidity Coverage Requirement, or by using committed facilities from parent entities.

5.13 Where the PRA has concerns about the liquidity position of the firm or the effectiveness of supervision over branches, the PRA may set additional branch liquidity requirements to ensure appropriate liquidity at the UK branch level, for example by requiring the holding of additional liquidity to ensure sufficient resources are held locally to allow time to respond to a stress at the branch.

³⁸ February 2020: <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-methodologies-for-setting-pillar-2-capital>.

³⁹ SS16/13 'Large Exposures', June 2018: <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/large-exposures-ss>.

⁴⁰ See paragraph 3.9 of SS16/13.

⁴¹ See SoP 'Pillar 2 liquidity', October 2018: <https://www.bankofengland.co.uk/prudential-regulation/publication/2018/pillar-2-liquidity>.

c) Booking risk management

5.14 The PRA has a number of high-level expectations of how firms should manage their booking arrangements for trading activity, as set out in Box 2. These are aimed at ensuring that a firm's booking arrangements are transparent and well-controlled.

5.15 The PRA is open in principle to a wide range of booking models. It recognises that trading activity is often run as a global business model. The UK entity may rely extensively on its affiliates for business origination and for risk management services, but the UK entity remains responsible for ensuring that the level of risk management is appropriate to the risks undertaken.

5.16 Where a firm meets the PRA's expectations for booking models, the PRA is open to hosting highly integrated and large-scale trading operations.

Where a firm is not able to meet these expectations, the PRA may require more local risk management or limit the degree of connectivity that the firm has with the rest of the group so that less risk is brought into or transferred out of the entity. The PRA may consider a firm unable to meet these expectations if:

- its controls are not commensurate to the risks posed by a complex booking arrangement;
- there is inadequate visibility of the group risk profile, inadequate information sharing, or inadequate home state co-operation; or
- booking arrangements would impede the execution of the resolution plan.

d) Operational resilience

5.17 The PRA expects firms to observe high standards in the management of operational as well as financial risks. If the PRA does not have sufficient understanding of how operational resilience is assured when an international bank is dependent on group or overseas systems and policies, then the PRA would expect those systems or policies to be improved and made clear to the PRA, or for the international bank to become less dependent on those systems.

e) Resolution strategy

5.18 The PRA may not have sufficient confidence regarding resolvability if, in consultation with the Bank as resolution authority:

- the group resolution strategy lacks credibility or feasibility;
- it is not clear if it is able to rely on the home resolution authorities to execute the group's resolution strategy, including the home resolution authority's operational capability to implement a resolution and put in place adequate coordination mechanisms between home and host authorities; or
- it has concerns about the arrangements for the subsidiary or its resolution group to deliver orderly resolution, taking into account the resolution outcomes that are broadly comparable outcomes as those set out in the Bank's RAF SoP.⁴²

⁴² Paragraph 2.7 of the RAF SoP sets out that: 'This SoP does not apply to the UK branches of overseas banking groups. The Bank engages with international counterparts regarding the resolvability of these branches. The resolvability outcomes in this SoP will therefore inform this engagement and so will be of interest to overseas banking groups in this context. The SoP also provides relevant context for the Bank's engagement (in its capacity as UK resolution authority) with the PRA in respect of the authorisation and supervision of the UK branches of overseas banking groups'.

5.19 Where the PRA does not have sufficient confidence over the resolvability of a subsidiary and its resolution group, this may mean that it would be necessary for the UK subsidiary to be supervised on a more standalone basis, consistent with a MPE resolution strategy that would be determined by the Bank.

Draft for consultation

6 Additional considerations for the supervision and authorisation of branches

6.1 As discussed at paragraph 2.3, a branch of an international bank forms part of a legal entity incorporated outside the UK. It follows that its operations are necessarily dependent on those of the legal entity as a whole. PRA authorisation applies to the whole firm. However, the PRA's approach is to place appropriate reliance on the prudential supervision of the overseas firm by the home state supervisor, subject to appropriate safeguards. For example, the PRA does not apply capital requirements to a firm operating only through a UK branch, and the PRA looks to the home state regime to apply solo capital requirements to the firm.

6.2 While the PRA's expectations set out in Chapters 3, 4, and 5 of this SS apply to international banks that operate in the UK via branches as well as to subsidiaries, in the case of a branch there are additional expectations which arise since:

- there are potential risks arising in the head office or other branches of the firm which may affect the UK branch operations;
- the PRA authorises the firm as a whole; that is, the entire legal entity and not only the UK branch, and so the firm as a whole must meet threshold conditions; and
- there is a home state supervisory authority which will be responsible for the prudential supervision of the firm as a whole, and with which the PRA will need to agree how each regulator's respective responsibilities are to be discharged in accordance with their legal duties and, for the PRA, in a proportionate and cost-effective manner.

6.3 The matters that the PRA considers when deciding whether it may be content to authorise a firm to operate in the UK through a branch are summarised in Figure 2 below (which was originally published in SS1/18). This diagram should be read in conjunction with Figure 1, which relates to both firms that are part of groups and firms that have branches.

Threshold conditions

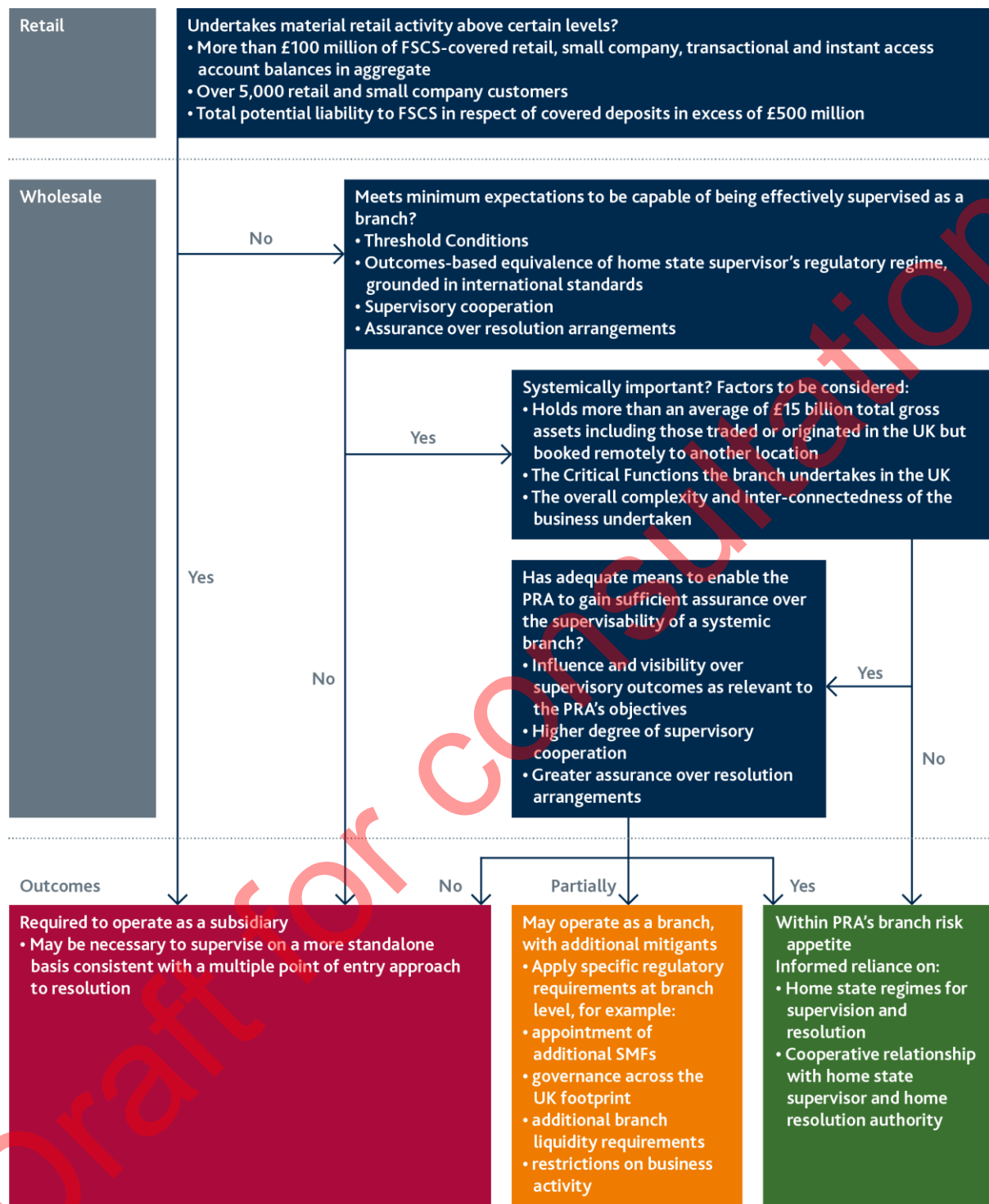
6.4 In determining whether its threshold conditions are met, the PRA may have regard to the opinion of an overseas regulator, if relevant, taking into account the nature and scope of supervision exercised by it.⁴³ The PRA will have appropriate regard to the opinion of the home state supervisor about the firm's compliance with the PRA's threshold conditions when forming its own judgement.

Equivalence

6.5 The PRA's approach to assessing supervisory equivalence for UK branches is the same as for UK subsidiaries of foreign groups (see paragraph 3.3).

⁴³ Section 55D of FSMA. Available at: <https://www.legislation.gov.uk/ukpga/2000/8/section/55D>.

Figure 2: PRA considerations for branch authorisation



Supervisory co-operation

6.6 There are additional expectations the PRA has for co-operation concerning branches:

- The PRA will seek to establish a clear acceptance from the home state supervisor of its prudential responsibility for branches in the UK. This will include confirmation from the home state supervisor that the whole firm meets the PRA's threshold conditions, and requires the

existence of a specific agreement with the home state supervisor on the split of responsibilities for prudential supervision of branches from that jurisdiction. The latter typically covers the performance of respective supervisory tasks and responsibilities, the reliance each supervisor may place on the other, co-operation and information sharing, meetings with and information requests to the firm, and how each risk element will be assessed.

- The PRA will expect there to be agreement concerning the information required from the home state supervisor in relation to the firm, which may include information on liquidity; this supplements the whole-firm liquidity information that the PRA expects the firm to provide.⁴⁴

6.7 Both would be subject to periodic review to ensure each authority is meeting each other's expectations.

Groups with both UK subsidiaries and UK branches

6.8 Where firms operate in the UK with both a subsidiary and a branch (or one or more of each), the PRA expects appropriate governance to oversee and manage the linkages between the entities.⁴⁵ In supervising these firms, the PRA will delineate its supervision between the entities, and expect the firm to have a clear booking arrangement in place setting out what it will book in each entity and how its application will be verified.

Resolution

6.9 The assessment of the home state resolution framework for UK branches is the same as for UK subsidiaries of foreign groups (see paragraph 3.3), but in addition the PRA considers whether depositors of the UK branch will receive fair treatment under the home jurisdiction's insolvency and resolution regime.

6.10 The PRA will also assess the group resolution strategy and broader resolution arrangements in a similar way to that of UK subsidiaries of foreign groups (see paragraph 4.25). In particular, the PRA will take into account the Bank's assessments as to whether the group resolution strategy would deliver orderly resolution in the UK, with reference to the provisions set out in the Bank's RAF.

Treatment of UK depositors and creditors

6.11 While the PRA, in consultation with the Bank as UK resolution authority, can gain assurance over resolution plans and the stated intentions of the home state supervisor and home resolution authority, doubts may remain over the certainty with which these plans will be applied in practice. The PRA's starting point is that UK creditors and depositors should be treated equally with their home state equivalents. Where that is not, or may not be, the case, the PRA will consider the impact on its objectives in deciding what action, if any, to take.

6.12 If there is a legally clear form of domestic depositor preference, then this is a known risk that can be assessed.⁴⁶ However, the PRA will also take account of two related risks that are harder to assess:

- the risk of short-notice legislative change in the home jurisdiction during a crisis that is intended

⁴⁴ SS1/17 sets out the PRA's expectations for liquidity reporting by PRA-regulated branches of third-country and non-EEA credit institutions and designated investment firms, February 2017: www.bankofengland.co.uk/prudential-regulation/publication/2017/supervising-international-banks-the-pras-approach-to-branch-supervision-liquidity-reporting-ss.

⁴⁵ SS4/16 'Internal governance of third country branches', February 2016: www.bankofengland.co.uk/prudential-regulation/publication/2016/internal-governance-of-third-country-branches-ss.

⁴⁶ FSA Consultation Paper 12/23, 'Addressing the implications of non-EEA national depositor preference regimes', September 2012: <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/addressing-the-implications-of-non-eea-national-depositor-preference-regimes>.

to favour domestic depositors or creditors; and

- the risk that de facto administrative discrimination against foreign depositors or creditors takes place during the post-failure liquidation or resolution process.

6.13 The PRA's preferred approach is to gain assurance that the home resolution authority's resolution regime will deliver the appropriate outcomes for the PRA's and the Bank's objectives as UK resolution authority. In the absence of adequate levels of assurance, the PRA will likely not be prepared to host such a branch from that jurisdiction.⁴⁷ In the case of an international bank operating through an existing branch, it may be required to establish a UK subsidiary. If there is insufficient assurance over the home state resolution arrangements, this may in turn mean that it would be necessary for the firm to be supervised on a more standalone basis consistent with a MPE approach to resolution.

Approach to significant retail activities

6.14 In general, the PRA will not be content for branches to undertake retail banking activities beyond the levels described in the next paragraph. This ensures that the PRA is able to meet its supervisory objectives and mitigate the risks to UK financial stability.

6.15 In assessing whether the PRA will be content for an international bank to undertake retail activities in the UK through a branch, the PRA will make a determination based on the following:

- the value and type of account: while this is not a hard threshold and may vary on a firm-by-firm basis, the PRA expects branches to have under £100 million of retail and small company⁴⁸ transactional or instant access account balances covered by the Financial Services Compensation Scheme (FSCS);⁴⁹
- the number of customers: in addition to the value of deposits, the PRA will also take into account the number of customers. Where branches have in aggregate more than 5,000 retail and small company customers with accounts that are used for transactional purposes, this may be of concern, though this may differ on a firm-by-firm basis;
- planned growth: while a branch's existing retail deposits could be within the PRA's appetite, the PRA may conclude that the branch's plans to grow retail deposits are outside its risk appetite.

6.16 The PRA's approach to authorising and supervising international banks that propose to undertake significant retail banking activities through branches is also driven by the fact that eligible deposits of these branches are covered by the FSCS. In the event of failure, if the FSCS were unable to recoup the amount it paid out via the bank insolvency procedure from recoveries, ultimately there would be a liability to the UK financial system. Given this, the PRA will not in general be content for a branch to undertake deposit activity where the total potential liability to the FSCS in

⁴⁷ The Bank has certain resolution powers over branches, including the power to resolve branches on a standalone basis in certain circumstances.

⁴⁸ A 'small company' is defined as under the Companies Act 2006: <http://www.legislation.gov.uk/ukpga/2006/46/part/15/chapter/1/crossheading/companies-subject-to-the-small-companies-regime>. This definition is used here for supervisory purposes only, and firms should use this definition for their branch return submissions. For the avoidance of doubt, the definition of 'micro, small and medium-sized enterprises' for the purposes of the Depositor Protection Part of the PRA Rulebook remains unchanged.

⁴⁹ In general, the PRA starts from the understanding that an account, while it may have transactional functionality, is only considered a 'transactional account' if withdrawals from it have been made nine or more times within a three month period, but it may additionally consider other factors. The PRA will continue to take a pragmatic, judgement-based view as to whether the accounts are transactional in practice.

relation to covered deposits (as defined in the Depositor Protection Part of the PRA Rulebook) is in excess of £500 million.

6.17 The PRA expects new branches of international banks operating in the UK to focus primarily on wholesale banking activities.

6.18 Where the PRA requires an international bank to use a subsidiary in order to undertake retail banking activities in the UK beyond certain levels, it does not automatically mean that the Bank, as resolution authority, would expect to apply its resolution powers on the subsidiary in the event of failure. This reflects the fact that it may be consistent with the PRA's objectives to gain greater supervisory influence over a firm, even if the test for use of stabilisation tools is different. The actual approach taken to resolve a firm will depend on the circumstances at the time of its failure.

Approach to systemic wholesale branches

6.19 Given the cross-border nature of many wholesale banking activities, wholesale branches tend to involve greater complexity in terms of structures, business models, and booking arrangements. Accordingly, where they may become of systemic importance, the PRA has additional expectations.

Systemic importance

6.20 The PRA will identify wholesale branches as systemically important when their size, complexity, and interconnectedness indicate that the failure of the firm could have significant consequences for financial stability in the UK. The PRA will inform the firm in cases where its wholesale branch is determined to be systemically important.

6.21 As its starting point, the PRA will have regard to the size of a firm's UK footprint in deciding whether to determine that a wholesale branch is systemically important, specifically whether it exceeds an average of £15 billion total gross assets. In calculating this figure, the PRA will take account both of assets booked onto the balance sheet of the branch, and assets traded or originated in the UK but booked remotely to another jurisdiction. The PRA will use the data provided in the Branch Return⁵⁰ to assist in determining whether the wholesale branch is systemically important.

6.22 Where a group maintains more than one UK branch, the PRA will aggregate the UK footprint of those branches to assess the overall significance of the UK branches of the group. Where a group also maintains a UK branch of an investment firm, the PRA may also take into account the assets of that branch.

6.23 The PRA's assessment will also take account of the likelihood that a firm will exceed the threshold in future.

6.24 The £15 billion threshold is only indicative. In determining systemic importance, the PRA will also focus on the overall complexity and interconnectedness of the business undertaken in the branch, including where a branch provides significant operational services or is otherwise interconnected to a systemically important UK bank. It will also take account of the level of provision of critical functions the branch undertakes.

6.25 Box 3 sets out the PRA's expectations of systemic wholesale branches.

⁵⁰ See <https://www.bankofengland.co.uk/prudential-regulation/regulatory-reporting/regulatory-reporting-banking-sector/banks-building-societies-and-investment-firms>.

Box 3: The PRA's expectations of systemic wholesale branches

Expectations of systemic wholesale branches

Whereas the PRA expects all branches' organisational arrangements to be comprehensive yet proportionate to the nature, scale, and complexity of their business,⁵¹ the PRA has additional expectations for systemic wholesale branches.

Where the PRA identifies wholesale branches as being of systemic importance to the UK, the intensity of the PRA's supervision of the branch will generally be greater, and the PRA's expectations of its organisational arrangements will be higher. The specific arrangements will vary across firms, but the PRA has the following general expectations.

Supervisory engagement

Systemic wholesale branches are among those firms for whom the PRA has a continuous assessment programme. This programme includes an assessment of the business undertaken by the branch, the authorised entity of which it is part, and the group. It also includes consideration of booking arrangements as set out in Box 2. This assessment informs the depth and nature of the information and engagement the PRA expects from both the home state supervisor and the branch.

The PRA will look to the Head of Overseas Branch (SMF19) to ensure it receives the requisite information it expects for all branches. For systemic wholesale branches, as part of its supervisory programme, the PRA will expect to meet at least annually with the Chief Executive Officer or the Chief Risk Officer, or both, of the authorised entity of which the branch is part, to discuss the PRA's expectations on information sharing, as outlined in Box 1, for the firm.

Governance

All branches must have the SMF19 approved by the PRA, with FCA consent. Individual(s) performing the SMF19 should have the highest degree of individual decision-making authority within the branch over activities and areas subject to UK regulation.

For systemic wholesale branches, the person exercising SMF19 is expected to be a senior figure within the firm, who is credible and influential at the group executive level. That person should be well-informed on group developments and how these will affect the operations of the branch. This person should be in a position to ensure that the PRA receives the information set out in Box 1 where this information can be provided by the firm.

In addition to having such an individual holding the SMF19 function, systemic wholesale branches should consider, whether they need the following SMFs: Chief Risk Officer (SMF4), Chief Finance Officer (SMF2), and Chief Operations Officer (SMF24). The PRA may also expect or require the firm to have these positions in respect of the branch.

Where an individual based in the head office of the firm has significant influence over the branch's booking arrangements, then that individual should seek approval as Group Entity Senior Manager function (SMF7). This includes where there is a group executive responsible for firm-wide systems or operations upon which the branch relies (for example, in custody, which is often run as a globally integrated activity). However, where other persons provide the appropriate connectivity with the authorised entity or group, the PRA may judge that this may not be necessary (for example, where the branch manager is on the firm's executive committee).

⁵¹ See SS4/16 'Internal governance of third country branches', February 2016: <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/internal-governance-of-third-country-branches-ss>.

Risk management

A branch should establish, implement, and maintain adequate risk management policies and procedures, including effective procedures for risk assessment, which identify the risks relating to the branch's activities, processes, and systems, and where appropriate, set its risk appetite or the level of risk tolerated by the branch.⁵² For systemic wholesale branches, the PRA will expect to see evidence of this and to understand the firm's policies governing the nature and amount of risk associated with business undertaken through the branch. It can do this either through seeing policies written at the branch level, or policies written for the firm as a whole, which identify how the branch risks are to be managed.

The PRA expects these policies to set out criteria against which to judge whether business should be undertaken through the branch or elsewhere in the firm. These policies should include an assessment of non-financial risks (legal, reputational, conduct, operational, etc) that may arise through branch activities.

The branch should have in place the appropriate governance for booking policies and controls that mirror those set out in Box 2, which describes booking arrangements as between different entities within a group. In the case of international banks with UK branches, the arrangements should differentiate between what is booked to the firm's head office and what is booked to the UK branch.

UK footprint

Where a systemic wholesale branch operates in the UK alongside a material subsidiary, the PRA expects there to be controls around the division of risks accepted through the subsidiary and the branch (for example, in the supply of key services between those entities and in the booking of higher risk and unprofitable business). While there is scope for key risk management function-holders to combine roles across the UK entities (subsidiary and branch), firms will need to ensure that any conflicts of interest that may arise for the function holder as a result are appropriately managed.

52 Ibid.