



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

The adequacy of PRA resources and the independence of PRA functions

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The adequacy of resources allocated to the performance of PRA functions and the extent to which the exercise of PRA functions is independent of other Bank functions

This is the annual report by the Prudential Regulation Committee (PRC) to the Chancellor of the Exchequer under paragraph 19 of Schedule 6A to the Bank of England Act 1998 (as amended). It relates to the period of 1 March 2017 to 28 February 2018. The Prudential Regulation Authority (PRA) publishes this report as part of its commitment to transparency.

Background

Since 1 March 2017, the PRA has been part of the legal entity of the Bank of England (Bank). The PRC is a statutory committee of the Bank. The PRC is on the same statutory footing as the Bank's Monetary Policy Committee (MPC) and Financial Policy Committee (FPC) and is responsible for the exercise of the Bank's functions as the PRA. The PRA Annual Report¹ summarises the PRC's responsibilities and the statutory framework under which the PRA operates. Under this statutory framework, the PRC is responsible for strategy, policy and rule making, and the adoption (with the approval of Court) of the budget for the PRA. These functions cannot be delegated.

The adequacy of resources allocated to the performance of PRA functions

The PRA has published approach documents² setting out how it implements its statutory objectives: the PRA's approach to banking supervision and the PRA's approach to insurance supervision. It is a key principle underlying the PRA's approach that it does not seek to operate a zero-failure regime. Informed by the approach, and the operating model and risk tolerance also agreed by the PRC, each year the PRC sets the PRA strategy, business plan and budget. The PRC seeks to ensure that its financial and non-financial resources are allocated to the work that best advances the PRA's objectives.

In making judgements on resources, the PRC takes into account a wide range of relevant considerations. These include the wider legislative and policy framework under which the PRA operates, including the duty to have regard to certain factors under the Financial Services and Markets Act 2000 (FSMA), and the Legislative and Regulatory Reform Act. Another accountability mechanism is HM Treasury's recommendation letter,³ a check and balance to ensure the PRA has regard to the Government's economic policy when exercising its general functions. In addition, the PRA plans its resources to deliver multi-year programmes of work, (such as structural reform), and responds to changes to the external environment and risk profile of the firms regulated by the PRA.

The PRA consults each year on the allocation of fees between firms. The PRA received a small number of industry comments on its proposed fee regime⁴ for this period, none of which raised substantial objections. The PRA has the ability to raise additional funds during the year by re-consulting, which has not been necessary during this period. The fee income generated from regulated firms can only be used for the functions covered by the statutory framework under which the PRA operates.

The PRC receives and reviews regular updates on the PRA's performance and on how the PRA's financial and non-financial resources are allocated and monitored, as well as how any resource risks are being mitigated, through: performance and assurance reporting; discussion of

1 www.bankofengland.co.uk/prudential-regulation/publication/2017/annual-report-2017.

2 www.bankofengland.co.uk/prudential-regulation/publication/2016/pr-a-approach-documents-2016.

3 www.bankofengland.co.uk/about/people/prudential-regulation-committee.

4 www.bankofengland.co.uk/prudential-regulation/publication/2017/regulated-fees-and-levies-rates-proposals-2017-18.

Committee papers; and Committee members' regular interaction with the PRA, including meetings with senior management and other staff. In particular, the regular reporting to PRC covers progress against: strategic aims; budget and headcount position; attrition rates; technology availability; and the PRA's risk profile. The Bank's internal control functions also apply equally to the PRA, including the Bank's risk management framework, Internal Audit function and the Audit and Risk Committee of Court.

The reports and other evidence provided to PRC during the year indicate the PRA has used its financial and non-financial resources to deliver effectively its business plan. The PRA's Annual Report and Accounts 2018 will provide more detail on achievements during the period and will be published in the summer.

The extent to which the exercise of PRA functions is independent of other Bank functions

The PRA has a number of safeguards in place to ensure it retains sufficient operational independence, including the independence of the PRC and the funding and reporting arrangements set out in the FSMA and the Bank of England Act 1998.

The PRC has a majority of independent, appointed external members. PRC members' remuneration is determined by the Bank's Remuneration Committee. The PRC is independent in all its decision-making functions, which include making rules and the PRA's most important supervisory and policy decisions. The PRC also maintains its independence by ensuring that actual and potential conflicts of interest across its members are identified and managed on a continual basis, and by having its own internal infrastructure and processes.

Locating the PRA within the Bank helps ensure there is effective policy-making on financial stability as the PRA needs to work closely with many other areas of the Bank. This is done in a way which maintains the respective distinct roles and responsibilities and respects the Basel Core Principles. For example, in accordance with the relevant legislation, the Bank has arrangements in place to ensure that the Bank's functions as the United Kingdom's resolution authority and its supervisory functions are operationally independent of one another and has issued a statement setting out these arrangements.¹

The PRC maintains separation from the FPC and MPC structurally by having different external membership. The PRC and FPC hold almost all meetings separately, but hold some joint meetings to discuss matters of mutual interest (for example, the annual concurrent stress test). The FPC sometimes takes decisions (for example, setting the countercyclical capital buffer rate), that may constrain the decisions that can subsequently be taken by the PRC. The FPC has specific powers of Direction over prescribed macro-prudential measures (for example sectoral capital requirements) and the ability to make Recommendations to the PRA, including on a 'comply or explain' basis (for example, the FPC's 2017 recommendation on the recalibration of the UK leverage ratio requirement).

The PRA's income and expenditure is managed separately from that of the rest of the Bank. As set out above, the PRA is funded by fees paid by regulated firms which can only be spent on PRA functions. As well as PRA direct costs, the PRA's budget covers indirect costs charged by the Bank, including centralised functions such as Finance and Human Resources. The PRC also looks to the Bank's external auditors, KPMG, to provide external assurance that these indirect costs have been allocated appropriately. The PRA will report on its expenditure, income and any potential surplus or deficit in its Annual Report, including separate financial statements for the PRA, and will report on how it has discharged its obligations under FSMA.

¹ <https://www.bankofengland.co.uk/-/media/boe/files/about/legislation/statement-structural-separation>.