



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY



Consultation Paper | PRA CP41/15  
| FCA CP15/37

# Occasional Consultation Paper

November 2015

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Responses are requested by:  
Wednesday 25 November 2015 for Chapter 1;  
Monday 11 January 2016 for Chapters 4 and 5; and  
Thursday 11 February 2016 for Chapters 2 to 3.

Please address any comments or enquiries to the PRA at [OCPresponses@bankofengland.co.uk](mailto:OCPresponses@bankofengland.co.uk) by the response deadlines for the chapters as set out above.

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Please address any comments or enquiries on proposals contained in Chapter 4 (Section 3) to the FCA at [cp15-37@fca.org.uk](mailto:cp15-37@fca.org.uk) by 11 January 2016.

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# 1 Amendments to Rulebook Parts relevant to the Society of Lloyd's

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## 1 Introduction

1.1 This chapter proposes to consolidate the Lloyd's: Actuaries, Auditors and FSCS Part and the Lloyd's Part in the PRA Rulebook into a single Part.

1.2 The chapter is relevant to the Society of Lloyd's, its members, managing agents, and auditors and actuaries of members.

1.3 The proposal is to delete the Lloyd's: Actuaries, Auditors and FSCS Part in its entirety, and the relevant rules and directions are remade and merged into the Lloyd's Part. These amendments serve to consolidate two Parts in the PRA Rulebook that apply to the Society of Lloyd's. The proposed amendments are planned to take effect on 1 January 2016.

1.4 The proposed Rulebook changes are presented in Appendix 1.

1.5 The consultation closes on Wednesday 25 November 2015.

## 2 Cost benefit analysis

2.1 This proposal is administrative in nature and does not represent a change in policy. The PRA considers that there will be no increase in costs as a result of these changes and therefore has not produced a full cost benefit analysis.

## 3 Statutory obligations

3.1 In making its rules the PRA must meet a number of legal obligations under the Financial Services and Markets Act 2000 (FSMA).

3.2 The PRA believes that making the proposed rules is compatible with its duty to act, so far as is reasonably possible, in a way which advances its general objective to promote the safety and soundness of PRA-authorized persons and firms, and to contribute to the securing of an appropriate degree of protection for those who are or may become insurance policyholders. The proposed changes in this CP do this by consolidating the rules relating to the Society of Lloyd's into a single Part, thereby making it easier for firms to comply with PRA rules.

3.3 The PRA considers the impact of this proposal on effective competition in those markets for activities provided by PRA authorised firms to be neutral and has not identified any constraint on competition from this proposal. The impact on mutuals will not change as a result of this proposal.

3.4 In making this proposal, the PRA has had regard to the Regulatory Principles as set out in sections 2H and 3B of FSMA<sup>1</sup>, and believes that this proposal is compatible with those principles, with special emphasis on the principles of proportionality and transparency.

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<sup>1</sup> <http://www.legislation.gov.uk/ukpga/2012/21/section/6>.

3.5 The PRA considers that there are no equality or diversity issues arising from this proposal.

## 2 Amendments to SS13/13 on market risk

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### 1 Introduction

1.1 This chapter sets out proposed amendments to the Supervisory Statement 13/13 'Market risk.'<sup>1</sup> The proposals are relevant to firms to which CRD IV<sup>2</sup> applies.

1.2 The PRA proposes to set expectations on the validation of firms' risks not In VaR (RNIV) frameworks and reporting of extensions and changes to firms' RNIV frameworks, and also provides clarification on the PRA's reporting requirements around Internal Model Approach (IMA) model changes and extensions. In addition, the process for informing the PRA with regard to non-compliance has been clarified.

1.3 Proposed amendments to the rules are presented in Appendix 2. There are changes to paragraphs 2.2, 9.16, 12.1, and 12.3. Paragraphs 2.10 to 2.12 and 12.3 are added.

- The change to paragraph 2.2 brings to the attention of PRA-regulated firms the PRA's expectation that RNIV frameworks are subject to validation.
- Paragraphs 2.10 to 2.12 brings to the attention of PRA-regulated firms the PRA's expectation on notification around extensions and changes to firms' RNIV frameworks and requests that firms submit a pro-forma.
- Paragraph 9.16 updates the PRA expectations on the reporting of extensions and changes to a firm's Internal Model Approach model given Delegated Regulation (EU) 529/2014 as amended by Delegated Regulation (EU) 2015/942 and requests that firms submit a pro-forma.
- Paragraphs 12.1 and 12.3 have been updated to clarify that firms are expected to notify the PRA at any time if they consider themselves to not be compliant with CRR requirements.

### 2 Cost benefit analysis

2.1 The PRA considers that there will be no increase in costs for firms as a result of these changes and therefore has not produced a full cost benefit analysis.

### 3 Statutory obligations

3.1 In discharging its general functions of making rules, and determining the general policy and principles by reference to which it performs particular functions, the PRA must, so far as reasonably possible, act in a way that advances its general objective to promote the safety and soundness of the firms it regulates.

3.2 In developing the amendments to the supervisory statement, the PRA has had regard to the Regulatory Principles as set out in the Financial Services and Markets Act 2000 (FSMA)<sup>3</sup>, and

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<sup>1</sup> December 2013; [www.bankofengland.co.uk/pr/Pages/publications/marketrisk.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/marketrisk.aspx).

<sup>2</sup> Capital Requirements Directive (2013/36/EU) (CRD) and Capital Requirements Regulation (575/2013) (CRR) – jointly 'CRD IV'.

<sup>3</sup> [www.legislation.gov.uk/ukpga/2012/21/section/6](http://www.legislation.gov.uk/ukpga/2012/21/section/6).

considers that the policy fulfils them. The proposed amendments to SS13/13 will enable the PRA to make judgements that will enhance transparency of the model change process for those permissions granted under CRR Article 363(3).

3.3 When discharging its general functions in a way that advances its primary objectives, the PRA has, as a secondary objective, a duty to facilitate effective competition in the markets for services provided by PRA-authorized persons. The PRA does not anticipate that there will be an impact on competition as a result of the proposals in this CP.

3.4 The PRA has considered the equality and diversity implications that may arise from the proposals in this consultation. The PRA considers that the proposals do not give rise to discrimination issues and are of low relevance to the equality agenda.

3.5 The impact of the proposed amendments on mutuals will not be significantly different from the impact on other firms.



# 3 Amendments to SS12/13 on counterparty credit risk

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## 1 Introduction

1.1 This chapter sets out proposed amendments to the Supervisory Statement 12/13 'Counterparty credit risk.'<sup>1</sup> The proposals are relevant to firms to which CRD IV<sup>2</sup> applies.

1.2 The PRA proposes clarifications to the reporting requirements for model changes. In addition, the process for informing the PRA with regards non-compliance has been clarified.

1.3 Proposed amendments to the rules are presented in Appendix 3. There are changes to paragraphs 5.1 to 5.3, 6.11, 6.16, and Appendix 1.

- Paragraphs 5.1 to 5.3 have been updated to remind firms that they are expected to notify the PRA at any time if they consider themselves not to be compliant with CRR requirements.
- The changes to paragraphs 6.11 and 6.16 correct errors in the enumeration of items and references thereof.
- The change to Appendix 1 brings to the attention of PRA-regulated firms the PRA's expectation that firms submit a pro-forma for extensions and changes to counterparty credit risk advanced model approaches.

## 2 Cost benefit analysis

2.1 The PRA considers that there will be no increase in costs for firms as a result of these changes and therefore has not produced a full cost benefit analysis.

## 3 Statutory obligations

3.1 In discharging its general functions of making rules, and determining the general policy and principles by reference to which it performs particular functions, the PRA must, so far as reasonably possible, act in a way that advances its general objective to promote the safety and soundness of the firms it regulates. These proposals advance the PRA's general objective by clearly setting out its expectations on firms in relation to counterparty credit risk.

3.2 When discharging its general functions in a way that advances its primary objectives, the PRA has, as a secondary objective, a duty to facilitate effective competition in the markets for services provided by PRA-authorized persons. The PRA does not anticipate that there will be an impact on competition as a result of the proposals in this CP.

3.3 In developing the amendments to the supervisory statement, the PRA has had regard to the Regulatory Principles as set out in the Financial Services and Markets Act 2000 (FSMA)<sup>3</sup>, and considers that the policy fulfils these principles. The proposed amendments to SS12/13 will enable the PRA to make judgements that will enhance transparency of the model change process for those

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<sup>1</sup> December 2013; [www.bankofengland.co.uk/pr/Pages/publications/counterparty.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/counterparty.aspx).

<sup>2</sup> Capital Requirements Directive (2013/36/EU) (CRD) and Capital Requirements Regulation (575/2013) (CRR) – jointly 'CRD IV.'

<sup>3</sup> [www.legislation.gov.uk/ukpga/2012/21/section/6](http://www.legislation.gov.uk/ukpga/2012/21/section/6).

permissions set out under CRR Articles 221 and 283. The clarified process also seeks to further efficient use of PRA resources in a proportionate way. The PRA has considered the equality and diversity implications that may arise from the proposals in this consultation. The PRA considers that the proposals do not give rise to discrimination issues and are of low relevance to the equality agenda.

3.4 The impact of the proposed amendments on mutuals will not be significantly different from the impact on other firms.

# 4 Consequential amendments to the Senior Managers Regime (SMR) and the Senior Insurance Managers Regime (SIMR)

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## 1 Introduction

1.1 This chapter sets out proposals for consequential and minor amendments to the PRA Rulebook and PRA Handbook as a result of the introduction of the Senior Managers Regime (SMR) and Senior Insurance Managers Regime (SIMR). The changes make minor amendments to the rules already published for insurers and UK relevant authorised persons, as set out in the PRA's Policy Statements implementing SMR and SIMR in PS3/15, PS16/15, and PS22/15, and in CP26/15 and CP27/15.<sup>1</sup> These amendments are made primarily to align definitions and drafting discrepancies and to correct minor drafting errors.

1.2 In addition, this chapter includes the PRA's proposals for some further clarificatory rule changes in relation to key function holder notifications by Solvency II firms and large non-Directive firms (large NDFs) and some proposed rules by both the PRA and the Financial Conduct Authority (FCA) in relation to Swiss general insurers.

1.3 The FCA set out its rules for implementing SIMR in PS15/21<sup>2</sup> after consulting on the proposed changes in CP14/25<sup>3</sup>, CP15/5<sup>4</sup> and CP15/16<sup>5</sup>. In addition, the FCA consulted on changes to the Approved Persons Regime for non-Directive firms in March<sup>6</sup> and August 2015<sup>7</sup>. The FCA is consulting jointly with the PRA on the changes to SIMR outlined in Chapter 3: SIMR - Proposals for Swiss general insurers. Proposed changes to the FCA rules are consequential to those of the PRA.

1.4 The proposed amendments in this chapter are intended to be brought into effect on 7 March 2016. The consultation closes on Monday 11 January 2016. Respondents should email the PRA with comments regarding Appendices 4 to 8 and 10, and the FCA regarding comments on Appendix 9.

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1 PRA Policy Statement 3/15 'Strengthening individual accountability in banking and insurance — responses to CP14/14 and CP26/14', March 2015; [www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps315.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps315.aspx).  
 PRA Policy Statement 16/15 'Strengthening individual accountability in banking: responses to CP14/14, CP28/14, and CP7/15', July 2015; [www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps1615.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps1615.aspx).  
 PRA Policy Statement 22/15 'Strengthening individual accountability in insurance: responses to CP26/14, CP7/15 and CP13/15', August 2015; [www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps2215.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/ps/2015/ps2215.aspx).  
 PRA Consultation Paper 26/15 'Senior insurance managers regime: implementation proposals for non-Solvency II firms', August 2015; [www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp2615.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp2615.aspx).  
 PRA Consultation Paper 27/15 'The prudential regime for non-Solvency II insurance firms and consequential amendments', August 2015; [www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp2715.aspx](http://www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp2715.aspx).

2 FCA Policy Statement 15/21 – 'Changes to the Approved Persons Regime for Solvency II firms: Final rules (including feedback on CP14/25, CP15/5 and CP15/16), and consequentials relating to CP15/22 on strengthening accountability in banking', August 2015; [www.fca.org.uk/news/ps15-21-changes-to-the-approved-persons-regime-for-solvency-ii-firms](http://www.fca.org.uk/news/ps15-21-changes-to-the-approved-persons-regime-for-solvency-ii-firms).

3 FCA Consultation Paper 14/25 - 'Changes to the Approved Persons Regime for Solvency II firms', November 2014; [www.fca.org.uk/your-fca/documents/consultation-papers/cp14-25](http://www.fca.org.uk/your-fca/documents/consultation-papers/cp14-25).

4 FCA Consultation Paper 15/5 – 'CP15/5: Approach to non-executive directors in banking and Solvency II firms & Application of the presumption of responsibility to Senior Managers in banking firms', February 2015; [www.fca.org.uk/news/cp15-05-approach-to-neds](http://www.fca.org.uk/news/cp15-05-approach-to-neds).

5 FCA Consultation Paper 15/16 – 'Changes to the Approved Persons Regime for Solvency II firms', March 2015; [www.fca.org.uk/news/cp15-16-changes-to-the-approved-persons-regime-for-solvency-ii-firms](http://www.fca.org.uk/news/cp15-16-changes-to-the-approved-persons-regime-for-solvency-ii-firms).

6 FCA Consultation Paper 15/15 – 'Changes to the Approved Persons Regime for insurers not subject to Solvency II', March 2015; [www.fca.org.uk/your-fca/documents/consultation-papers/cp15-15](http://www.fca.org.uk/your-fca/documents/consultation-papers/cp15-15).

7 FCA Consultation Paper 15/25 – 'Changes to the Approved Persons Regime for insurers not subject to Solvency II: reforms for larger Non-Directive Firms, feedback on CP15/15, forms, consequentials and transitional aspects', August 2015; [www.fca.org.uk/your-fca/documents/consultation-papers/cp15-25](http://www.fca.org.uk/your-fca/documents/consultation-papers/cp15-25).

## **2 SIMR - Key function holder notification form**

2.1 In CP13/15 (paragraph 2.14), the PRA proposed that key function holders who are already in a controlled function would not be required to complete a key function holder notification form (Form M). In this chapter, the PRA is consulting on its rules to give effect to this intent for Solvency II firms and large NDFs in relation to non-executive directors (NEDs) who are not grandfathering to the SIMR regime. In summary, a NED who is approved (as a CF2 or CF5) as at 6 March 2016, and is not proposing to be in a Senior Insurance Management Function (SIMF) role at 7 March 2016, would not need to submit either a Form M or a Scope of Responsibilities form, provided that the NED is recorded by the firm in its governance map by 7 March 2016.

2.2 The PRA also includes proposed rules that would require group key function holders at Solvency II firms and large NDFs, who are not in another controlled function at a regulated solo insurance firm, to submit a Form M. This requirement is in line with that for key function holders at regulated solo insurance firms, who must submit the same form.

2.3 The PRA proposed in CP36/15 that Solvency II firms and large NDFs should request regulatory references for individuals before deciding if they are fit and proper to be appointed as a key function holder. Appendix 10 updates Form M to reflect this requirement. Please note that the substantive requirement proposed in the CP will not change – the relevant form is simply being updated.

2.4 The proposed rules to give effect to this are set out in Appendix 4, and these rules are proposed to come into effect on 7 March 2016.

## **3 SIMR - Proposals for Swiss general insurers**

3.1 The PRA initially excluded Swiss general insurers from the application section of its rules for the SIMR, as it was awaiting completion of the EU's negotiation on an update to the Swiss Treaty Agreement (No. 91/370/EEC). However, this update has not yet been made and so the PRA is consulting on some interim rules, to ensure that a suitable regime is in place for these firms from 7 March 2016. Therefore, in this chapter, the PRA proposes bringing Swiss general insurers within most of the scope of the SIMR and governance rules for large NDFs.

3.2 The aim of the changes to the PRA Rulebook and FCA Handbook is to apply SIMR rules that are relevant to branches of third country insurers, and to enable individuals who are currently approved for a controlled function at Swiss general insurers to be grandfathered across to an equivalent SIMF role as at 7 March 2016, in accordance with Table A in this Chapter. However, the PRA would continue to exclude them from Insurance – Allocation of Responsibilities 2, which relates largely to the financial management of the insurer. The PRA proposes to amend the large NDF rules and forms accordingly, as set out in Appendices 5 and 6, and these rules are proposed to come into effect on 7 March 2016.

3.3 The FCA is consulting jointly with the PRA on this change. Proposed changes to the FCA rules are consequential to those of the PRA, and are set out in the Individual Accountability (Swiss General Insurers) Instrument 2016, at Appendix 9. These rules are also proposed to come into effect on 7 March 2016.

## **4 Consequential changes**

4.1 This section contains a number of minor consequential changes to the PRA Rulebook to reflect the implementation of the SIMR from 7 March 2016. The PRA has deleted rules that have been superseded by other Rulebook Parts including Insurance – Fitness and Propriety. In addition, these changes include the proposed deletion from the PRA Handbook of APER, FIT, SUP 10B and SUP TP3,

with effect from 7 March 2016. This deletion will also apply in respect of the SIMR. These changes follow the commitment made in the PRA's approach documents<sup>1</sup> to revise the Handbook inherited from the Financial Services Authority (FSA). The proposed rule changes are set out in Appendices 7 and 8 and are proposed to come into effect on 7 March 2016.

**Table A: Equivalent functions for Swiss general insurers**

Column 1	Column 2	Column 3
Pre-implementation PRA or FCA Controlled Function	PRA Senior Insurance Management Function	FCA Function
Director (CF1)	Chief Finance function (SIMF2) Chief Risk function (SIMF4) Head of Internal Audit function (SIMF5) Group Entity Senior Insurance Manager function (SIMF7) Head of Third Country Branch function (SIMF19) Chief Actuary function (SIMF20) Chief Underwriting Officer function (SIMF22)	FCA Director function (CF1) (see Note)
Non-executive director (CF2)	Group Entity Senior Insurance Manager function (SIMF7) Chairman (SIMF9) Senior independent director (SIMF14) Chair of the Risk Committee (SIMF10) Chair of the Audit Committee (SIMF11) Chair of the Remuneration Committee (SIMF12)	
Chief executive (CF3)	Head of Third Country Branch function (SIMF19)	
FCA Apportionment and oversight (CF8)	To be dis-applied	
FCA Compliance (CF10)		Compliance (CF10)
FCA CASS Operational Oversight (CF10a)		Cass Operational Oversight (CF10a)
FCA Money Laundering Reporting (CF11)		Money Laundering Reporting Officer (CF11)
PRA Systems and Controls (CF28)	Chief Finance function (SIMF2) Chief Risk function (SIMF4) Head of Internal Audit function (SIMF5)	Systems and controls (CF28)
PRA Significant Management (CF29)	Chief Underwriting Officer function (SIMF22) Group Entity Senior Insurance Manager function (SIMF7)	Significant Management (CF29)
FCA Customer function (CF30)		Customer function (CF30)

Note: See SUP TP 7.2.3 R in the FCA Handbook.

<sup>1</sup> Available at [www.bankofengland.co.uk/pr/Pages/supervision/approach/default.aspx](http://www.bankofengland.co.uk/pr/Pages/supervision/approach/default.aspx).

## 5 Cost benefit analysis

5.1 The proposed consequential changes to the PRA Rulebook and Handbook are a result of the implementation of SMR and SIMR and to make the corrections and alignments set out in paragraph 1.1. The rule changes in this chapter are relatively minor, reflect policy on which the PRA has consulted previously, and will clarify various aspects of the new SMR and SIMR. The PRA set out the costs and benefits of implementing SMR in CP14/14, CP28/14, CP7/15 and CP9/15 and of implementing SIMR in CP 26/14, CP7/15, CP13/15 and CP26/15.<sup>1</sup> The PRA does not believe these consequential changes will add any significant costs or benefits to those set out in those Consultation Papers and therefore has not developed a full cost benefit analysis.

5.2 The EU is currently negotiating an update to the Swiss Treaty Agreement (No. 91/370/EEC) that will impact Swiss general insurers. The update will implement Solvency II (and the corresponding equivalent Swiss rules) and is expected to include the relevant governance arrangements within firms. The proposal in this consultation is to apply the SIMR rules that are relevant to branches of third country insurers as an interim measure while the updated Agreement is being finalised. These should enable the PRA to take a proportionate approach that is similar to both the rules under which these insurers already fall, and the new features envisaged by Solvency II (and equivalent Swiss rules). In particular, it will enable the grandfathering of individuals to an equivalent role. Therefore, bringing Swiss general insurers into much of the scope of the SIMR is not expected to give rise to any significant additional costs.

5.3 In addition, disapplying notifications for NEDs who have approved status as at 6 March 2016 brings their treatment into line with the PRA's existing policy aims. It should be less onerous for both firms and the PRA.

## 6 Statutory obligations

6.1 The PRA and FCA have different objectives. While looking to meet their own objectives, each remains mindful of the other's obligations and objectives, as outlined in the following chapters.

6.2 The proposals the PRA outlines in this chapter are compatible with the PRA's statutory objectives under the Financial Services and Markets Act 2000 (FSMA): to promote the safety and soundness of PRA-authorised firms, and to contribute to ensuring that policyholders are appropriately protected.

6.3 When discharging its general rule-making function, the PRA is legally required, insofar as it is reasonably possible, to facilitate effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities. The PRA does not consider that the proposed amendments will either hinder or promote effective competition.

6.4 In making its rules and establishing its practices and procedures, the PRA must have regard to the Regulatory Principles as set out in FSMA<sup>2</sup> and certify that the policy proposals accord with these. The PRA has taken particular note of the principle of proportionality with regard to this policy proposal, as described in Chapter 5. The proposed rule changes seek to make use of PRA resources in an efficient and transparent way, and recognise the responsibilities of senior managers, senior insurance managers and key function holders for firms' compliance with regulatory requirements.

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<sup>1</sup> A table of all policy is available on the dedicated Strengthening Accountability webpage at [www.bankofengland.co.uk/prs/Pages/supervision/strengtheningacc/default.aspx](http://www.bankofengland.co.uk/prs/Pages/supervision/strengtheningacc/default.aspx).

<sup>2</sup> [www.legislation.gov.uk/ukpga/2012/21/section/6](http://www.legislation.gov.uk/ukpga/2012/21/section/6).

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

6.6 The proposed amendments would affect some firms which are mutuals. The PRA does not consider that the impact of the proposals on mutuals will be significantly different from the impact on other firms.

## **7 Compatibility with the FCA's general duties and regulatory principles**

7.1 The proposals are compatible with the FCA's statutory objectives under FSMA to secure an appropriate degree of protection for consumers, to protect and enhance the integrity of the UK financial system and promote effective competition in the interests of consumers.

7.2 The FCA is legally required, insofar as it is compatible with its strategic and operational objectives, to discharge its general functions (including its rule-making function) in a way which promotes competition. The FCA does not consider that the proposed amendments will either hinder or promote effective competition.

7.3 Many of the firms that these reforms apply to are mutuals. The FCA considers the proposed amendments to be appropriate and proportionate. The FCA also believes the impact of the proposals on mutuals will not be significantly different from the impact on other firms.

7.4 In preparing these proposals, the FCA has had regard to all of the regulatory principles in section 3B of FSMA.

7.5 The FCA has considered the equality and diversity issues that may arise from the proposals. The FCA does not consider that the proposed amendments raise concerns in this regard. The FCA does not consider that the proposals in this consultation result in direct discrimination for any of the groups with protected characteristics: that is, age, disability, gender, pregnancy and maternity, race, religion and belief, sexual orientation and transgender.

# 5 Amendments to definitions related to credit unions

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## 1 Introduction

1.1 The chapter is relevant to all UK credit unions.

1.2 This chapter sets out a proposal to revise certain definitions in the PRA Rulebook so that they are aligned with the relevant statutory definitions. These changes are required so that the Rulebook reflects the existence of separate statutory provisions for credit unions in Great Britain and Northern Ireland.

1.3 The PRA Rulebook currently defines 'credit union' by reference to section 31 of the Credit Unions Act 1979, which provision applies only to Great Britain. A complete definition is provided in FSMA, which encompasses both Great Britain credit unions and Northern Ireland credit unions. The PRA proposes to substitute the FSMA definition of 'credit union' for that currently included in the Rulebook Glossary.

1.4 The Depositor Protection Part currently uses separate concepts of 'credit unions' and of 'Northern Ireland credit unions.' In this chapter, the PRA proposes consequential amendments to the Depositor Protection Part to ensure that the policy intent in referring to those concepts in that part remains unchanged.

1.5 The proposed Rulebook rule changes are presented in Appendix 11.

## 2 Cost benefit analysis

2.1 This proposal does not represent a substantive change in policy. The PRA considers that there will be no increase in costs for firms as a result of these changes and therefore has not produced a full cost benefit analysis.

## 3 Statutory obligations

3.1 In discharging its general functions of making rules, and determining the general policy and principles by reference to which it performs particular functions, the PRA must, so far as reasonably possible, act in a way that advances its general objective to promote the safety and soundness of the firms it regulates. The proposed amendments will enhance the clarity and accuracy of the PRA Rulebook.

3.2 In developing the amendments in this chapter, the PRA has had regard to the Regulatory Principles as set out in FSMA<sup>1</sup>, and considers that the policy fulfils them. The clarified definition increases the transparency of the PRA Rulebook by ensuring that specified definitions align with relevant statutory definitions.

3.3 When discharging its general functions in a way that advances its primary objectives, the PRA has, as a secondary objective, a duty to facilitate effective competition in the markets for

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<sup>1</sup> [www.legislation.gov.uk/ukpga/2012/21/section/6](http://www.legislation.gov.uk/ukpga/2012/21/section/6).



services provided by PRA-authorized persons. The PRA does not anticipate that there will be an impact on competition as a result of the proposals in this CP.

3.4 The PRA has considered the equality and diversity implications that may arise from the proposals in this consultation. The PRA considers that the proposals do not give rise to discrimination issues and are of low relevance to the equality agenda.

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## Appendices

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- |           |   |
|-----------|---|
| <b>1</b>  | <b>PRA RULEBOOK: SOLVENCY II FIRMS, NON SOLVENCY II FIRMS, NON-AUTHORISED PERSONS: LLOYD'S INSTRUMENT (NO. 2) 2015</b>  |
| <b>2</b>  | <b>SS13/13 Market risk</b>  |
| <b>3</b>  | <b>SS12/13 Counterparty credit risk</b>   |
| <b>4</b>  | <b>PRA RULEBOOK: SOLVENCY II FIRMS: SENIOR INSURANCE MANAGERS REGIME – TECHNICAL RULES (NO. 2) INSTRUMENT 2015</b>  |
| <b>5</b>  | <b>PRA RULEBOOK: NON-SOLVENCY II FIRMS: LARGE NON-SOLVENCY II FIRMS - SENIOR INSURANCE MANAGERS REGIME (NO. 2) INSTRUMENT [YEAR]</b>  |
| <b>6</b>  | <b>PRA RULEBOOK: NON-SOLVENCY II FIRMS: LARGE NON-SOLVENCY II FIRMS – SENIOR INSURANCE MANAGERS REGIME – TECHNICAL RULES (NO. 2) INSTRUMENT [YEAR]</b>  |
| <b>7</b>  | <b>PRA RULEBOOK: CRR FIRMS, NON-CRR FIRMS, SOLVENCY II FIRMS, NON-SOLVENCY II FIRMS: SENIOR MANAGERS REGIME AND SENIOR INSURANCE MANAGERS REGIME AND INDIVIDUAL ACCOUNTABILITY (CONSEQUENTIALS) INSTRUMENT [YEAR]</b> |
| <b>8</b>  | <b>HANDBOOK (RULEBOOK CONSEQUENTIALS) INSTRUMENT [YEAR]</b>   |
| <b>9</b>  | <b>INDIVIDUAL ACCOUNTABILITY (SWISS GENERAL INSURERS) INSTRUMENT 2016</b>   |
| <b>10</b> | <b>Form M</b>   |
| <b>11</b> | <b>PRA RULEBOOK: CRR FIRMS, NON-CRR FIRMS: DEFINITION OF CREDIT UNION INSTRUMENT [YEAR]</b>   |

## Appendix 1

### **PRA RULEBOOK: SOLVENCY II FIRMS, NON SOLVENCY II FIRMS, NON-AUTHORISED PERSONS: LLOYD'S INSTRUMENT (NO. 2) 2015**

#### **Powers exercised**

- A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):
- (1) section 137G (the PRA's general rules);
  - (2) section 137T (general supplementary powers);
  - (3) section 213(1) (the compensation scheme);
  - (4) section 316(1) (direction by a regulator);
  - (5) section 317 (the core provisions); and
  - (6) section 318 (exercise of powers through Council).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

#### **Pre-conditions to making**

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

### **PRA Rulebook: Solvency II Firms, Non Solvency II Firms, Non-Authorised Persons: Lloyd's Instrument (No. 2) 2015**

- D. The PRA makes the rules and amendments in the Annexes to this instrument.

#### **Commencement**

- E. This instrument comes into force on [DATE].

#### **Citation**

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms, Non Solvency II Firms, Non-Authorised Persons: Lloyd's Instrument (No. 2) 2015.

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

**Annex A**

**Part**

**LLOYD'S: ACTUARIES, AUDITORS AND FSCS**

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This Part is deleted in its entirety.

## Annex B

In this Part, new text is underlined and deleted text struck through.

Part

# LLOYD'S

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## Chapter content

1. APPLICATION AND DEFINITIONS
2. SPECIAL PROVISIONS FOR LLOYD'S
3. APPROVED REINSURANCE TO CLOSE
4. PROVISION OF INFORMATION BY MANAGING AGENTS
5. INSURANCE RECEIVABLES TO BE CARRIED TO TRUST FUNDS
6. AMENDMENTS TO BYELAWS, TRUST DEEDS AND STANDARD FORM LETTERS OF CREDIT AND GUARANTEES
7. THE CENTRAL FUND
8. CAPACITY TRANSFER MARKET
9. FORMER UNDERWRITING MEMBERS
10. SOLVENCY II REGULATIONS
11. AUDITORS AND ACTUARIES DIRECTION
12. LLOYD'S AND THE FSCS DIRECTION
13. LLOYD'S MEMBERS' COMPENSATION SCHEME

Links

## 1 APPLICATION AND DEFINITIONS

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1.1 Except in 11 and uUnless otherwise stated, this Part applies to:

- (1) in accordance with Insurance General Application 3, the *Society*; and
- (2) in accordance with Insurance General Application 3, *managing agents*, where specified.

1.2 In this Part, the following definitions shall apply:

*capacity transfer market*

means any method of transferring capacity in *syndicates*, including capacity auctions, bilateral arrangements, capacity offers, minority buy-outs and conversion schemes.

*insurance business*

means the regulated activities of effecting contracts of insurance or carrying out contracts of insurance written at Lloyd's.

*Lloyd's member's contribution*

means assets:

- (1) provided to a *managing agent* in response to a cash call; or
- (2) held by the *Society* as *funds at Lloyd's*.

*underwriting agent*

means a firm permitted by the Council to act as an underwriting agent at Lloyd's.

## 2 SPECIAL PROVISIONS FOR LLOYD'S

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2.1 Neither the *Society* nor *managing agents* may permit a *member* to carry on any *insurance business*, except as a participant on one or more *syndicates*.

2.2 The *Society* must ensure that all participants in the Lloyd's market are made aware of their obligations under the Solvency II Firms Sector of the *PRA* Rulebook.

2.3 The *Society* must establish and maintain effective arrangements to monitor and manage risk arising from:

- (1) conflicts of interest (including in relation to (2) to (4));
- (2) inter-*syndicate* transactions, including *reinsurance to close* and *approved reinsurance to close*;
- (3) related party transactions; and
- (4) transactions between *members* and itself.

### 3 APPROVED REINSURANCE TO CLOSE

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- 3.1 Notwithstanding that the liability of a reinsured *member* to a *policyholder* is unaffected by an *approved reinsurance to close* for the purposes of the Solvency II Firms Sector of the *PRA Rulebook*:
- (1) for an *approved reinsurance to close* which is not to a *subsidiary undertaking* of the *Society*:
    - (a) a *contract of insurance* reinsured under an *approved reinsurance to close* must be treated as if the reinsuring *member* and not the reinsured *member* had effected the original *contract of insurance*; and
    - (b) any payment received by a *member* as consideration for or in connection with an *approved reinsurance to close* must be treated as a *Lloyd's member's contribution* and not as *premium* or as a *reinsurance recovery*.
  - (2) for an *approved reinsurance to close* to a *subsidiary undertaking* of the *Society*, a *contract of insurance* reinsured under that *approved reinsurance to close* must be treated as if the reinsured *member* had not effected the original *contract of insurance* but:
    - (a) for the purposes of the calculation of the Lloyd's *SCR*, *general insurance business* carried on by *members* and *former underwriting members* which has been reinsured to a *subsidiary undertaking* of the *Society* under an *approved reinsurance to close* must be treated as reinsured to a third party; and
    - (b) for the purposes of calculating the *SCR* of any *subsidiary undertaking* of the *Society* which is a *UK Solvency II firm*, the *approved reinsurance to close* must be treated as a *reinsurance*.

### 4 PROVISION OF INFORMATION BY MANAGING AGENTS

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- 4.1 A *managing agent* must, as soon as possible, give the *Society* any information the *managing agent* has concerning material risks to *funds at Lloyd's* or *central assets*.
- 4.2 A *managing agent* need not comply with 4.1 if the *managing agent* knows that the *Society* already has the relevant information.

### 5 INSURANCE RECEIVABLES TO BE CARRIED TO TRUST FUNDS

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- 5.1 The *Society* must take all reasonable steps to ensure that each *member*:
- (1) executes the appropriate *Lloyd's trust deeds*; and
  - (2) carries to the appropriate *Lloyd's trust fund* all amounts received or receivable by the *member*, or on its behalf, in respect of any *insurance business* carried on by it.
- 5.2 The *Society* must carry all amounts it receives on behalf of any *member* in respect of that *member's insurance business* to the appropriate *Lloyd's trust fund*.
- 5.3 A *managing agent* must carry all amounts it receives on behalf of any *member* in respect of that *member's insurance business* to the appropriate *Lloyd's trust fund*.
- 5.4 In complying with 5.1 to 5.3, the *Society* and *managing agents* must take all reasonable steps to ensure that amounts received or receivable by a *member* in respect of *general insurance business* and *long-term insurance business* are carried to separate *Lloyd's trust funds*.

## **6 AMENDMENTS TO BYELAWS, TRUST DEEDS AND STANDARD FORM LETTERS OF CREDIT AND GUARANTEES**

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- 6.1 The *Society* must, as soon as it is practical to do so, notify the *PRA* of its intention to approve the form of any new *Lloyd's trust deed*.
- 6.2 The *Society* must, as soon as it is practical to do so, notify the *PRA* of its intention to make any amendment which may alter the meaning or effect of any *byelaw*, including:
- (1) any *Lloyd's trust deed*;
  - (2) any standard form letter of credit prescribed by the *Society* from time to time; or
  - (3) any standard form guarantee agreement prescribed by the *Society* from time to time.
- 6.3 The *Society* must provide the *PRA* with full details of:
- (1) the form of any new *Lloyd's trust deed* it intends to approve, as described in 6.1; and
  - (2) any amendments falling within 6.2.
- 6.4 The *Society* must consult interested parties in relation to any new *Lloyd's trust deed* and in relation to any amendment falling within 6.2.
- 6.5 The information provided to the *PRA* by the *Society* under 6.3 must include:
- (1) a statement of the purpose of any proposed amendment or new *Lloyd's trust deed* and the expected impact, if any, on *policyholders*, *managing agents*, *members*, and potential *members*; and
  - (2) a description of the consultation undertaken under 6.4 including a summary of any significant responses to that consultation.

## **7 THE CENTRAL FUND**

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- 7.1 The directions in this Chapter are given under section 318 of *FSMA* (Exercise of powers through Council) for the purpose of achieving the objective specified, as required by section 318(2) of *FSMA*.
- 7.2 The directions given in this Chapter are given in relation to the exercise of the powers by the *Society* in respect of the *Central Fund* and are given with a view to achieving the objective of ensuring that the *Society* in making payments, or in providing any other financial assistance from the *Central Fund*, does so on a basis which does not take into account the amounts of compensation which *policyholders* may receive under the provisions of the *compensation scheme* in respect of *protected claims* against *members*.
- 7.3 The *Society* must, in the exercise of its powers to make payments from the *Central Fund* or to provide other forms of financial assistance from the *Central Fund*, ensure that in calculating and determining the amount of any such payment or the amount of any other financial assistance, it does not take into account the amounts of compensation which *policyholders* may receive under the provisions of the *compensation scheme* in respect of *protected claims* against *members*.

## **8 CAPACITY TRANSFER MARKET**

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- 8.1 The *Society* must make appropriate *byelaws* governing conduct in the *capacity transfer market*.

## **9 FORMER UNDERWRITING MEMBERS**

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- 9.1 The *Society* must ensure that sections 320 to 322 of *FSMA* (Former underwriting members, Requirements imposed under section 320, Rules applicable to former underwriting members) are drawn to the attention of any *person* ceasing to be an *underwriting member* on or after 1 December 2001.
- 9.2 The *Society* must require any *person*, other than a *body corporate*, ceasing to be an *underwriting member* on or after 1 December 2001 to:
- (1) notify the *Society* of any change in his address within one *month* of the change; and
  - (2) in the case of a natural *person*, to make arrangements for the *Society* to be notified in the event of his death.

## 10 SOLVENCY II REGULATIONS

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- 10.1 In complying with requirements imposed on it in the Solvency II Firms Sector of the *PRA* Rulebook, the *Society* must ensure that any relevant provision of the *Solvency II Regulations* is applied in order to achieve the same effect as that provision of the *Solvency II Regulations* would have (that is, conforming with the requirements of the relevant provision) when applied to a *UK Solvency II firm*.
- 10.2 In complying with requirements imposed on it in the Solvency II Firms Sector of the *PRA* Rulebook, a *managing agent* must, in relation to each *syndicate* managed by it and for each *syndicate year*, ensure that any relevant provision of the *Solvency II Regulations* is applied in order to achieve the same effect as that provision of the *Solvency II Regulations* would have (that is, conforming with the requirements of the relevant provision) when applied to a *UK Solvency II firm*.

## 11 AUDITORS AND ACTUARIES DIRECTION

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- 11.1 (1) The *PRA* directs that, with effect from 27 May 2014, Part XXII of *FSMA* (Auditors and Actuaries) applies to the carrying on of *insurance business* by *members* as modified by (2).
- (2) Regulations made by *the Treasury* under section 342(5) and section 343(5) of Part XXII of *FSMA* apply only to *actuaries* appointed by a *managing agent* in respect of the *insurance business* of a *syndicate*, in relation to the *long-term insurance business* of that *syndicate*.
- (3) In Part XXII of *FSMA* (Auditors and Actuaries) as applied by this direction:
- (a) a reference to an auditor of an *authorised person* is to be read as including an auditor appointed by a *managing agent* in respect of the *insurance business* of a *syndicate*; and
  - (b) a reference to an *actuary* acting for an *authorised person* is to be read as including an *actuary* appointed by a *managing agent* in respect of the *insurance business* of a *syndicate*.

## 12 LLOYD'S AND THE FSCS DIRECTION

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- 12.1 This Chapter applies to the *Society*.
- 12.2 With effect from 15 October 2003, it was directed that the following *core provisions* of *FSMA* apply to the carrying on of *insurance market activities* by *members*:

(1) Part 9A (Rules and guidance) for the purpose of applying the rules in chapters 1 and 3, the Policyholder Protection Part, the FSCS Management Expenses Levy Limit and Base Costs Part, the Management Expenses in respect of Relevant Schemes Part and relevant interpretative provisions; and

(2) Part XV (Financial Services Compensation Scheme).

### **13 LLOYD'S MEMBERS' COMPENSATION SCHEME**

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13.1 This Chapter applies to the *Society*.

13.2 The *Society* must maintain *byelaws* establishing appropriate and effective arrangements to compensate *individual members* and *former members who were individual members if underwriting agents* are unable, or likely to be unable, to satisfy claims by those *members* relating to *regulated activities* carried on in connection with their participation in Lloyd's *syndicates*.

## Appendix 2

### Supervisory Statement | CP 13/13

#### Market Risk

December 2013

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## 1 Introduction

1.1 This supervisory statement is aimed at firms to which CRD IV applies.

1.2 It sets out the Prudential Regulation Authority's (PRA's) expectations of firms in relation to market risk and should be considered in addition to requirements set out in CRD IV Articles 325–377, the market risk rules of the PRA Rulebook and the high-level expectations outlined in *The PRA's approach to banking supervision*.<sup>1</sup>

1.3 This statement details the PRA's expectations with regard to the following:

- Material deficiencies in risk capture by an institution's internal approach.
- Standardised approach for options.
- Netting a convertible with its underlying instrument.
- Offsetting derivative instruments.
- Exclusion of backtesting exceptions when determining multiplication factor addends.
- Derivation of notional positions for standardised approaches.
- Qualifying debt instruments.
- Expectations relating to internal models.
- Value-at-Risk (VaR) and stressed VaR (sVaR) calculation.
- Requirement to have an internal incremental risk charge (IRC) model.
- Annual SIF attestation of market risk internal models.

## 2 Material deficiencies in risk capture by an institution's internal approach

2.1 This section sets out the PRA's requirements for the calculation of additional own funds for the purposes of implementing CRD Article 101, which applies where a firm has permission to calculate own funds requirements for one or more categories of market risk under CRR Part 3 Title IV Chapter 5. It requires firms to identify any risks which are not adequately captured by those models and to hold additional own funds against those risks. The methodology for the identification of those risks and the calculation of those additional own funds for VaR and sVaR models is referred to as the 'RNIV framework'.

2.2 Firms are responsible for identifying these additional risks, and this should be seen as an opportunity for risk managers and management to better understand the shortcomings of the firm's models. ~~Following this initial assessment, the PRA will engage with the firm to provide challenge and so ensure an appropriate outcome.~~ **Firms are expected to validate the appropriateness of the RNIV framework.**

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<sup>1</sup> [www.bankofengland.co.uk/pru/Pages/supervision/approach/default.aspx](http://www.bankofengland.co.uk/pru/Pages/supervision/approach/default.aspx).

### Scope of the Risks not in VaR (RNIV) framework

2.3 The RNIV framework is intended to ensure that own funds are held to meet all risks which are not captured, or not captured adequately, by the firm's VaR and sVaR models. These include, but are not limited to missing and/or illiquid risk factors such as cross-risks, basis risks, higher-order risks, and calibration parameters. The RNIV framework is also intended to cover event risks that could adversely affect the relevant business.

### Identification and measurement framework

2.4 The PRA expects firms to systematically identify and measure all non-captured or poorly captured risks. This analysis should be updated at least quarterly, or more frequently at the request of the PRA. The measurement of these risks should capture the losses that could arise due to the risk factor(s) of all products that are within the scope of the relevant internal model permission, but are not adequately captured by the relevant internal models.

### Identification of risk factors

2.5 The PRA expects firms to, on a quarterly basis, identify and assess individual risk factors covered by the RNIV framework. The PRA will review the results of this exercise and may require that firms identify additional risk factors as being eligible for measurement.

### Measurement of risk factors

2.6 Where sufficient data is available, and where it is appropriate to do so, the PRA expects firms to calculate a VaR and sVaR metric for each risk factor within scope of the framework. The stressed period for the RNIV sVaR should be consistent with that used for sVaR. No offsetting or diversification may be recognised across risk factors included in the RNIV framework. The multipliers used for VaR and sVaR should be applied to generate an own funds requirement.

2.7 If it is not appropriate to calculate a VaR and sVaR metric for a risk factor, a firm should instead measure the size of the risk based on a stress test. The confidence level and capital horizon of the stress test should be commensurate with the liquidity of the risk, and should be at least as conservative as comparable risk factors under the internal model approach. The capital charge should be at least equal to the losses arising from the stress test.

### Reporting of RNIV

2.8 Firms that are required to compute RNIV should complete FSA005 — in addition to the MRK IM COREP reporting template — for the relevant rows. When submitting FSA005, firms are advised to complete the fields as follows:

- populate the table under element 63, filling in both fields in each row;
- element 64 should be the total of all values entered in 63 column B; and
- in order for the form to validate, the value entered in 64 should also be entered in 61 and 62.

2.9 Firms that are required to compute RNIV should complete the MKR IM COREP reporting template in addition to FSA005, and include the own funds required in their COREP reporting. The components of RNIV should be included within C24.00 as follows:

- RNIV from VaR should be added to [C24.00, {c030}, r010] and [C24.00, {c040}, r010];
- RNIV from sVaR should be added to [C24.00, {c050}, r010] and [C24.00, {c060}, r010]; and
- RNIV from stress tests should be added to [C24.00, {c050}, r010] and [C24.00, {c060}, r010].

### Extensions and changes to the RNIV framework

- 2.10 The PRA expects firms to notify all model extensions and changes to the RNIV framework and a pro-forma (<http://www.bankofengland.co.uk/pr/Pages/authorisations/crr/applying.aspx>) should be submitted.
- 2.11 The PRA considers material changes to the RNIV framework to be when the extension or change implies either: 1) a capital impact of 5% or more of the total market risk capital requirements, including RNIV capital, or 2) a capital impact of 10% or more of the reported RNIV component in FSA005 in accordance with paragraph 2.8. The PRA expects to be pre-notified for material extensions or changes to the RNIV framework and to be notified following the occurrence of any other non-material extensions or changes.
- 2.12 See Section 9 for the process around extensions and changes to IMA models under CRR.

## 3 Standardised approach for options

- 3.1 Firms that need to use own estimates of delta for the purposes of the standardised approach for options, should provide the PRA with confirmation that they meet the minimum standards set out below for each type of option for which they calculate delta. Firms should only provide this confirmation if they meet the minimum standards. Where a firm meets the minimum standards, they will be permitted to use own estimates of delta for the relevant option.
- 3.2 If a firm is unable to provide assurance with regard to a particular option type which is currently within its permissions, a capital add-on may be applied and a rectification plan agreed. If a firm is unable to comply with the rectification plan within the mandated time frame, further supervisory measures may be taken. This may include variation of permissions so that they are no longer allowed to trade those particular types of option for which they do not meet the minimum standards.

### Minimum standards

- 3.3 The level of sophistication of the pricing models, which are used to calculate own estimates of delta for use in the standardised approach for options, should be proportionate to the complexity and risk of each option and the overall risk of the firm's options trading business. In general, it is considered that the risk of sold options will be higher than the risk of the same options when bought.
- 3.4 Delta should be recalculated at least daily. Firms should also recalculate delta promptly following significant movements in the market parameters used as inputs to calculate delta.
- 3.5 The pricing model used to calculate delta should be:
- based on appropriate assumptions which have been assessed and challenged by suitably qualified parties independent of the development process;
  - independently tested, including validation of the mathematics, assumptions, and software implementation; and
  - developed or approved independently of the trading desk.
- 3.6 A firm should use generally accepted industry standard pricing models for the calculation of own deltas where these are available, such as for relatively simple options.

3.7 The IT systems used to calculate delta should be sufficient to ensure that delta can be calculated accurately and reliably.

3.8 Firms should have adequate systems and controls in place when using pricing models to calculate deltas. This should include the following documented policies and procedures:

- clearly defined responsibilities of the various areas involved in the calculation;
- frequency of independent testing of the accuracy of the model used to calculate delta; and
- guidelines for the use of unobservable inputs, where relevant.

3.9 A firm should ensure its risk management functions are aware of weaknesses of the model used to calculate deltas. Where weaknesses are identified, the firm should ensure that estimates of delta result in prudent capital requirements being held. The outcome should be prudent across the whole portfolio of options and underlying positions at a given time.

## 4 Netting a convertible with its underlying instrument

4.1 For the purposes of CRR Article 327(2), the netting of a convertible bond and an offsetting position in the instrument underlying it is permitted. The convertible bond should be:

- treated as a position in the equity into which it converts; and
- the firm's equity own funds requirement should be adjusted by making:
  - i) an addition equal to the current value of any loss which the firm would make if it did convert to equity; or
  - ii) a deduction equal to the current value of any profit which the firm would make if it did convert to equity (subject to a maximum deduction equal to the own funds requirements on the notional position underlying the convertible).

## 5 Offsetting derivative instruments

5.1 CRR Article 331(2) states conditions that should be met before firms not using interest rate pre-processing models can fully offset interest rate risk on derivative instruments. One of the conditions is that the reference rate (for floating rate positions) or coupon (for fixed rate positions) should be 'closely matched'. The PRA would normally consider a difference of less than 15 basis points as indicative of the reference rate or coupon being 'closely matched' for the purposes of this rule.

## 6 Exclusion of overshootings when determining multiplication factor addends

6.1 The PRA's starting assumption will be that all overshootings should be taken into account for the purpose of the calculation of addends. If a firm believes that an overshooting should not count for that purpose, then it should seek a variation of its VaR model permission in order to exclude that particular overshooting. The PRA will then decide whether to agree to such a variation.

6.2 One example of when a firm's overshooting might properly be disregarded is when it has arisen as a result of a risk that is not captured in its VaR model, but against which capital resources are already held.

## 7 Derivation of notional positions for standardised approaches

### Futures and forwards on a basket or index of debt securities

7.1 These should be converted into forwards on single debt securities as follows:

- a) futures or forwards on a single currency basket or index of debt securities should be treated as either:
  - i) a series of forwards, one for each of the constituent debt securities in the basket or index, of an amount which is a proportionate part of the total underlying the contract according to the weighting of the relevant debt security in the basket; or
  - ii) a single forward on a notional debt security; and
- b) futures or forwards on multiple currency baskets or indices of debt securities should be treated as either:
  - i) a series of forwards (using the method described in 1(a)); or
  - ii) a series of forwards, each one on a notional debt security to represent one of the currencies in the basket or index, of an amount which is a proportionate part of the total underlying the contract according to the weighting of the relevant currency in the basket.

7.2 Notional debt securities derived through this treatment should be assigned a specific risk position risk adjustment and a general market risk position risk adjustment equal to the highest that would apply to the debt securities in the basket or index.

7.3 The debt security with the highest specific risk position risk adjustment within the basket might not be the same as the one with the highest general market risk position risk adjustment. A firm should select the highest percentages even where they relate to different debt securities in the basket or index, and regardless of the proportion of those debt securities in the basket or index.

### Bonds where the coupons and principal are paid in different currencies

7.4 Where a debt security pays coupons in one currency, but will be redeemed in a different currency, it should be treated as:

- a) a debt security denominated in the coupon's currency; and
- b) a foreign currency forward to capture the fact that the debt security's principal will be repaid in a different currency from that in which it pays coupons, specifically:
  - i) a notional forward sale of the coupon currency and purchase of the redemption currency, in the case of a long position in the debt security; or
  - ii) a notional forward purchase of the coupon currency and sale of the redemption currency, in the case of a short position in the debt security.



### **Interest rate risk on other futures, forwards and swaps**

7.5 Other futures, forwards, and swaps where a treatment is not specified in Article 328 should be treated as positions in zero specific risk securities, each of which:

- a) has a zero coupon;
- b) has a maturity equal to that of the relevant contract; and
- c) is long or short according to the following table:

### **Deferred start interest rate swaps or foreign currency swaps**

7.6 Interest rate swaps or foreign currency swaps with a deferred start should be treated as the two notional positions (one long, one short). The paying leg should be treated as a short position in a zero specific risk security with a coupon equal to the fixed rate of the swap. The receiving leg should be treated as a long position in a zero specific risk security, which also has a coupon equal to the fixed rate of the swap.

7.7 The maturities of the notional positions are shown in the following table:

### **Swaps where only one leg is an interest rate leg**

7.8 For the purposes of interest rate risk, a firm should treat a swap (such as an equity swap) with only one interest rate leg as a notional position in a zero-specific-risk security:

- a) with a coupon equal to that on the interest rate leg;
- b) with a maturity equal to the date that the interest rate will be reset; and
- c) which is a long position if the firm is receiving interest payments and short if making interest payments.

### **Foreign exchange forwards, futures and CFDs**

7.9 A firm should treat a foreign currency forward, future, or Contracts for Difference (CFDs) as two notional currency positions as follows:

- a) a long notional position in the currency which the firm has contracted to buy; and
- b) a short notional position in the currency which the firm has contracted to sell.

7.10 The notional positions should have a value equal to either:

- a) the contracted amount of each currency to be exchanged in the case of a forward, future, or CFD held in the non-trading book; or
- b) the present value of the amount of each currency to be exchanged in the case of a forward, future, or CFD held in the trading book.

### **Foreign currency swaps**

7.11 A firm should treat a foreign currency swap as:

- a) a long notional position in the currency in which the firm has contracted to receive interest and principal; and

- b) a short notional position in the currency in which the firm has contracted to pay interest and principal.

7.12 The notional positions should have a value equal to either:

- a) the nominal amount of each currency underlying the swap if it is held in the non-trading book; or
- b) the present value amount of all cash flows in the relevant currency in the case of a swap held in the trading book.

### **Futures, forwards, and CFDs on a single commodity**

7.13 Where a forward, future or CFD settles according to:

- a) the difference between the price set on trade date and that prevailing at contract expiry, then the notional position should:
  - i) equal the total quantity underlying the contract; and
  - ii) have a maturity equal to the expiry date of the contract; and
- b) the difference between the price set on trade date and the average of prices prevailing over a certain period up to contract expiry, then a notional position should be derived for each of the reference dates used in the averaging period to calculate the average price, which:
  - i) equals a fractional share of the total quantity underlying the contract; and
  - ii) has a maturity equal to the relevant reference date.

### **Buying or selling a single commodity at an average of spot prices prevailing in the future**

7.14 Commitments to buy or sell at the average spot price of the commodity prevailing over some period between trade date and maturity should be treated as a combination of:

- a) a position equal to the full amount underlying the contract with a maturity equal to the maturity date of the contract, which should be:
  - i) long, where the firm will buy at the average price; or
  - ii) short, where the firm will sell at the average price; and
- b) a series of notional positions, one for each of the reference dates where the contract price remains unfixed, each of which should:
  - i) be long if the position under (1) is short, or short if the position under (1) is long;
  - ii) equal to a fractional share of the total quantity underlying the contract; and
  - iii) have a maturity date of the relevant reference date.

## 8 Qualifying debt instruments

8.1 CRR Article 336(4)(a) states that positions listed on a stock exchange in a third country, where the exchange is recognised by the competent authorities, qualify for the specific risk own funds requirements in the second row of the table in CRR Article 336.

8.2 For the purposes of this rule, the PRA recognise the following stock exchanges in third countries:

- Australian Securities Exchange Limited.
- Bermuda Stock Exchange.
- Bolsa Mexicana de Valores.
- Bourse de Montreal Inc.
- Channel Islands Stock Exchange.
- Chicago Board of Trade.
- Chicago Board Options Exchange.
- Chicago Board of Trade (CBOT).
- Chicago Stock Exchange.
- Dubai Financial Market.
- EUREX (Zurich).
- Euronext Amsterdam Commodities Market.
- Hong Kong Exchanges and Clearing Limited.
- ICE Futures US, Inc.
- Indonesia Stock Exchange.
- Johannesburg Stock Exchange.
- Kansas City Board of Trade.
- Korea Exchange.
- Kuala Lumpur Stock Exchange.
- Minneapolis Grain Exchange.
- NASDAQ OMX PHLX.
- National Association of Securities Dealers Automated Quotations (NASDAQ).

- National Stock Exchange India.
- New York Stock Exchange.
- New York Mercantile Exchange Inc (NYMEX Inc.).
- New Zealand Exchange.
- NYSE Liffe US.
- NYSE MKT.
- Osaka Securities Exchange.
- Shanghai Stock Exchange.
- Singapore Exchange.
- SIX Swiss Exchange AG.
- South African Futures Exchange.
- Stock Exchange of Mumbai.
- Stock Exchange of Thailand.
- Taiwan Stock Exchange.
- The Chicago Mercantile Exchange (CME).
- Tokyo Financial Exchange.
- Tokyo Stock Exchange.
- Toronto Stock Exchange.

## **9 Expectations relating to internal models**

9.1 CRR Article 363 states that permission for an institution to use internal models to calculate capital is subject to competent authorities verifying compliance with:

- the general requirements;
- requirements particular to specific risk modelling; and
- requirements for an internal model for incremental default and migration risk.

9.2 The standards that the PRA expects to be met to consider that an institution is compliant with these requirements are set out below.

### **High-level standards**

9.3 A firm should be able to demonstrate that it meets the risk management standards set out in CRR Article 368 on a legal entity and business line basis where appropriate. This is

particularly important for a subsidiary undertaking in a group subject to matrix management, where the business lines cut across legal entity boundaries.

### Categories of position

9.4 A VaR model permission will generally set out the broad classes of position within each risk category within its scope. It may also specify how individual products within one of those broad classes may be brought into or taken out of scope of the VaR model permission. These broad classes of permission are as follows:

- a) Linear products, which comprise securities with linear pay-offs (such as bonds and equities), and derivative products which have linear pay-offs in the underlying risk factor (such as interest rate swaps, forward-rate agreements, and total return swaps).
- b) European, American and Bermudan put and call options (including caps, floors, and swaptions) and investments with these features.
- c) Asian options, digital options, single barrier options, double barrier options, look back options, forward starting options, compound options and investments with these features.
- d) All other option based products (such as basket options, quantos, outperformance options, timing options, and correlation-based products) and investments with these features.

### Data standards

9.5 The PRA expects a firm to ensure that the data series used by its VaR model is reliable. Where a reliable data series is not available, proxies or any other reasonable value-at-risk measurement may be used when the firm can demonstrate that the requirements of CRR Article 367(2)(e) are met. A firm should be able to demonstrate that the technique is appropriate and does not materially understate the modelled risks.

9.6 Data may be deemed insufficient if, for example, it contains missing data points, or data points which contain stale data. With regard to less-liquid risk factors or positions, the PRA expects the firm make a conservative assessment of those risks, using a combination of prudent valuation techniques and alternative VaR estimation techniques to ensure there is a sufficient cushion against risk over the close out period, which takes account of the illiquidity of the risk factor or position.

9.7 A firm is expected to update data sets to ensure standards of reliability are maintained in accordance with the frequency set out in its VaR model permission, or more frequently if volatility in market prices or rates necessitates more frequent updating. This is in order to ensure a prudent calculation of the VaR measure.

### Aggregating VaR measures

9.8 In determining whether it is appropriate for an institution to use empirical correlations within risk categories and across risk categories within a model, the PRA expects certain features to be observed in assessing whether such an approach is sound and implemented with integrity. In general, the PRA expects a firm to determine the aggregate VaR measure by adding the relevant VaR measure for each category, unless the firm's permission provides for a different method of aggregating VaR measures which is empirically sound.

9.9 The PRA does not expect a firm to use the square root of the sum of the squares approach when aggregating measures across risk categories or within risk categories unless the

assumption of zero correlation between these categories is empirically justified. If correlations between risk categories are not empirically justified, the VaR measures for each category should simply be added in order to determine its aggregate VaR measure. However, to the extent that a firm's VaR model permission provides for a different way of aggregating VaR measures:

- a) that method applies instead; and
- b) if the correlations between risk categories used for that purpose cease to be empirically justified then the firm must notify the appropriate regulator at once.

### Testing prior to model validation

9.10 A firm is expected to provide evidence of its ability to comply with the requirements for a VaR model permission. In general, it will be required to demonstrate this by having a back-testing programme in place and should provide three months of back-testing history.

9.11 A period of initial monitoring or live testing is required before a VaR model can be recognised. This will be agreed on a firm by firm basis.

9.12 In assessing the firm's VaR model and risk management, the results of internal model validation procedures used by the firm to assess the VaR model will be taken into account.

### Backtesting

9.13 For clarity, the back-testing requirements of CRR Article 366 should be implemented as follows:

- If the day on which a loss is made is day  $n$ , the value-at-risk measure for that day will be calculated on day  $n-1$ , or overnight between day  $n-1$  and day  $n$ . Profit and loss figures are produced on day  $n+1$ , and back-testing also takes place on day  $n+1$ . The firm's supervisor should be notified of any overshootings by close of business on day  $n+2$ .
- Any overshooting initially counts for the purpose of the calculation of the plus factor even if subsequently the PRA agrees to exclude it. Thus, where the firm experiences an overshooting and already has four or more overshootings for the previous 250 business days, changes to the multiplication factor arising from changes to the plus factor become effective at day  $n+3$ .

9.14 A longer time period generally improves the power of back-testing. However a longer time period may not be desirable if the VaR model or market conditions have changed to the extent that historical data is no longer relevant.

9.15 The PRA will review, as part of a firm's VaR model permission application, the processes and documentation relating to the derivation of profit and loss used for backtesting. A firm's documentation should clearly set out the basis for cleaning profit and loss. To the extent that certain profit and loss elements are not updated every day (for example certain reserve calculations) the documentation should clearly set out how such elements are included in the profit and loss series.

### Planned extensions and changes to the Internal Model Approach model

9.16 In accordance with CRR Article 363(3), the PRA expects a firm to provide and discuss in advance with the PRA details of any significant planned extensions or changes to the Internal Model Approach model before those extension or changes are implemented. These details must include detailed information about the nature of the extension or change, including an estimate of the impact on capital requirements. The PRA expects firms to submit the pro-forma

for all internal model extensions or changes when submitting an application for approval, a pre notification or post notification to the PRA in accordance to Delegated Regulation (EU) 529/2014 as amended by Delegated Regulation (EU) 2015/942. For the avoidance of doubt, the assessments of materiality that determine whether a model change is an application, pre-notification or post-notification should be carried out without incorporating capital requirements from the RNIV framework. See Section 2 for the process around extensions and changes to the RNIV framework. The pro-forma can be found in the following link: <http://www.bankofengland.co.uk/pr/Pages/authorisations/crr/applying.aspx>.

### **Bias from overlapping intervals for ten-day VaR and sVaR**

9.17 The use of overlapping intervals of ten-day holding periods for the purposes of CRR Article 365 introduces an autocorrelation into the data that would not exist should truly independent ten-day periods be used. This may give rise to an underestimation of the volatility and the VaR at the 99% confidence level. To obtain clarity on the materiality of the bias, a firm should measure the bias arising from the use of overlapping intervals for ten-day VaR and sVaR when compared to using independent intervals. A report on the analysis, including a proposal for a multiplier on VaR and sVaR to adjust for the bias, should be submitted to the PRA for review and approval.

## **10 Stressed VaR calculation**

10.1 CRR Article 365 requires firms that use an internal model for calculating their own funds requirement to calculate at least weekly an sVaR of their current portfolio. When the PRA considers a firm's application to use an sVaR internal model, the PRA would expect the following features to be present prior to permission being granted as indicative that the conditions for granting permission have been met.

### **Quantile estimator**

10.2 The firm should calculate the sVaR measure to be greater than or equal to the average of the second and third worst loss in a twelve-month time series comprising of 250 observations. The PRA expects as a minimum that a corresponding linear weighting scheme should be applied if the firm use a larger number of observations.

### **Meaning of 'period of significant financial stress relevant to the institution's portfolio'**

10.3 The firm should ensure that the sVaR period chosen is equivalent to the period that would maximise VaR given the firm's portfolio. There is an expectation that a stressed period should be identified at each legal entity level at which capital is reported. Therefore, group-level sVaR measures should be based on a period that maximises the group-level VaR, whereas entity-level sVaR should be based on a period that maximises VaR for that entity.

### **Antithetic data**

10.4 The PRA expects firms to consider whether the use of antithetic data in the calculation of the sVaR measure is appropriate to the firm's portfolio. A justification for using or not using antithetic data should be provided to the PRA.

### **Absolute and relative shifts**

10.5 The PRA expects firms to explain the rationale for the choice of absolute or relative shifts for both VaR and sVaR methodologies. In particular, statistical processes driving the risk factor changes need to be evidenced for both VaR and sVaR.

10.6 The following information is expected to be submitted quarterly:

- analysis to support the equivalence of the firm's current approach to a VaR-maximising approach on an ongoing basis;
- the rationale behind the selection of key major risk factors used to find the period of significant financial stress;
- summary of ongoing internal monitoring of stressed period selection with respect to current portfolio;
- analysis to support capital equivalence of up-scaled one-day VaR and sVaR measures to corresponding full ten-day VaR and sVaR measures;
- graphed history of sVaR/VaR ratio;
- analysis to demonstrate accuracy of partial revaluation approaches specifically for sVaR purposes (for firms using revaluation ladders or spot/vol-matrices). This should include a review of the ladders/matrices or spot/ vol-matrices, ensuring that they are extended to include wider shocks to risk factors that incur in stress scenarios; and
- minutes of Risk Committee meeting or other form of evidence to reflect governance and senior management oversight of stressed VaR methodology.

## 11 Requirement to have an internal IRC model

11.1 CRR Article 372 requires firms that use an internal model for calculating own funds requirements for specific risk of traded debt instruments to also have an internal incremental default and migration risk (IRC) model in place. This model should capture the default and migration risk of its trading book positions that are incremental to the risks captured by its VaR model.

11.2 When the PRA considers a firm's application to use an IRC internal model, the PRA expects that the following matters would be included as demonstrating compliance with the standards set in CRR Article 372.

### Basis risks for migration

11.3 The PRA expects the IRC model to capitalise pre-default basis risk. In this respect, the model should reflect that in periods of stress the basis could widen substantially. Firms should disclose to the PRA their material basis risks that are incremental to those already captured in existing market risk capital measures (VaR-based and others). This must take actual close-out periods during periods of illiquidity into account.

### Price/spread change model

11.4 The price/spread change model used to capture the profit and loss impact of migration should calibrate spread changes to long-term averages of differences between spreads for relevant ratings. These should either be conditioned on actual rating events, or using the entire history of spreads regardless of migration. Point-in-time estimates are not considered acceptable, unless they can be shown to be as conservative as using long-term averages.

### Dependence of the recovery rate on the economic cycle

11.5 To achieve a soundness standard comparable to those under the IRB approach, LGD estimates should reflect the economic cycle. The PRA therefore expects firms to incorporate dependence of the recovery rate on the economic cycle into the IRC model. Should the firm use a conservative parameterisation to comply with the IRB standard of the use of downturn



estimates, evidence of this will be required to be submitted in quarterly reporting to the PRA, bearing in mind that for trading portfolios, which contain long and short positions, downturn estimates would not in all cases be a conservative choice.

## 12 Annual SIF attestation of market risk internal models

- 12.1 The PRA expects an appropriate individual in a significant influence function (SIF) role to provide to the PRA on an annual basis, written attestation that the firm's internal approaches for which it has received a permission comply with the requirements in Part 3 Title IV of the CRR, and any applicable PRA market risk supervisory statements.
- 12.2 Firms should agree the appropriate SIF for providing this attestations with the PRA, noting that the PRA would not expect to agree more than 2 SIFs to cover all the firm's market risk internal models as described in Part 3 Title IV of the CRR.
- 12.3 Where a firm is unable to provide an attestation under paragraph 12.1 or at any time has ceased to comply with the requirements in Part 3 Title IV of the CRR, then the firm is expected to notify the PRA of that fact pursuant to Fundamental Rule 7 of the PRA rulebook for CRR firms and to do one of the following:
- i) Present the PRA with a credible plan for a timely return to compliance; or
  - ii) Demonstrate to the satisfaction of the PRA that the effect of non-compliance is immaterial.

## Appendix 3

# Supervisory Statement | SS 12/13

## Counterparty Credit Risk

December 2013

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## 1 Introduction

1.1 This supervisory statement is aimed at firms to which CRD IV applies. This statement:

- clarifies the Prudential regulation Authority's (PRA's) expectations as to the inclusion of securities financing transactions in the calculation of the credit valuation adjustment capital charge;
- clarifies the identification of qualifying central counterparties;
- sets out the factors which the PRA expects such firms to take into account when applying for certain permissions related to the counterparty credit risk regulatory framework; and
- sets out the PRA's approach to post approval changes to counterparty credit risk advanced model approaches.

1.2 This statement should be considered in addition to the requirements in CRR Articles 162 and 382; the Counterparty Credit Risk rules of the PRA Rulebook and the high-level expectations outlined in *The PRA's Approach to Banking Supervision*<sup>1</sup>.

## 2 Factors which the PRA expects firms to take into account when applying to certain permissions related to the counterparty credit risk regulatory framework

### Use of 'Internal CVA model' for the calculation of the maturity factor 'M'

2.1 This section sets out the PRA's expectations for granting a firm permission to use its own one-sided credit valuation adjustment internal models (an 'Internal CVA model') for the purpose of estimating the Maturity factor 'M', as proposed under CRR Article 162(2), paragraph (h).

2.2 The Maturity factor 'M' is intended to increase own funds requirements to reflect higher risks associated with medium and long-term over the counter (OTC) derivative portfolios where the exposure profile of contracts extends beyond one year. The adjustment is only applicable to firms using the Internal Model Method (IMM) for the calculation of exposure values.

2.3 Subject to permission being granted by the PRA, as the relevant competent authority, firms may replace the formula for the Maturity factor 'M', as set out in CRR Article 162(2), paragraph (g), with the 'effective credit duration' derived from the firm's Internal CVA model.

2.4 Internal CVA models are complex by nature and modelling practices vary significantly across the industry. The PRA considers the creation of an acceptable model resulting in an appropriate credit duration to be challenging. Accordingly, the PRA expects firms to demonstrate a strong case for permission to be granted.

2.5 A firm that wishes to make an application under CRR Article 162(2), paragraph (h) should provide a satisfactory justification for the use of an internal CVA model for estimating the maturity factor 'M'. The PRA does not consider the reduction of the own funds requirements for counterparty credit risk to be a reasonable justification. The PRA will also require highly conservative modelling assumptions within a firm's Internal CVA model for the purpose of CRR Article 162(2), paragraph (h).

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<sup>1</sup> [www.bankofengland.co.uk/prs/Pages/supervision/approach/default.aspx](http://www.bankofengland.co.uk/prs/Pages/supervision/approach/default.aspx).

2.6 To apply for the CRR Article 162(2), paragraph (h) permission, firms should contact the PRA.

### **Permission to set the maturity factor 'M' to 1 for the Counterparty Credit Risk default charge**

2.7 This section sets out the PRA's expectations for granting a permission to firms with the permission to use the Internal Model Method (IMM) and the permission to use an internal Value-at-Risk (VaR) model for specific risk associated with traded debt instruments to set to 1 the Maturity factor 'M' defined in CRR Article 162.

2.8 CRR Article 162(2), paragraph (i) allows a firm using the IMM to set the Maturity factor 'M' to 1 provided the firm's internal VaR model for specific risk associated with traded debt instruments reflects the effect of rating migration. This is subject to the PRA's permission.

2.9 Internal VaR models for specific risk associated with traded debt instruments are not designed to capture the effects of rating migrations. The risk captured by these models is based on a ten-day time horizon which does not appropriately reflect the dynamics of rating migrations, which occur on an irregular and infrequent basis. This deficiency was one of the main reasons for the introduction of a separate risk measure for the capture of both default and migration risk, based on a one-year time horizon (the 'IRC' model, CRR Article 372). Since the challenges of appropriately capturing credit rating migrations in an internal VaR model are significant, the PRA expects firms to demonstrate a strong case for the granting of the permission set out in CRR Article 162(2), paragraph (i).

2.10 A firm that wishes to make an application under CRR Article 162(2), paragraph (i) should provide a satisfactory justification for the use of its internal VaR to capture the risks associated with rating migration. The reduction of the own funds requirements for counterparty credit risk is not considered by the PRA to be a reasonable justification. The PRA expects highly conservative modelling assumptions for the capture of rating migrations within a firm's internal VaR model for the purpose of satisfying the requirements of CRR Article 162(2), paragraph (i).

2.11 To apply for the permission proposed under CRR 162(2), paragraph (i), firms should contact the PRA.

## **3 Inclusion of securities financing transactions in the scope of the CVA capital charge**

3.1 This section sets out the PRA's determination of when risk exposures arising from securities financing transactions (SFTs) should be deemed material and be included in the scope of the own funds requirements for credit valuation adjustment (CVA) in accordance with CRR Article 382(2).

3.2 SFTs are not defined in the regulation. The PRA considers that, for these purposes, SFTs should include:

- repurchase transactions; and
- securities or commodities lending or borrowing transactions.

3.3 SFTs generally need not be included within the scope of a firm's CVA charge since they are typically accounted for based on their substance as secured lending arrangements. However, firms can be exposed to CVA risk as a result of SFT transactions. For example, the transfer of an asset and its forward sale (which underpin the legal form of the SFT) would be recognised as a derivative in the

event of a subsequent deterioration in the creditworthiness of the counterparty to the SFT. The PRA considers that this CVA risk may be material where the following three conditions are met:

- the SFT's counterparty has demonstrated a recent deterioration of its creditworthiness;
- a severe deterioration of the SFT's counterparty's creditworthiness would lead to a previous transfer being accounted for as a sale and therefore the recognition of a derivative that would be included in the scope of the CVA charge; and
- the SFT transactions do not benefit from adequate credit risk mitigation. An example would be where the SFTs are not included in a master netting agreement that has the effect of reducing exposure to credit risk.

3.4 Where these conditions are met, firms must include SFT transactions in the scope of own funds requirements for CVA risk. The PRA may review firms' methodology for determining the inclusion of these SFT transactions in the scope of own funds requirements for CVA risks.

## **4 Calculating own fund requirements for exposures to Central counterparties: identifying qualifying central counterparties**

4.1 During the transitional period, the following will be qualifying central counterparties (QCCPs):

- all CCPs listed on the Bank of England's register of Recognised Clearing Houses (RCHs); and
- those third country CCPs that currently provide clearing services to UK credit institutions, or their subsidiaries.

4.2 The Bank of England's register of RCHs is available on the following link:

[www.bankofengland.co.uk/financialstability/Pages/fmis/supervised\\_sys/rch.aspx](http://www.bankofengland.co.uk/financialstability/Pages/fmis/supervised_sys/rch.aspx).

4.3 The transitional period will expire on 15 June 2014, unless extended by the European Commission.

4.4 Following the authorisation or recognition of CCPs a link will be provided to the relevant register on the Bank of England website and to the European Securities and Markets Authority website. Authorised or recognised CCPs on the registers will be considered to be QCCPs.

4.5 The PRA will notify UK institutions if a QCCP no longer meets the requirement to calculate its hypothetical capital (KCCP) or ceases to be a QCCP.

## **5 Annual SIF attestation of counterparty credit risk internal models**

5.1 The PRA expects an appropriate individual in a Significant Influence Function role to provide to the PRA on an annual basis written attestation that the firm's internal approaches for which it has received a permission comply with the requirements in Part 3 Title II of the CRR, and any applicable PRA counterparty credit risk supervisory statements.

5.2 Firms should agree the appropriate SIF ~~for providing this attestation~~ for providing compliance attestations with the PRA, noting that the PRA would not expect to agree more than two SIFs to

cover all the firm's counterparty credit risk internal models as described in Part Three Title II of the CRR.

5.3 Where a firm is unable to provide an attestation or has ceased to comply with the requirements in Part 3 Title IV of the CRR then firms are reminded of the requirements under Art 283(6) CRR.

## 6 Counterparty credit risk advanced model approaches: process for post approval changes

6.1 This section describes the PRA's approach for post-approval changes to Counterparty Credit Risk Internal Model Method (IMM) as defined in Section 6 of Title II, Chapter 6 of the CRR and Internal Models approach for Master netting agreements ('Repo VaR') as defined in Article 221 of the CRR, including extensions of the scope of approval, and roll out of portfolios according to the roll-out plan; it suggests the documentation the PRA would seek to support the proposed change and provides an overview of the PRA's response to these advised changes.

6.2 The framework for post-approval model changes outlined here forms one integral element of the wider regime for calculating counterparty credit risk using advanced methods but does not encompass the entirety of the regime. To run this regime effectively, the PRA will deal with firm-driven actions (such as model changes) and also undertake other work (such as reviews and thematic work).

6.3 The PRA regard the post-approval regime as critical to maintaining confidence in the high standards which firms have been set during their initial CRR permission applications. An effective post-approval framework, which is the objective of the proposals in this paper, will provide this assurance while firms' models are adjusted over time, without imposing a disproportionate burden on firms and on the PRA.

6.4 The PRA will ask for prior information only for the most material changes (defined in paragraph 10) to their IMM or Repo VaR model, as described in paragraph 13. The PRA envisage that this will typically result in only a few pre-notifications on average per year per firm, even from the largest firms. For details about the changes, the PRA will rely to the extent it can on information generated internally by the firms. This should foster a pragmatic, 'no surprises', and proportionate regime.

6.5 Other changes need be reported in summary form only and after implementation. The arrangements allow for firms to agree *de minimis* thresholds below which no report needs to be made at all.

6.6 The PRA will review in due course, with input from the industry, how the process is operating.

### Defining materiality

6.7 Firms must notify the PRA of significant changes to IMM or Repo VaR models prior to these changes being implemented for capital purposes. The permission will offer some broad guidelines around factors which constitute significant change: these will be published in due course. The starting point is the assumption that firms will proactively advise supervisors of significant events or issues affecting the operation of the advanced model with the onus on the firm to judge what is significant.

6.8 The PRA's approach to assessing the significance of issues will be based on the materiality of changes, which in turn will be governed by the substance of the change as relevant to the firm rather than measurement against a predefined set of parameters. Once notified, the firm supervisor will

evaluate the proposed change on a case by case basis. It is expected that both the firm and its respective supervisor will in the course of time reach a common understanding of the type of change that warrants consultation and approval.

6.9 Changes to a firm's model can be categorised as low or high impact depending on the level of materiality. This spectrum at one end denotes simple, minor changes which do not warrant prior consultation with the PRA. The other end is characterised by significant, high-impact changes which will need to be reported in advance and require PRA approval. These boundaries will encompass a middle range of changes that will be reported but which may or may not warrant PRA review.

### Examples of change

6.10 Changes may involve several aspects of the advanced model framework. The following are examples of changes the PRA deems to be significant and therefore requiring prior approval by the PRA (please note that this is not an exhaustive list):

- (a) Development of new models to cover products currently not in the scope of the permission, eg equity derivatives, interest rate derivatives.
- (b) A model change resulting in a change in Counterparty Credit Risk (CCR) capital requirements for the UK consolidation group greater than 5% in both directions (that is, either increase or decrease of capital) or a change in gross EAD (for clarity the EAD should be calculated gross of netting, margin and collateral) of 5% in both directions. While the PRA would be open to suggestions from firms as to their preferred level for this threshold, or the basis on which it is calculated, the final parameter would need to be agreed between the firm and the PRA. As a benchmark the PRA intend that a change in CCR capital requirements of 5% should be considered significant or a change in gross EAD of 5% should be considered significant.
- (c) A model previously deemed immaterial becomes material if it will calculate EAD greater than 5% of gross EAD or contribute more than 5% of CCR related capital requirement.
- (d) Changes to the calculation system. This could include:
  - (i) Structural changes to the system used to generate exposure profiles.
  - (ii) Re-development/optimisation of existing routines which could lead to significant changes in the output of the model.

6.11 The following are examples of changes the PRA deem to be less significant and therefore require post-notification to the PRA (please note that this is not an exhaustive list):

- (a) Extension of current models to new product types (product types currently not in the scope of the permission) eg swaps, caps, swaptions, etc.
- (b) Changes to currently approved models. This may be related to:
  - (i) Introduction of new risk factors (eg introduction of a new market risk factor in the simulation engine such as new currencies, new interest rate curves. It is not expected that this will cover increases in the granularity of particular risk factor curves).
  - (ii) Changes to the evolution process of existing risk factors.

(iii) Calibration methodology.

(iv) Changes to the pricing functions used.

(c) Changes to the models due to changes in the composition of the portfolios and products traded (eg changes due to merger and/or acquisitions).

(d) A significant change to the outputs of the model resulting from a series of changes that in isolation may not be significant but cumulatively have a significant effect.

6.12 Firms may agree more detailed materiality thresholds with the PRA, if they wish.

### **Parallel running and the experience requirement**

6.13 Depending on the materiality of changes, the requirements with regards to parallel running as defined under Article 289(2) of the CRR may change. The PRA does not intend to apply any formal requirement for parallel running to changes of IMM and Repo VaR systems. The PRA would, however, expect firms themselves to include parallel running to the extent they deem necessary as part of their normal general project management disciplines when introducing new or enhanced risk management tools.

6.14 It is expected that firms will demonstrate that the model is appropriate through backtesting. Firms are expected to backtest the advanced model and the relevant components that input into the calculation of EAD using historical data movements in market risk factors considering a number of distinct time horizons out to at least one year. The backtesting should cover a range of observation periods representing a wide range of market conditions.

### **Change of governance process**

6.15 This section describes the process firms will be required to follow when pre-notifying or post-notifying a model change.

#### **Pre-notifying a change**

Step 1. The firm should advise the PRA about future proposed changes as far in advance as possible. In addition to this, during IMM reviews the firm will be expected to advise the PRA of its current thinking on future changes, across the group. The firm should expect that a decision by the PRA regarding pre-approval of a change can take up to six months.

Step 2. The firm should submit a short description of the change.

Step 3. The firm should conduct a self-assessment of the change against the relevant CRR rules, noting any areas of non-compliance with details of how and when these gaps will be closed and set out which CRR rules are not considered relevant.

Step 4. If the change is recognized to be significant as per paragraph 10 prepare and submit the material set out in Appendix B.

Step 5. Send the material from Steps 2, 3 and 4 to the PRA. The material needs to be sent sufficiently far in advance of the proposed change to allow time to review it prior to implementation. If the PRA chooses to review the change, it may ask for additional information and if necessary meetings or on-site visits. The PRA is content for **firms** to provide internal



documentation for this purpose provided this addresses clearly and sufficiently the process requirements set out above.

### Post-notifying a change

6.16 Where the change belongs to category (a), (b), (c), (d) in paragraph 11 the firm can notify the PRA after it has occurred. The firm will need to provide the following:

- (e) a short description of the change, including the date on which the change was implemented;
- (f) confirmation that the change has been reviewed through the firm's internal governance processes; and
- (g) confirmation that a self-assessment of the change against the CRR rules has been completed and has not identified any areas of non-compliance.

6.17 After the post-notification, the PRA might request additional information, including internal documentation consistent with the relevant parts of Appendix C.

6.18 The PRA is also prepared to respond constructively to proposals from firms on a cumulative de minimis figure for immaterial models, changes to which will not require post-notification. The PRA envisage this total figure being in the region of a 5% increase or decrease in the CCR related capital requirement or EAD of the model for the UK consolidation group. Accordingly, a firm may nominate a number of models, each of which account for no more than a 5% change in the CCR related capital requirement or EAD and which in total account for no more than a 5% change in CCR related capital or EAD, for which neither pre-notification nor post-notification is ordinarily necessary.

### Fees

6.19 There will be some circumstances where a fee will be applied — for example, when a firm is extensively changing the scope of its model approval or following a merger or acquisition that impacts the materiality of business in scope of an advanced approach permission.

### Self-assessment

6.20 The self-assessment process described in paragraph 6.15, Step 3 needs only be an assessment against CRR rules that are relevant to the change in question. While it is the firm's responsibility to decide on the method of conducting the self-assessment, the PRA expects the self-assessment to be sufficiently rigorous to allow the firm to identify areas of non-compliance. In the case where areas of non-compliance have been identified the PRA expects firms to provide a detailed process for becoming compliant in the areas identified.

6.21 It is important to highlight that a high-level 'gap analysis' or a process that places reliance on the firm's governance process or on the firm's developmental process to deliver a compliant approach is unlikely to form an adequate self-assessment.

### PRA response

6.22 To pre-notified changes: Following pre-notification, the PRA will make a prompt initial assessment of the material and determine whether a full review is needed or not. If a full review is not judged necessary, then the firm may make the change as planned. If a full review is judged necessary, then the firm will be informed, any on-site review work executed and a decision reached. In very limited circumstances, to be agreed on a case by case basis, the PRA may be prepared to allow firms to implement the proposed change in the interim, subject to an additional element of conservatism being applied.

6.23 Decision options for pre-notified changes are: 'approve', 'approve with hard ongoing conditions' and 'reject'. Firms will be given the opportunity to address issues prior to a formal decision being issued.

6.24 To post-notified changes: The PRA may take no action, or may select a change or portfolio for subsequent review as part of the review process.

6.25 Our relationship with other EEA regulators will be governed by Articles 115, 116 and, if necessary, by Articles 112 and 113 of the CRD as well as by the associated technical standards. The PRA will maintain a reciprocal agreement between EEA regulators to keep each other informed of significant changes as advised by the respective local sites. Involvement with other non-EEA regulators will be achieved via continued collaboration.

6.26 Updating the Direction: In the spirit of accuracy and transparency, any revisions to the permission decision should be reflected in the permission document and published as a subsequent version of the original. Generally, changes to the scope will warrant a change to the permission and require formal action. However, not every model change will warrant an update, even if it is a significant change. Following review of a significant change, there may follow a recommendation to add conditions.

## **Pillar 2**

6.27 Depending on the magnitude of the effect on the firm's capital position, the change may also trigger a review of the firm's capital position under Pillar 2, possibly requiring submission of a fresh ICAAP.

6.28 The firm should not rely on the PRA to ensure that a notified change is compliant and should not assume that the lack of an immediate response to a submission positively indicates that the change is compliant: responsibility for compliance rests with the firm.

## **Summary**

6.29 The PRA observe that the assessment of significant changes cannot be a mechanistic approach given the individual characteristics of each firm. The PRA recognises that there will be a process of learning and refinement on both sides in terms of reaching an understanding of what is considered to be significant.

6.30 A diagram covering the key steps is attached as Appendix A.

## Appendices

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**1 IMM and Repo VaR Post-Approval Model Changes Process**

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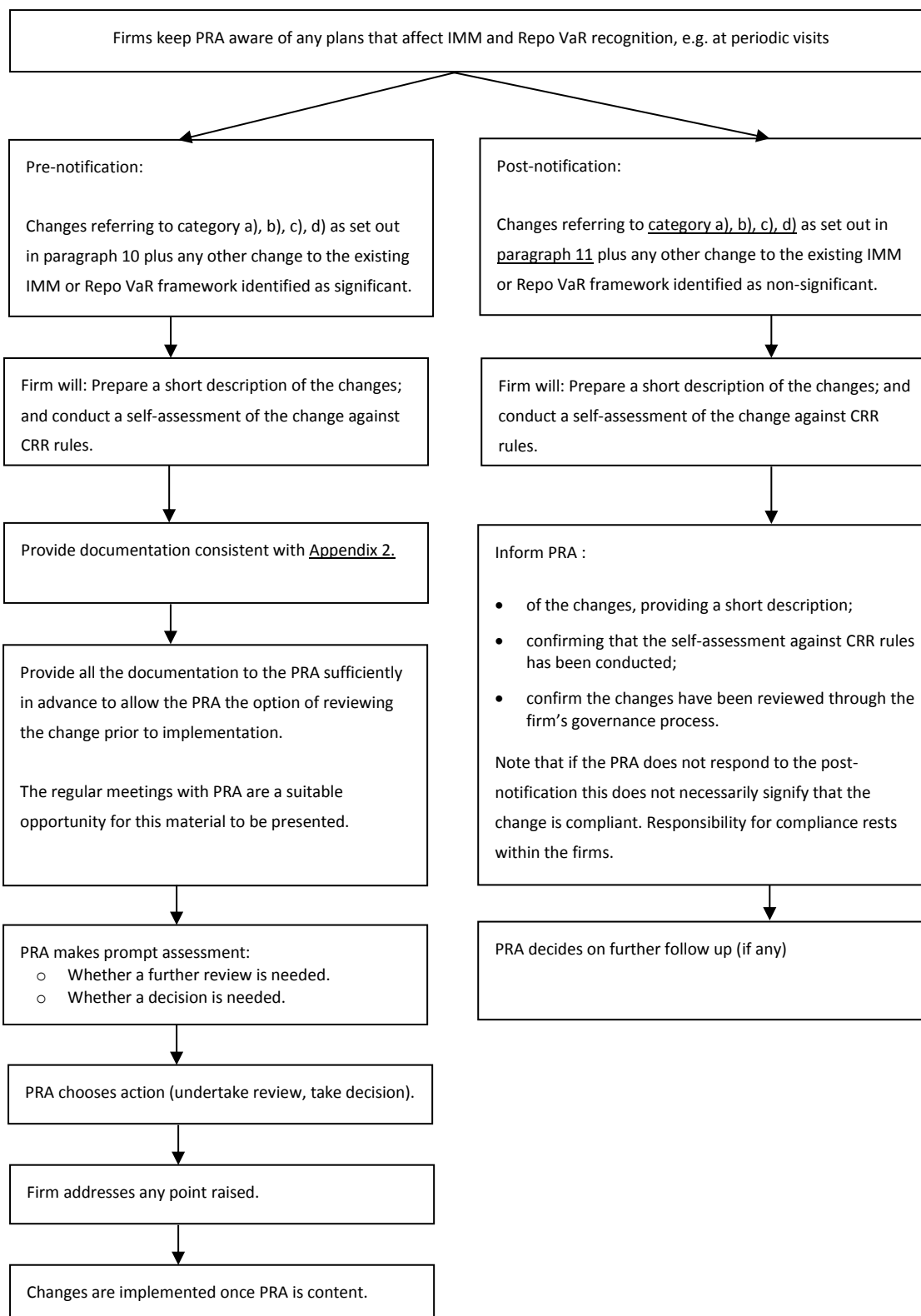
**2 Documentation required for material changes**

---

### Appendix 1

#### IMM and Repo VaR Post-Approval Model Changes Process

For all model changes, firms are expected to complete the pro-forma, which can be found in the following link: <http://www.bankofengland.co.uk/prs/Pages/authorisations/crr/applying.aspx>



## Appendix 2

### Documentation required for material changes

As detailed under paragraph 6.15 (step 4) if the changes to the IMM or Repo VaR model are recognized to be material, further documentation will be required for review from the PRA. The following list represents a minimum requirement which needs to be met when applying for material changes. The PRA may ask for further information and/or documentation on a case by case basis. This section is divided in two main categories:

- Changes to models
- Changes to the counterparty risk system

#### **Changes to models (new model being introduced or changes to existing models)**

The following is the minimum information that should be provided for changes to models.

- CRR self-assessment. This should include an assessment against any requirement relevant to the changes made and sign-off from a Significant Influence Function attesting that the model is fit for purpose and meets regulatory requirements.
- Distribution of risk for an appropriate parallel run period for the transactions covered by the model changes according to the following categories (each table should include number of trades, Positive MtM, EAD, PFE, regulatory capital using the old model, regulatory capital using the new model):
  - i) Product (if more than one) for number of trades; positive MtM; and exposure and capital measures calculated gross of netting;
  - ii) Counterparty Credit Rating (ie Probability of Default rating);
  - iii) Industry;
  - iv) Country/Geographic region.
- Independent validation report relevant to the changes to models.
- Backtesting results for an appropriate parallel run period.
- Sign off minutes for model approval from the relevant committees.

The following information should be provided if documentation previously submitted has changed as a result of the changes to models.

- Technical documentation outlining the methodology used to model and calibrate risk factors. This documentation should also include the methodology used to estimate the relationship between risk factors, eg correlation.
- Technical documentation for the methodology used to price the product(s) modelled.
- Technical documentation for the modelling of collateral if modelled jointly with exposures.
- Technical documentation outlining the implementation of netting/margining rules for the new model.
- Updated policy for:

- (i) Backtesting
- (ii) Stress Testing
- (iii) Wrong Way Risk
- (iv) Collateral management
- (v) Validation policy

### **Changes to the counterparty risk system**

If changes to the system occur in conjunction with material changes to models the latter would require a separate submission of documents as outlined in the section 'Changes to models (new model being introduced or changes to existing models)'. The following is the minimum information that should be provided for changes to the counterparty risk system.

- CRR self-assessment. This should include an assessment against any requirement relevant to the changes made and sign-off from a Significant Influence Function attesting that the model is fit for purpose and meets regulatory requirements.
- Distribution of risk: distribution of risk, over an appropriate parallel run period, for the transactions covered by changes according to the following categories (each table should include number of trades, positive MtM, EAD, PFE, regulatory capital prior to and after changes being applied):
  - (i) Product (if more than one) for number of trades; positive MtM; and exposure and capital measures calculated gross of netting;
  - (ii) Counterparty Credit Rating (ie Probability of Default rating);
  - (iii) Industry;
  - (iv) Country/Geographic Region.
- Operational requirements (in the form of internal documentation or policies as relevant):
  - (i) Description of the Control Unit in charge of design of model (including organizational chart);
  - (ii) Description of the Control Unit in charge of implementation into production system (including organizational chart);
  - (iii) Description of the Control Unit in charge of initial and ongoing validation of Counterparty Risk Exposure Model (including organizational chart);
  - (iv) Data integrity assessment and policy around data quality;
  - (v) Sample reports of the output of the model (as used and seen by model users);
  - (vi) Impact on trading limits (ie change in credit policy with regards to allocation/management of credit limits).
- Backtesting analysis and results for an appropriate parallel running period.

The following information should be provided if documentation previously submitted has changed as a result of the changes to the counterparty risk system.

- Updated policy for:
  - (i) Stress Testing
  - (ii) Wrong Way Risk
  - (iii) Backtesting
  - (iv) Collateral
  - (v) Validation (covering both initial and ongoing validation)

## Appendix 4

### **PRA RULEBOOK: SOLVENCY II FIRMS: SENIOR INSURANCE MANAGERS REGIME – TECHNICAL RULES (NO. 2) INSTRUMENT 2015**

#### **Powers exercised**

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

#### **Pre-conditions to making**

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

### **PRA Rulebook: Solvency II Firms: Senior Insurance Managers Regime – Technical Rules (No. 2) Instrument 2015**

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

#### **Commencement**

- E. This instrument comes into force on [DATE].

#### **Citation**

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Senior Insurance Managers Regime – Technical Rules (No. 2) Instrument 2015.

#### **By order of the Board of the Prudential Regulation Authority**

[DATE].



## Annex A

This Annex contains updates to the rules made in PS22/15 Appendix 3 (PRA Rulebook: Solvency II Firms: Senior Insurance Managers Regime – Technical Rules Instrument 2015). In this Annex, underlining indicates new text and striking through indicates deleted text.

Part

# KEY FUNCTION HOLDER – NOTIFICATIONS

---

...

## 1 APPLICATION AND DEFINITIONS

---

...

1.2 In this Part, the following definitions shall apply:

...

*notified non-executive director*

means a *non-executive director* of a *firm* who is not an *approved person* in relation to that *firm*.

...

*transitional notified non-executive director*

means, in relation to a *firm*, a *person* who is approved to perform *controlled function* CF2 or CF5 on 6 March 2016 and who will be a *notified non-executive director* at that *firm* on the *commencement date*.

...

## 2 KEY FUNCTION HOLDER NOTIFICATION

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2.1 This Chapter does not apply in relation to a:

- (1) *transitional key function holders*, in relation to *key functions* held as at 1 January 2016;
- (2) *grandfathering key function holders*, in relation to *key functions* held as at ~~7 March 2016~~ the *commencement date*; ~~or~~
- (3) *new SIMF applicants*; or
- (4) *transitional notified non-executive director*.

...

## 6 TRANSITIONAL ARRANGEMENTS FOR KEY FUNCTION HOLDERS

---

6.1 This Chapter applies only in relation to a:

- (1) *transitional key function holders*, in relation to *key functions* held as at 1 January 2016;
- (2) *grandfathering key function holders*, in relation to *key functions* held as at the commencement date ~~7 March 2016~~; and
- (3) *new SIMF applicants*; and
- (4) *transitional notified non-executive director*, in relation to his or her position as a notified non-executive director as at the commencement date.

6.2 A firm must provide the information required by Insurance – Fitness and Propriety 4.1 for each *transitional key function holder*, *grandfathering key function holder*, ~~and~~ *new SIMF applicant* and transitional notified non-executive director in accordance with 6.3 ~~to 6.5~~.

...

6.5 In respect of a *transitional notified non-executive director*, the requirement in 6.2 will be satisfied where the firm records the *transitional notified non-executive director* in the firm's *governance map* on or before the *commencement date*.

6.6 In respect of a *transitional key function holder* who is not a *grandfathering key function holder*, ~~or a new SIMF applicant or a transitional notified non-executive director~~, the PRA directs that a firm must provide the information referred to in 6.2 to the PRA by sending the *key function holder notification form* to the PRA in accordance with 3.3 by 7 September 2016.

## Annex B

This Annex contains updates to the rules made in PS2/15 Appendix 2.9 (PRA Rulebook: Solvency II Firms: Group Supervision Instrument 2015). In this Annex, underlining indicates new text and striking through indicates deleted text.

Part

# GROUP SUPERVISION

---

...

## 17 RISK MANAGEMENT AND INTERNAL CONTROL

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- 17.1 (1) Where 2.1(1) or 2.1(2) applies, the following requirements apply with any necessary changes at the level of the *group*:
- (a) Conditions Governing Business 2.2 to 2.6;
  - (b) Conditions Governing Business 3;
  - (c) Conditions Governing Business 4.1 to 4.2;
  - (d) Conditions Governing Business 5;
  - (e) Conditions Governing Business 6;
  - (f) Conditions Governing Business 7.1 to 7.3;
  - (g) Fitness and Propriety 2.1 to 2.3, 4.1, 4.3 and 4.4; ~~and~~
  - (h) Allocation of Responsibilities 4; ~~and~~
  - (i) Key Function Holder – Notifications 2 to 6, in accordance with 17.4.

...

17.4 For the purposes of applying Key Function Holder – Notifications 2 to 6 at the level of the *group*, in accordance with 17.1(1)(i), *firms* should read the definitions of *grandfathering key function holder*, *new SIMF applicant*, *transitional key function holder* and *transitional notified non-executive director* in Key Function Holder – Notifications 1 as follows:

(1) *grandfathering key function holder*

means a *key function holder* at the level of the *group* who is seeking *continuing approval* in relation to a *PRA-authorised person* in that *group*.

(2) *new SIMF applicant*

means a *key function holder* at the level of the *group* (other than a *grandfathering key function holder*) who submits an application for a *senior management function* or *senior insurance management function* prior to the *commencement date* in relation to a *PRA-authorised person* in that *group*.

(3) *transitional key function holder*

means a person who is a key function holder at the level of the group as at the commencement date.

(4) transitional notified non-executive director

means a key function holder at the level of the group who, in relation to a PRA-authorised person in that group, is approved to perform controlled function CF2 or CF5 on 6 March 2016 and who will be a notified non-executive director at that PRA-authorised person on the commencement date.

...

## Appendix 5

### **PRA RULEBOOK: NON-SOLVENCY II FIRMS: LARGE NON-SOLVENCY II FIRMS - SENIOR INSURANCE MANAGERS REGIME (NO. 2) INSTRUMENT [YEAR]**

#### **Powers exercised**

- A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):
- (1) section 59 (approval for particular arrangements);
  - (2) section 60 (applications for approval);
  - (3) section 61 (determination of applications);
  - (4) section 64A (rules of conduct);
  - (5) section 137G (the PRA's general rules); and
  - (6) section 137T (general supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

#### **Pre-conditions to making**

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

### **PRA Rulebook: Non-Solvency II Firms: Large Non-Solvency II Firms - Senior Insurance Managers Regime (No. 2) Instrument [YEAR]**

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

#### **Commencement**

- E. This instrument comes into force on [DATE].

#### **Citation**

- F. This instrument may be cited as the PRA Rulebook: Non-Solvency II Firms: Large Non-Solvency II Firms - Senior Insurance Managers Regime (No. 2) Instrument [YEAR].

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

## Annex A

This Annex contains updates to the rules made in PS26/15 (PRA Rulebook: Non-Solvency II Firms: Large Non-Solvency II Firms - Senior Insurance Managers Regime Instrument 2015). In this Annex, underlining indicates new text and striking through indicates deleted text.

### Part

# LARGE NON-SOLVENCY II FIRMS – SENIOR INSURANCE MANAGEMENT FUNCTIONS

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## Chapter content

1. APPLICATION AND DEFINITIONS
2. GENERAL
3. EXECUTIVE
4. OVERSIGHT
5. GROUP ENTITIES
6. HEAD OF THIRD COUNTRY BRANCH
- ~~6.7.~~ CHIEF ACTUARY
- ~~7.8.~~ WITH-PROFITS ACTUARY
- ~~8.9.~~ CHIEF UNDERWRITING OFFICER

## Links

## 1 APPLICATION AND DEFINITIONS

---

1.1 Unless otherwise stated, this Part applies to: a

(1) a large non-directive insurer; and

(2) a Swiss general insurer.

1.2 In this Part, the following definitions shall apply:

...

*Chief Actuary function*

has the meaning given in 67.1.

...

*Chief Underwriting Officer function*

has the meaning given in 89.2.

...

*Head of Third Country Branch function*

has the meaning given in 6.1.

...

*With-Profits Actuary function*

has the meaning given in 78.2.

## 2 GENERAL

---

2.1 Each of the functions in 3 - 89 is a *controlled function* and a *senior insurance management function*.

...

2.3 (1) A firm (other than a Swiss general insurer) must ensure that one or more persons performs each of the following *senior insurance management functions* on its behalf:

(a) the *Chief Executive function*;

(b) the *Chief Finance function*; and

(c) the *Chairman function*.

...

## 6 HEAD OF THIRD COUNTRY BRANCH

---

6.1 This Chapter applies only to a Swiss general insurer.

6.2 The *Head of Third Country Branch function* (SIMF19) is the function of having responsibility for the conduct of all activities of the *Swiss general insurer* that are subject to the *regulatory system*.

6.3 (1) A *Swiss general insurer* must have at least one *person* approved to perform the *Head of Third Country Branch function*.

(2) If a vacancy arises in respect of the *Head of Third Country Branch function*, a *Swiss general insurer* must ensure that it appoints a *person* to fill that vacancy as soon as possible.

6.4 A *Swiss general insurer* is not required to have any *person(s)* approved to perform any of the other *senior insurance management functions*.

## 67 CHIEF ACTUARY

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67.1 The *Chief Actuary function* (SIMF20) is the function of having responsibility for the actuarial function specified in Non-Solvency II Firms – Governance 10.

## 78 WITH-PROFITS ACTUARY

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78.1 This Chapter applies only to *firms* that carry on *with-profits insurance business*.

78.2 The *With-Profits Actuary function* (SIMF21) is the function of having responsibility for advising the *governing body* of a *firm* transacting *with-profits insurance business* on the exercise of discretion affecting part or all of that business, as described more fully in Non-Solvency II Firms – Actuarial Requirements 6.1.

## 89 CHIEF UNDERWRITING OFFICER

---

89.1 This Chapter applies only to *firms* that carry on *general insurance business*.

89.2 The *Chief Underwriting Officer function* (SIMF22) is the function of having responsibility, in respect of the *firm's general insurance business*, for the underwriting decisions in respect of material insurance risks that are borne by the *firm*.



## Annex B

This Annex contains updates to the rules made in PS26/15 (PRA Rulebook: Non-Solvency II Firms: Large Non-Solvency II Firms - Senior Insurance Managers Regime Instrument 2015). In this Annex, underlining indicates new text and striking through indicates deleted text.

Part

# LARGE NON-SOLVENCY II FIRMS – FITNESS AND PROPRIETY

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...

## 1 APPLICATION AND DEFINITIONS

---

1.1 Unless otherwise stated, this Part applies to: a

(1) a large non-directive insurer; and

(2) a Swiss general insurer.

...

## Annex C

This Annex contains updates to the rules made in PS26/15 (PRA Rulebook: Non-Solvency II Firms: Large Non-Solvency II Firms - Senior Insurance Managers Regime Instrument 2015). In this Annex, underlining indicates new text and striking through indicates deleted text.

Part

# LARGE NON-SOLVENCY II FIRMS – ALLOCATION OF RESPONSIBILITIES

---

...

## 1 APPLICATION AND DEFINITIONS

---

1.1 Unless otherwise stated, this Part applies to: a

(1) a large non-directive insurer; and

(2) a Swiss general insurer.

...

## 2 ALLOCATION OF RESPONSIBILITIES

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2.1 A firm (other than a Swiss general insurer) must allocate each of the *SIMR prescribed responsibilities* set out in 3.1 (other than 3.1(9) and (10)) to one or more *persons* who, in relation to that *firm*, are approved under section 59 of *FSMA* by:

(1) the *PRA* to perform a *senior insurance management function*; or

(2) in relation to *relevant senior management functions* only, the *FCA*.

2.2 A firm (other than a Swiss general insurer) must allocate each of the *SIMR prescribed responsibilities* set out in 3.1(9) and (10) to one or more *non-executive directors* who perform a *senior insurance management function* set out in Large Non-Solvency II Firms – Senior Insurance Management Functions 4 or an *FCA governing function* at that *firm*.

...

## Annex D

This Annex contains updates to the rules made in PS26/15 (PRA Rulebook: Non-Solvency II Firms: Large Non-Solvency II Firms - Senior Insurance Managers Regime Instrument 2015). In this Annex, underlining indicates new text and striking through indicates deleted text.

Part

# LARGE NON-SOLVENCY II FIRMS – CONDUCT STANDARDS

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...

## 1 APPLICATION

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1.1 Unless otherwise stated, this Part applies to:

- (1) *a large non-directive insurer; and*
- (2) a Swiss general insurer; and
- (23) in relation to ~~a large non-directive insurer~~ any of the foregoing firms, any person who is approved under section 59 of *FSMA* by either:
  - (a) the *PRA*; or
  - (b) the *FCA*, in relation to a *relevant senior management function*.

...

## Annex E

This Annex proposes changes to the Non-Solvency II Firms – Governance Part, as consulted on in CP27/15. Strikethrough text is deleted and new text is underlined.

### 1 APPLICATION AND DEFINITION

---

1.1 Unless otherwise stated, this Part applies to:

- (1) a *non-directive insurer*, and
- (2) subject to 1.2, a *Swiss general insurer*.

1.2 Only Chapters ~~2, 5, 6 and 7~~ 3 and 5 to 10 apply to a *Swiss general insurer* and only in respect of the activities of the *firm* carried on from a *branch* in the *UK*.

...

### 2 GENERAL GOVERNANCE FOR SMALL NON-DIRECTIVE INSURERS

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2.1 This Chapter only applies to a *small non-directive insurer* ~~and a *Swiss general insurer*~~.

...

### 3 GENERAL GOVERNANCE FOR LARGE NON-DIRECTIVE INSURERS

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3.1 This Chapter only applies to a *large non-directive insurer* and a *Swiss general insurer*.

...

### 8 INTERNAL CONTROL

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8.1 This Chapter only applies to a *large non-directive insurer* and a *Swiss general insurer*.

...

### 9 INTERNAL AUDIT

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9.1 This Chapter only applies to a *large non-directive insurer* and a *Swiss general insurer*.

...

### 10 ACTUARIAL FUNCTION

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10.1 This Chapter only applies to a *large non-directive insurer* and a *Swiss general insurer*.

...

## Annex F

Amend the Glossary Part as follows in the appropriate alphabetical positions. Underlining indicates new text and deleted text is struck through.

Part

## GLOSSARY

---

...

### *conduct standards*

- (1) for a *UK Solvency II firm*, the *Society*, a *managing agent* and a *UK ISPV*, means the standards of expected conduct specified in Insurance - Conduct Standards 3;
- (2) for a *third country branch undertaking* (other than a *UK-deposit insurer* or a *Swiss general insurer*), means the standards of expected conduct specified in Insurance - Conduct Standards 3.1 to 3.3 and, taking account only of matters relevant to the operations of the *third country branch*, Insurance – Conduct Standards 3.4 to 3.8;
- (3) for a *UK-deposit insurer*, means the standards of expected conduct specified in Insurance - Conduct Standards 3.1 to 3.3 and, taking account only of matters relevant to the operations of the *third country branch* and all the *third country undertaking EEA branches*, Insurance – Conduct Standards 3.4 to 3.8;
- (4) for a *small non-directive insurer*, means the standards of expected conduct specified in Non-Solvency II Firms - Conduct Standards 2; ~~and~~
- (5) for a *large non-directive insurer*, means the standards of expected conduct specified in Large Non-Solvency II Firms - Conduct Standards 3; ~~and~~
- (6) for a *Swiss general insurer*, means the standards of expected conduct specified in Large Non-Solvency II Firms - Conduct Standards 3 taking account only of matters relevant to the operations of the *third country branch*.

### *key function*

- (1) in relation to a *UK Solvency II firm*, the *Society*, a *managing agent*, a *UK ISPV* and a *large non-directive insurer*, means each of the following in relation to the carrying on of a *regulated activity* by the *firm*:
  - (a) the risk-management *function*;
  - (b) the compliance *function*;
  - (c) the internal audit *function*;
  - (d) the actuarial *function*;
  - (e) the *function* of effectively running the *firm*; and

- (f) any other *function* which is of specific importance to the sound and prudent management of the *firm*;
- (2) in relation to a *third country branch undertaking* ~~(other than a Swiss general insurer)~~ means, in relation to the carrying on of a *regulated activity* by the *third country branch undertaking*, each of the following *functions* performed in relation to the operations effected by the *third country branch* or, for a *UK deposit insurer*, in relation to the operations effected by the *third country branch* and all the *third country undertaking EEA branches*:
- (a) the risk-management *function*;
  - (b) the compliance *function*;
  - (c) the internal audit *function*;
  - (d) the actuarial *function*;
  - (e) the *function* of effectively running the operations effected by the *third country branch* or, for a *UK-deposit insurer*, the operations effected by the *third country branch* and all the *third country undertaking EEA branches*;
  - (f) the *function* of being the *authorised UK representative*; and
  - (g) any other *function* which is of specific importance to the sound and prudent management of the *third country branch* or, for a *UK-deposit insurer*, the operations effected by the *third country branch* and all the *third country undertaking EEA branches*.

*senior insurance management function*

means

- (1) (for a *UK Solvency II firm*, the *Society*, a *managing agent*, a *third country branch undertaking* (other than a *Swiss general insurer*) and a *UK ISPV*) that aspect of any *key function* relating to the carrying on of a *regulated activity* by the *firm* which is specified by the *PRA* in Insurance – Senior Insurance Management Functions 3 to 10 pursuant to section 59 of *FSMA*;
- (2) (for a *small non-directive insurer*) any function which is specified by the *PRA* in Non-Solvency II Firms – Senior Insurance Management Functions 2.2 pursuant to section 59 of *FSMA*.
- (3) (for a *large non-directive insurer* and a *Swiss general insurer*) any function which is specified by the *PRA* in Large Non-Solvency II Firms – Senior Insurance Management Functions 3 to 89 pursuant to section 59 of *FSMA*.

## Appendix 6

### **PRA RULEBOOK: NON-SOLVENCY II FIRMS: LARGE NON-SOLVENCY II FIRMS – SENIOR INSURANCE MANAGERS REGIME – TECHNICAL RULES (NO. 2) INSTRUMENT [YEAR]**

#### **Powers exercised**

A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):

- (1) section 59 (approval for particular arrangements);
- (2) section 60 (applications for approvals);
- (3) section 61 (determination of applications);
- (4) section 137G (the PRA’s general rules);
- (5) section 137T (general supplementary powers); and

in the exercise of powers and related provisions in Articles 2, 5, 6, 13, 17, 19 and 20 of the Financial Services (Banking Reform) Act 2013 (Transitional and Savings Provisions) Order 2015 (SI 2015/492) as amended by the Financial Services (Banking Reform) Act 2013 (Transitional and Savings Provisions) (Amendment) Order 2015 (SI 2015/1660).

B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

#### **Pre-conditions to making**

C. In accordance with section 138J of the Act (Consultation by the PRA), and Articles 5, 13 and 22 of the Financial Services (Banking Reform) Act 2013 (Transitional and Savings Provisions) Order 2015, the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

### **PRA Rulebook: Non-Solvency II Firms: Large Non-Solvency II Firms – Senior Insurance Managers Regime – Technical Rules (No. 2) Instrument [YEAR]**

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

#### **Commencement**

- E. Annex A comes into force on [DATE].
- F. Annex B comes into force on [DATE].
- G. Annex C comes into force on [DATE].

#### **Citation**

H. This instrument may be cited as the PRA Rulebook: Non-Solvency II Firms: Large Non-Solvency II Firms – Senior Insurance Managers Regime – Technical Rules (No. 2) Instrument [YEAR].

#### **By order of the Board of the Prudential Regulation Authority**

[DATE].

## Annex A

This Annex contains updates to the rules made in PS26/15 (Large Non-Solvency II Firms – Senior Insurance Managers Regime – Technical Rules Instrument 2015). In this Annex, underlining indicates new text and striking through indicates deleted text.

Part

# LARGE NON-SOLVENCY II FIRMS – SENIOR INSURANCE MANAGERS REGIME – APPLICATIONS AND NOTIFICATIONS

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...

## 1 APPLICATION AND DEFINITIONS

---

1.1 Unless otherwise stated, this Part applies to: a

(1) a large non-directive insurer; and

(2) a Swiss general insurer.<sup>1</sup>

...

---

<sup>1</sup> The applicable forms for Swiss general insurers are intended to be the Large Non-Solvency II firm forms, as consulted on in the PRA's consultation paper CP26/15 'The Senior Insurance Managers Regime: implementation proposals for non-Solvency II firms'.



## Annex B

This Annex contains updates to the rules made in PS26/15 (Large Non-Solvency II Firms – Senior Insurance Managers Regime – Technical Rules Instrument 2015). In this Annex, underlining indicates new text and striking through indicates deleted text.

Part

# LARGE NON-SOLVENCY II FIRMS – KEY FUNCTION HOLDER – NOTIFICATIONS

---

...

## 1 APPLICATION AND DEFINITIONS

---

1.1 Unless otherwise stated, this Part applies to: ~~a~~

(1) ~~\_\_\_\_\_ a large non-directive insurer;~~ and

(2) ~~\_\_\_\_\_ a Swiss general insurer.~~

1.2 In this Part, the following definitions shall apply:

...

notified non-executive director

means a non-executive director of a firm who is not an approved person in relation to that firm.

...

transitional notified non-executive director

means, in relation to a firm, a person who is approved to perform controlled function CF2 or CF5 on 6 March 2016 and who will be a notified non-executive director at that firm on the commencement date.

...

## 2 KEY FUNCTION HOLDER NOTIFICATION

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2.1 This Chapter does not apply in relation to a:

(1) transitional key function holders, in relation to key functions held as at ~~7 March 2016~~ the commencement date;

(2) grandfathering key function holders, in relation to key functions held as at ~~7 March 2016~~ the commencement date; ~~or~~

(3) new SIMF applicants; or

(4) transitional notified non-executive director.

...

...

## 5 TRANSITIONAL ARRANGEMENTS FOR KEY FUNCTION HOLDERS

---

- 5.1 This Chapter applies only in relation to a:
- (2) *transitional key function holders*, in relation to *key functions* held as at ~~7 March 2016~~the commencement date;
  - (2) *grandfathering key function holders*, in relation to *key functions* held as at ~~7 March 2016~~the commencement date; and
  - (3) *new SIMF applicants*; and
  - (4) *transitional notified non-executive director*, in relation to his or her position as a *notified non-executive director as at the commencement date*.
- 5.2 A *firm* must provide the information required by Large Non-Solvency II Firms – Fitness and Propriety 4.1 for each *transitional key function holder*, *grandfathering key function holder*, ~~and~~ *new SIMF applicant* and *transitional notified non-executive director* in accordance with 5.3 to 5.56.
- ...
- 5.5 In respect of a *transitional notified non-executive director*, the requirement in 5.2 will be satisfied where the *firm* records the *transitional notified non-executive director* in the *firm's governance map* on or before the *commencement date*.
- 5.6 In respect of a *transitional key function holder* who is not a *grandfathering key function holder*, ~~or a *new SIMF applicant*~~, or a *transitional notified non-executive director*, the *PRA* directs that a *firm* must provide the information referred to in 5.2 to the *PRA* by sending the *key function holder notification form* to the *PRA* in accordance with 3.3 by 7 September 2016.

## Annex C

This Annex contains updates to the rules made in PS26/15 (Large Non-Solvency II Firms – Senior Insurance Managers Regime – Technical Rules Instrument 2015). In this Annex, underlining indicates new text and striking through indicates deleted text.

Part

# LARGE NON-SOLVENCY II FIRMS – SENIOR INSURANCE MANAGERS REGIME –TRANSITIONAL PROVISIONS

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...

## 1 APPLICATION AND DEFINITIONS

---

1.1 Unless otherwise stated, this Part applies to a *firm* that, on the *effective date*, has a *Part 4A permission* for *effecting contracts of insurance* or *carrying out contracts of insurance* and which will with effect from 1 January 2016 be:

(1) a large non-directive insurer; or

(2) a Swiss general insurer.<sup>1</sup>

...

## 2 TABLE OF EQUIVALENT FUNCTIONS FOR GRANDFATHERING

---

...

Column 1	Column 2	Column 3
<b>Large Non-Directive Insurers</b>		
PRA or FCA Controlled Function	PRA Senior Insurance Management Function	FCA Function
Director (CF1)	Chief Finance function (SIMF2) Chief Risk function (SIMF4) Head of Internal Audit function (SIMF5) Group Entity Senior Insurance Manager function (SIMF7) Chief Actuary function (SIMF20) Chief Underwriting Officer function (SIMF22)	FCA Director function (CF1) (see Note)

---

<sup>1</sup> The applicable forms for Swiss general insurers are intended to be the Large Non-Solvency II firm forms. For the grandfathering form (Form K) please see the PRA's policy statement PS26/15 'The prudential regime, and implementation of the Senior Insurance Managers Regime, for non-Solvency II firms'.

Column 1	Column 2	Column 3
Non-executive director (CF2)	Group Entity Senior Insurance Manager function (SIMF7) Chairman function (SIMF9) Chair of the Risk Committee function (SIMF10) Chair of the Audit Committee function (SIMF11) Chair of the Remuneration Committee function (SIMF12) Senior Independent Director function (SIMF14)	Chair of the Nomination Committee function (CF2a) Chair of the With-Profits Committee function (CF2b) (see Note)
Chief executive (CF3)	Chief Executive function (SIMF1)	
Director of unincorporated association (CF5)	Chief Finance function (SIMF2) Chief Risk function (SIMF4) Head of Internal Audit function (SIMF5) Group Entity Senior Insurance Manager function (SIMF7) Chief Actuary function (SIMF20) Chief Underwriting Officer function (SIMF22) Chairman function (SIMF9) Chair of the Risk Committee function (SIMF10) Chair of the Audit Committee function (SIMF11) Chair of the Remuneration Committee function (SIMF12) Senior Independent Director function (SIMF14)	FCA Director of unincorporated association function (CF5) Chair of the Nomination Committee function (CF2a) Chair of the With-Profits Committee function (CF2b) (See Note)
Small friendly society (CF6)	Chief Finance function (SIMF2) Chief Risk function (SIMF4) Head of Internal Audit function (SIMF5) Group Entity Senior Insurance Manager function (SIMF7) Chief Actuary function (SIMF20) Chief Underwriting Officer function (SIMF22) Chairman function (SIMF9)	FCA Small friendly society function (CF6) Chair of the Nomination Committee function (CF2a) Chair of the With-Profits Committee function (CF2b) (See Note)

Column 1	Column 2	Column 3
	Chair of the Risk Committee function (SIMF10) Chair of the Audit Committee function (SIMF11) Chair of the Remuneration Committee function (SIMF12) Senior Independent Director function (SIMF14)	
Actuary (CF12)	Chief Actuary function (SIMF20)	
With-Profits Actuary (CF12A)	With-Profits Actuary function (SIMF21)	
Systems and Controls (CF28)	Chief Finance function (SIMF2) Chief Risk function (SIMF4) Head of Internal Audit function (SIMF5)	
Significant management (CF29)	Group Entity Senior Insurance Manager function (SIMF7) Chief Actuary function (SIMF20) (general insurance firms only) Chief Underwriting Officer function (SIMF22)	
<b><u>Swiss General Insurers</u></b>		
<b><u>PRA or FCA Controlled Function</u></b>	<b><u>PRA Senior Insurance Management Function</u></b>	<b><u>FCA Function</u></b>
<u>Director (CF1)</u>	<u>Chief Finance function (SIMF2)</u> <u>Chief Risk function (SIMF4)</u> <u>Head of Internal Audit function (SIMF5)</u> <u>Group Entity Senior Manager (SIMF7)</u> <u>Head of Third Country Branch function (SIMF19)</u> <u>Chief Actuary function (SIMF20)</u> <u>Chief Underwriting Officer</u>	<u>FCA Director function (CF1)</u> <u>(see Note)</u>

Column 1	Column 2	Column 3
	<u>function (SIMF22)</u>	
<u>Non-executive director (CF2)</u>	<u>Group Entity Senior Manager (SIMF7)</u> <u>Chairman function (SIMF 9)</u> <u>Senior Independent Director function (SIMF 14)</u> <u>Chair of the Risk Committee function (SIMF 10)</u> <u>Chair of the Audit Committee function (SIMF 11)</u> <u>Chair of the Remuneration Committee function (SIMF 12)</u>	
<u>Chief executive (CF3)</u>	<u>Head of Third Country Branch function (SIMF19)</u>	
<u>Systems and controls (CF28)</u>	<u>Chief Finance function (SIMF2)</u> <u>Chief Risk function (SIMF4)</u> <u>Head of Internal Audit function (SIMF5)</u>	<u>FCA Systems and Controls (CF28)</u> <u>(see Note)</u>
<u>FCA Significant management (CF 29)</u>	<u>Chief Underwriting Officer function (SIMF22)</u> <u>Group Entity Senior Insurance Manager (SIMF7)</u>	

Note: See SUP TP 7.2.3 R in the *FCA Handbook*.

...

## Appendix 7

### **PRA RULEBOOK: CRR FIRMS, NON-CRR FIRMS, SOLVENCY II FIRMS, NON-SOLVENCY II FIRMS: SENIOR MANAGERS REGIME AND SENIOR INSURANCE MANAGERS REGIME AND INDIVIDUAL ACCOUNTABILITY (CONSEQUENTIALS) INSTRUMENT [YEAR]**

#### **Powers exercised**

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 59 (approval for particular arrangements);
  - (2) section 60 (applications for approvals);
  - (3) section 61 (determination of applications);
  - (4) section 137G (the PRA’s general rules); and
  - (5) section 137T (general supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

#### **Pre-conditions to making**

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

### **PRA Rulebook: CRR firms, Non-CRR firms, Solvency II FIRMS, Non-Solvency II Firms: Senior Managers Regime and Senior Insurance Managers Regime and Individual Accountability (Consequential) Instrument [YEAR]**

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

#### **Commencement**

- E. This instrument comes into force on [DATE].

#### **Citation**

- F. This instrument may be cited as the PRA Rulebook: CRR firms, Non-CRR firms, Solvency II FIRMS, Non-Solvency II Firms: Senior Managers Regime and Senior Insurance Managers Regime and Individual Accountability (Consequential) Instrument [YEAR]

#### **By order of the Board of the Prudential Regulation Authority**

[DATE]

## Annex A

### Amendments to the Glossary Part

Insert the following new definitions into the glossary Part of the PRA Rulebook.

*Credit Union Senior Manager function*

has the meaning given in Senior Management Functions 6.2.

*FCA-authorised person*

means (in accordance with section 31 of *FSMA* (Authorised persons)) an *authorised person* who is not a *PRA-authorised person*.

*FCA-designated senior management function*

means an *FCA controlled function* specified in SUP 10C.4.3R of the *FCA Handbook*.

*FCA responsibilities*

means any of:

- (1) the functions set out in SYSC 4.7.7R (Table of senior management responsibilities) of the *FCA Handbook*;
- (2) the responsibilities allocated under SYSC 4.7.8R of the *FCA Handbook*;
- (3) the functions set out in SYSC 4.8.9R (Table: the FCA prescribed senior management responsibilities for third country relevant authorised persons) of the *FCA Handbook*); and
- (4) the responsibilities allocated under SYSC 4.8.10R of the *FCA Handbook*.<sup>1</sup>

*management responsibilities map*

has the meaning given in Allocation of Responsibilities 6.

In the Glossary Part of the PRA Rulebook, make the following amendments. New text is underlined and deleted text is struck through.

~~*notified non-executive director*~~

~~means a *non-executive director* of a *CRR firm* who is not an *approved person* in relation to that *firm*.~~

*regulatory system*

means the arrangements for regulating a *firm* or other *person* in or under *FSMA*, the Bank of England Act 1998, the Banking Act 2009, the Friendly Societies Act 1974, the Friendly Societies Act 1992, the Credit Unions Act 1979, including the *threshold*

---

<sup>1</sup> This numbering is intended to reflect the FCA's near-final rules for foreign branches as consulted on in FCA CP15/10. These FCA rules have not yet been made.



*conditions*, the *Fundamental Rules* and other ~~rules~~ *rules*, the *Statements of Principle*, codes and ~~guidance~~ *guidance* given by the *PRA*, the *Bank of England* or the *FCA* and including any relevant directly applicable provisions of an *EU* Directive or Regulation including those specified under section 204A(2) of *FSMA*.

## Annex B

### Amendments to the Senior Insurance Managers Regime – Applications and Notifications Part

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

...

## 2 APPLICATION TO PERFORM A SENIOR INSURANCE MANAGEMENT FUNCTION

---

...

~~2.8~~ A firm must (as part of its assessment of whether a ~~person~~ is a fit and proper ~~person~~ to perform a ~~senior insurance management function~~ and in order to verify the information contained in the application to carry out the ~~senior insurance management function~~) obtain the fullest information that it is lawfully able to obtain about the ~~person~~ under Part V of the Police Act 1997 (Certificates of Criminal records, etc.) and related subordinated legislation of the ~~UK~~ or any part of the ~~UK~~ before making the application.

...

## 7 FORMS

---

- 7.1 (1) Form A (long form) may be found here.
- (2) Form A (shortened form) may be found here.
- ~~(3)~~ Form B may be found here.
- ~~(4)~~ Form C may be found here.
- ~~(5)~~ Form D may be found here.
- ~~(6)~~ Form E may be found here.
- ~~(7)~~ The *scope of responsibilities form* may be found here.

...

**Annex C**

**Amendments to the Senior Insurance Managers Regime – Transitional Provisions Part**

In this Annex, new text is underlined.

**1. APPLICATION AND DEFINITIONS**

...

**6. TABLE OF EQUIVALENT FUNCTIONS FOR GRANDFATHERING**

...

**6 TABLE OF EQUIVALENT FUNCTIONS FOR GRANDFATHERING**

---

...

## Annex D

### Amendments to the Conduct Rules Part

In this Annex, underlining indicates new text and deleted text is struck through.

#### 1 APPLICATIONS AND DEFINITIONS

---

...

1.2 In this Part, the following definitions shall apply:

...

~~*FCA-designated senior management function*~~

means an ~~*FCA-controlled function*~~ specified in SUP 10C.4.3R of the ~~*FCA Handbook*~~.

...

## Annex E

### Amendments to the General Organisational Requirements Part

[Note: This instrument includes consequential amendments to the General Organisational Requirements Part that were consulted on in Appendix 2.4 of CP28/14].

In this Annex, underlining indicates new text and deleted text is struck through.

#### 1 APPLICATIONS AND DEFINITIONS

---

...

1.2 In this Part, the following definitions shall apply:

*~~chief executive function~~*

means ~~PRA controlled function CF3 in the table of PRA controlled functions, described more fully in SUP10B.6.7R of the PRA Handbook.~~

*~~PRA controlled function~~*

means a function, relating to the carrying on of a *regulated activity* by a *firm*, which is specified by the *PRA* (in the *table of PRA controlled functions*), under section 59 of *FSMA*.

...

*~~table of PRA controlled functions~~*

means the table of *PRA* controlled functions in SUP 10B.4.3R of the *PRA Handbook*.

...

#### 5 MANAGEMENT BODY

---

...

~~5.7 A firm must ensure that the chairman of the firm's management body does not exercise simultaneously the chief executive function within the same firm, unless justified by the firm and authorised by the PRA.~~

#### Additional Notes

~~[Note: Art. 88(1)(e) CRD]~~

5.7 A firm that maintains a website must explain on the website how it complies with the requirements of this Chapter and Senior Management Functions 8.2.

#### Additional Notes

[Note: Art. 96 of the CRD]

...

## Annex F

### Amendments to the Notifications Part

In this Annex, underlining indicates new text and deleted text is struck through.

...

## **2 GENERAL NOTIFICATION REQUIREMENTS**

---

...

2.4 (1) A *firm* must notify the *PRA* of:

(a) a significant breach of a rule or ~~Statement of Principle~~;

## Annex G

### Amendments to the Senior Management Functions Part

In this Annex, underlining indicates new text and deleted text is struck through.

#### 1 APPLICATIONS AND DEFINITIONS

---

...

1.2 In this Part, the following definitions shall apply:

...

*Head of Internal Audit function*

~~has the meaning given in 3.5~~

...

*Credit Union Senior Manager function*

~~has the meaning given in Senior Management Functions 6.2.~~

...

*FCA responsibilities*

~~means any of:~~

- ~~(1) the functions set out in SYSC 4.7.7R (Table of senior management responsibilities) of the *FCA Handbook*;~~
- ~~(2) the responsibilities allocated under SYSC 4.7.8R of the *FCA Handbook*;~~
- ~~(3) the functions set out in SYSC 4.8.9R (Table: the FCA prescribed senior management responsibilities for third country relevant authorised persons) of the *FCA Handbook*; and~~
- ~~(4) the responsibilities allocated under SYSC 4.8.10R of the *FCA Handbook*.~~

*Head of Internal Audit function*

has the meaning given in 3.5

...

*Head of Overseas Branch function*

has the meaning given in Senior Management Functions 7.2.

...

#### 7 UK BRANCH OF OVERSEAS FIRM

---

...

7.2 The ~~Head of Overseas Branch function~~ Head of Overseas Branch function (SMF 19) is the function of having responsibility alone or jointly with others, for the conduct of all activities of the *UK* establishment of a *third country firm* which are subject to the *UK regulatory system*.

7.3 (1) A *third country CRR firm* must ensure that at least one *person* performs the ~~Head of Overseas Branch function~~ Head of Overseas Branch function on its behalf.

(2) If a vacancy arises in respect of the ~~Head of Overseas Branch function~~ Head of Overseas Branch function, a *third country CRR firm* must ensure that it appoints a *person* to fill that vacancy as soon as practicable.



## Annex H

### Amendments to the Senior Management Regime – Applications and Notifications Part

In this Annex, underlining indicates new text and deleted text is struck through.

#### 1 APPLICATIONS AND DEFINITIONS

---

....

1.2 In this Part, the following definitions shall apply:

...

~~*FCA designated senior management function*~~

~~means an *FCA controlled function* specified in SUP 10C.4.3R of the *FCA Handbook*.~~

...

~~*management responsibilities map*~~

~~has the meaning given in Allocation of Responsibilities 6.~~

...

#### 2 APPLICATION TO PERFORM A PRA SENIOR MANAGEMENT FUNCTION

---

...

~~2.8 — A firm must (as part of its assessment of whether a person is a fit and proper person to perform a *PRA senior management function* and in order to verify the information contained in the application to carry out the *PRA senior management function* obtain the fullest information that it is lawfully able to obtain about the person under Part V of the Police Act 1997 (Certificates of Criminal records, etc.) and related subordinated legislation of the UK or any part of the UK before making the application.~~

## Appendix 8

### HANDBOOK (RULEBOOK CONSEQUENTIALS) INSTRUMENT [YEAR]

#### Powers exercised

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

#### Pre-conditions to making

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

#### Commencement

- D. This instrument comes into force on [DATE].

#### Amendments

- E. The modules of the PRA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary	Annex A
Credit Unions sourcebook (CREDS)	Annex B
General Provisions Sourcebook (GEN)	Annex C

- F. Each of the following modules and chapters of the PRA’s Handbook are deleted:

APER
FIT
SUP10B
SUP TP3

#### Citation

- F. This instrument may be cited as the Handbook (Rulebook Consequentials) Instrument [YEAR].

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

## Annex A

### Amendments to the Handbook Glossary of definitions

In this Annex, all text is new.

<i>certification employee</i>	(as described in more detail in section 63E(1) of the <i>Act</i> (Certification of employees by relevant authorised person)) an employee (including the definition in section 63E (9)) of a <i>relevant authorised person</i> who has, or is required to have, a valid certificate issued by that <i>relevant authorised person</i> .
COCON	the Code of Conduct for Staff sourcebook, part of the <i>FCA Handbook</i> in High Level Standards.
<i>conduct rules staff</i>	any <i>persons</i> who are subject to COCON, as set out in COCON 1 (Application).
<i>designated senior management function</i>	a controlled function that has been designated by the <i>FCA</i> or the <i>PRA</i> as a <i>senior management function</i> under section 59 of the <i>Act</i> (Approval for particular arrangements).
<i>FCA-specified significant-harm function</i>	a <i>specified significant-harm function</i> that has been specified under section 63E of the <i>Act</i> (Certification of employees by relevant authorised persons) by the <i>FCA</i> .
<i>PRA Conduct Rules</i>	the rules contained in the part of the <i>PRA Rulebook</i> titled "Conduct Rules".

*relevant authorised person* has the meaning in section 71A of the Act

**Annex B**  
**Amendments to Credit Unions sourcebook**  
**(CREDS)**

In this Annex, underlining indicates new text and striking through indicates deleted text.

---

**CREDS 2.2.15**

2.2.15 G In accordance with Senior Management Conduct Rule 2 in the PRA Conduct Rules and COCON 2.2.2R ~~Statement of Principle 7 of the Statements of Principle for Approved Persons~~, it is the responsibility of each individual member of the committee of management to understand, and ensure that the *credit union* complies with, the requirements of all the relevant Acts, secondary legislation and *rules*.

...

2.2.31 G Some important compliance issues include:

(1) insurance against fraud and dishonesty;

...

(12) approved persons regime and the certification regime (see the Certification Part of the PRA Rulebook and SYSC 5.2);

(13) payment of regulatory fees.

---

**7.2 General requirements concerning lending policy**

7.2.7 R (1) A *credit union* must not make a loan to:

(a) one of its officers ~~or~~ certification employees or approved persons on terms more favourable than those available to other members of the *credit union* unless:

(i) that person is a paid employee (other than a *director*) of the *credit union*; and

(ii) the registered rules of the *credit union* provide explicitly for the making of loans to paid employees on such terms;

(b) (in the case of a *Great Britain credit union*) a relative of, or any person otherwise connected with, an officer, certification employee, approved person or paid employee of the *credit union* on terms more favourable

than those available to other members of the *credit union*;

- (c) (in the case of a *Northern Ireland credit union*) a member of the family of, or any person otherwise connected with, an officer, certification employee, approved person or paid employee of the *credit union* on terms more favourable than those available to other members of the *credit union*.

...

- 7.2.8 G (1) To prevent conflicts of interest, a *credit union* should have clear arrangements for dealing with loans to the persons specified in *CREDS* 7.2.7R.
- (2) In relation to staff, the prohibition in *CREDS* 7.2.7R applies only to those who are officers ~~or~~ certification employees or approved persons.
- (3) "Connected" in *CREDS* 7.2.7R includes any close business or personal relationship.

...

### 8.3 Approved persons

- 8.3.1 G The purpose of this section is to set out further *guidance* relating to the *approved persons* regime that is specific to *credit unions*. *Credit unions* should also read Chapter 10C (FCA approved persons regime for relevant authorised persons) of the Supervision manual (*SUP*) and have regard to their obligations in the Senior Management Functions and Allocation of Responsibilities Parts of the *PRA* Rulebook ~~concerning approved persons~~.
- 8.3.2 G The effect of section 59 of the *Act* ~~and~~ SUP 10C and the Senior Management Functions and Allocation of Responsibilities Parts of the PRA Rulebook is that a *credit union* must apply to the *appropriate regulator* for the approval of one or more individuals to perform the functions which are known as *controlled functions*. All the controlled functions that the FCA and the PRA have specified in relation to relevant authorised persons are designated senior management functions. ~~Controlled functions fall within two groups:~~
- (1) ~~The significant influence functions describe the roles performed by the governing body and senior managers of the firm who exert a significant influence over the regulated activities of the firm.~~
- (2) ~~The customer functions describe the roles of individuals who deal with customers or with the property of customers. These customer functions do not extend to activities in relation to accepting deposits or general insurance and therefore will not be relevant to credit unions with permission for accepting deposits only. [deleted]~~
- 8.3.3 G ~~The complete list~~ Details of all controlled functions in relation to relevant authorised persons are is located in SUP 10C.4.3R and the supervisory statement on the PRA Senior Managers Regime SUP 10.4.5 R.1 ~~Guidance on those controlled functions most likely to be relevant to credit unions is provided below~~ at 8.3.4G and 8.3.5G in the FCA Handbook and 8.3.4AG in the PRA Handbook.
- 8.3.4 G ~~SUP 10.6 SUP 10C.5: the FCA governing functions:~~

<sup>1</sup> Annex E and Annex 9.1 of CP14/14

- (1) ~~SUP 10.6.4 R: the director function. This is the function of acting in the capacity of a director of a credit union. SUP 10C.5.1R: executive director function (SMF 3). This is the function of acting in the capacity of a director (other than a non-executive director) of a credit union.~~
- (2) ~~SUP 10.6.8 R: the non-executive director function. SUP 10C.5.2R: non-executive director function (SMF 15).<sup>1</sup> This is the function of acting in the capacity of a non-executive director of a credit union. It is unusual for a credit union to appoint non-executive directors as such. But this function would include membership of a credit union's supervisory committee and any other committee which scrutinises the approach of executive management, the credit union's performance, and its standards of conduct.~~
- (3) ~~SUP 10.6.11 R: the chief executive function. Acting in the capacity of chief executive, whether or not using that title. This role includes anyone having the responsibility, alone or jointly with one or more others, under the immediate authority of the committee of management, for the conduct of the whole of the business. [deleted]~~

8.3.4A G PRA Senior Management Functions

For credit unions, Senior Management Functions 1, 2, 6 and 8 of the PRA Rulebook apply

8.3.5 G ~~SUP 10.7 the required functions:~~

- (1) [deleted]
- (2) ~~SUP 10.7.13 RSUP 10C.6.2R: the money laundering reporting function (SMF17). This is the function of acting in the capacity of the money laundering reporting officer of a credit union. [deleted]~~

8.3.6 G ~~SUP 10.8: the systems and controls function. This is the function of acting as an employee with responsibility for reporting to the committee of management in relation to: [deleted]~~

- (1) ~~the credit union's financial affairs; or~~
- (2) ~~setting and controlling its risk exposure; or~~
- (3) ~~adherence to internal systems and controls, procedures and policies.~~

8.3.7 G ~~Where an employee performs the systems and controls function the appropriate regulator would expect the credit union to ensure that the employee had sufficient expertise and authority to perform that function effectively, for example by occupying the role of a director or senior manager. [deleted]~~

8.3.8 G ~~SUP 10A.9: the significant management functions: This controlled function will only apply to the credit union if the function is not being performed by a member of the committee of management and the credit union has followed the guidance in SUP 10A.9.4 G. [deleted]~~

...

**8.4A PRA certification regime**

- 8.4A.1 G The PRA certification regime in the Certification Part of the PRA Rulebook applies to employees of a credit union who are significant risk takers as defined in 1.3 of that Part.

...

**10.1 Application and purpose**

- 10.1.3 G **Application of other parts of the Handbook, the PRA Rulebook and of Regulatory Guides to Credit Unions**

...

Module	Relevance to Credit Unions
...	
Senior Management Arrangement, Systems and Controls (SYSC)	<p>SYSC 1 and SYSC 4 to 10 apply to all <i>credit unions</i> in respect of the carrying on of their <i>regulated activities</i> and unregulated activities in a <i>prudential context</i>. SYSC 18 applies to all <i>credit unions</i> without restriction.</p> <p><u>SYSC 5.2 applies to all credit unions in relation to the FCA's certification regime.</u></p>
Code of Conduct (COCON)	The purpose of COCON is to provide <i>rules and guidance to conduct rules staff</i> in relation to the conduct expected of them.
...	
Statements of Principle and Code of Practice for Approved Persons (APER)	<p><del>The purpose of the Statements of Principle contained in APER 2 is to provide guidance to approved persons in relation to the conduct expected of them in the performance of a controlled function. The Code of Practice for Approved Persons sets out descriptions of conduct which, in the opinion of the appropriate regulator, do not comply with a Statement of Principle and, in the case of Statement of Principle 3, conduct which tends to show compliance within that statement.</del>[deleted]</p>
The Fit and Proper test for Approved Persons (FIT)	<p><del>In summary, the</del> The purpose of FIT is to set out and describe the criteria that:</p> <p>(1) the <del>appropriate regulator</del> FCA will consider when assessing the fitness and propriety of a person in respect of whom an application is being made for approval to undertake a <i>controlled function</i> under the <del>approved persons</del> <i>approved persons</i> regime.</p> <p><u>(2) a relevant authorised person should consider when assessing the fitness and propriety of a person whom the firm is proposing to certify to perform an FCA specified significant-harm function.</u></p>



	The criteria are also relevant in assessing the continuing fitness and propriety of <del>persons</del> <u>persons</u> who have already been approved or certified to perform an <i>FCA specified significant-harm function</i> .
Supervision manual ( <i>SUP</i> )	<p>The following provisions of <i>SUP</i> are relevant to <i>credit unions</i>: <i>SUP 1A</i> (The <i>appropriate regulator's</i> approach to supervision), <i>SUP 2</i> (Information gathering by the <i>appropriate regulator</i> on its own initiative), <i>SUP 3.1</i> to <i>SUP 3.8</i> (Auditors), <i>SUP 5</i> (Skilled persons), <i>SUP 6</i> (Applications to vary or cancel Part 4A permission), <i>SUP 7</i> (Individual requirements), <i>SUP 8</i> (Waiver and modification of rules), <i>SUP 9</i> (Individual guidance), <del><i>SUP 10A</i> and <i>SUP 10B</i> (Approved persons)</del> <i>SUP 10C</i> (FCA Approved persons regime for relevant authorised persons) and the Senior Management Functions and Allocation of Responsibility Parts of the <i>PRA</i> Rulebook, <i>SUP 11</i> (Controllers and Close links), <i>SUP 15</i> (Notifications to the <i>appropriate regulator</i>) and <i>SUP 16</i> (Reporting Requirements).</p> <p><i>Credit unions</i> are reminded that they are subject to the requirements of the <i>Act</i> and <i>SUP 11</i> on <i>controllers</i> and <i>close links</i>, and are bound to notify the <i>appropriate regulator</i> of changes. It may be unlikely, in practice, that <i>credit unions</i> will develop such relationships. It is possible, however, that a <i>person</i> may acquire control of a <i>credit union</i> within the meaning of the <i>Act</i> by reason of holding the prescribed proportion of <i>deferred shares</i> in the <i>credit union</i>.</p> <p>In relation to <i>SUP 16</i>, <i>credit unions</i> are exempted from the requirement to submit annual reports of <i>controllers</i> and <i>close links</i>.</p>
...	
<u>The Fitness and Propriety Part of the <i>PRA</i> Rulebook</u>	<u>The purpose of the Fitness and Propriety Part of the <i>PRA</i> Rulebook is to ensure that all persons within the <i>PRA's</i> Senior Manager Regime and Certification Regime have the personal characteristics, the necessary level of competence, knowledge and experience and appropriate qualifications and training to enable the sound and prudent management of the <i>firm</i>. <i>Firms</i> must have regard to these factors when assessing an individual's fitness and propriety to perform a Senior Management Function or a Certification Function, and the <i>PRA</i> may take them into account when assessing a Senior Manager's fitness and propriety.</u>
<u>Senior Management Functions Part of the <i>PRA</i> Rulebook</u>	<u>Senior Management Functions 1, 2, 6 and 8 apply to a <i>credit union</i>.</u>
<u>The Allocation of Responsibilities Part of the <i>PRA</i> Rulebook</u>	<u>Allocation of Responsibilities 1-3, 5, 7 and 8 apply to a <i>credit union</i></u>
<u>The Conduct Rules Part of the <i>PRA</i> Rulebook</u>	<u>The Conduct Rules apply to every function a <i>person</i> performs in relation to a <i>credit union</i> as set out in 1.1(2). The scope of the Conduct Rules applicable to such a <i>person</i> will depend on whether they are performing a Certification Function (where only Individual Conduct Rules will apply) or a <i>PRA senior management function</i> (where the Individual and Senior Manager Conduct Rules will</u>

	<u>apply). The Conduct Rules: Notifications Part applies to all <i>credit unions</i>.</u>
<u>The Certification Part of the PRA Rulebook</u>	<u>The Certification Part of the PRA Rulebook applies to any employee of a <i>credit union</i> (including the definition in section 63E(9) FSMA) who is a significant risk taker as defined by 1.3 of that Part.</u>
<u>The Notifications Part of the PRA Rulebook</u>	<u>The Notifications Part of the PRA Rulebook applies to credit unions; in the context of senior managers and certification employees, a <i>credit union</i> is required to notify to the PRA actual or suspected breaches of the Conduct Rules and of disciplinary action taken by a <i>credit union</i> in respect of such a breach.</u>

## Appendix 9

### INDIVIDUAL ACCOUNTABILITY (SWISS GENERAL INSURERS) INSTRUMENT 2016

#### Powers exercised

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):

- (1) section 59 (Approval for particular arrangements);
- (2) section 60 (Applications for approval);
- (3) section 61 (Determination of applications);
- (4) section 64A (Rules of conduct);
- (5) section 69 (Statement of policy);
- (6) section 137A (The FCA’s general rules);
- (7) section 137T (General supplementary powers);
- (8) section 139A (Power of the FCA to give guidance); and
- (9) articles 2, 5, 6, 7, 8, 13, 17, 19 and 20 of the Financial Services (Banking Reform) Act 2013 (Transitional and Savings Provisions) Order (SI 2015/492).

B. The rule-making powers listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

#### Commencement

C. This instrument comes into force as follows:

Annex	Date comes into force
Part 1 of Annex C	[ ] January 2016
The remainder of this instrument	7 March 2016

#### Amendments to the Handbook

D. The modules of the FCA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below:

(1)	(2)
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex A
Code of Conduct sourcebook (COCON)	Annex B
Supervision manual (SUP)	Annex C

**Citation**

- E. This instrument may be cited as the Individual Accountability (Swiss General Insurers) Instrument 2016.

By order of the Board

[ ] January 2016

## Annex A

### Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

In this Annex, underlining indicates new text.

#### 2.1 Apportionment of Responsibilities

...

- 2.1.3C R Swiss general insurers must read references to the PRA Rulebook for ‘Solvency II firms’ as if they were references to the corresponding PRA Rulebook provisions for large non-directive insurers<sup>1</sup>.
- 2.1.3D G The PRA includes Swiss general insurers in the large non-directive insurers sector of the PRA Rulebook.

---

<sup>1</sup> See CP 15/25 where this definition is proposed.

## Annex B

### Amendments to the Code of Conduct sourcebook (COCON)

In this Annex, underlining indicates new text.

#### 1.1 *Application*

...

##### ***To whom does it apply?***

1.1.2 R (1) COCON applies to:

...

- (g) an FCA-approved person or PRA-approved person approved to perform a *controlled function* in a Solvency II firm. For Swiss general insurers, references to parts of the PRA Rulebook for Solvency II firms are to be read as references to the corresponding parts of the PRA Rulebook applying to large non directive insurers.

## Annex C

### Amendments to the Supervision Manual

In this Annex, underlining indicates new text.

#### Part 1: Comes into force on [ ] January 2016

SUP TP 7 Financial Services (Banking Reform) Act 2013: Approved persons in Solvency II firms

Purpose of SUP TP 7

7.1.1 G ... The Financial Services (Banking Reform) Act 2013 Transitional and Savings Provisions Order 2015 (as amended):

...<sup>1</sup>

(6) applies to Swiss general insurers. Swiss general insurers are in the large non-directive insurers sector of the PRA Rulebook and the PRA applies to them, in relation to their controlled functions, provisions equivalent to those applying to third country branches in the Solvency II firms sector of the PRA Rulebook. The FCA also treats them as third country undertakings of Solvency II firms and so they must follow the requirements set out in SUP TP 7 accordingly.

...

7.2.5A<sup>2</sup> R Swiss general insurers must read references to the ‘Solvency II firms’ part of the PRA Rulebook as if they were references to the corresponding part of the PRA Rulebook applicable to large non-directive insurers.

...

7.3.3 D ...<sup>3</sup>

(7) Swiss general insurers must follow the directions for notification set out in SUP TP 8.3.3D instead of SUP 7.3.3D, as if SUP TP 8.3.3D applied to Swiss general insurers.

...

7.7.1 D Form K: Grandfathering notification  
Solvency II firms (not including Swiss general insurers):

---

<sup>1</sup> Note that 7.1.1G(5) was proposed in CP 15/25

<sup>2</sup> Note that 7.2.5R was proposed in CP 15/25

<sup>3</sup> Note that 7.3.3D(6) was proposed in CP 15/25

Large non-directive insurers and Swiss general insurers:

**Part 2: comes into force on 7 March 2016**

**10A FCA Approved Persons**

...

**10A.4 Specification of functions**

...

10A.4.2 R ... Part 2 applies in relation to a *PRA-authorised person*. For Swiss general insurers, references to parts of the PRA Rulebook for Solvency II firms are to be read as references to the corresponding parts of the PRA Rulebook applying to large non directive insurers.

10A.4.2A G Swiss general insurers are in the large non-directive insurers sector of the PRA Rulebook and the PRA applies to them, in relation to their controlled functions, provisions equivalent to those applying to third country branches in the Solvency II firms sector of the PRA Rulebook. The FCA also treats them as third country undertakings of Solvency II firms and so they must follow the requirements set out in SUP 10A accordingly.

...



## Appendix 10



**BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY**

### **Form M: Notification of non SMF/SIMF Appointment**

#### **Notification of the appointment of a Non-Executive Director or Key Function Holder**

*PRA Rulebook Reference: Fitness and Propriety (CRR Firms) 4.2 and Fitness and Propriety (SII Firms) 4.1*

The PRA have produced notes which will assist both the notifying *firm* and the appointee in answering the questions in this form. Please read these notes, which are available on the *PRA* website at

**<http://www.bankofengland.co.uk/PRA>**

Both the notifying *firm* and the appointee will be treated by the *PRA* as having taken these notes into consideration when completing this form.

Name of appointee

Name of *firm*(s)

*Firm* reference number(s)

Prudential Regulation Authority

20 Moorgate

London

EC2R 6DA

United Kingdom

Telephone +44 (0) 203 461 7000

E-mail [PRA.firmenquiries@bankofengland.co.uk](mailto:PRA.firmenquiries@bankofengland.co.uk)

Website [www.bankofengland.co.uk/PRA](http://www.bankofengland.co.uk/PRA)

Registered as a Limited Company in England and Wales No 07854923. Registered Office: 8 Lothbury Road, London, EC2R 7HH

## Contact information

**1.01 a** Who should the *PRA* contact at the *firm* in relation to this notification?

**b** Position

**c** Telephone

**d** Fax

**e** E-mail

**Details of the person subject to notification**

- 2.01 a** Appointee Individual Reference Number (IRN) – If applicable
- b** OR name of previous regulatory body – if applicable
- c** AND previous reference number - if applicable
- 2.02** Title  
(e.g. Mr, Mrs, Ms, etc)
- 2.03** Surname
- 2.04** ALL forenames
- 2.05** Commonly known as
- 2.06** Date of birth  
(dd/mm/yyyy) //
- 2.07** Previous name
- 2.08** Date of name change //
- 2.09** Reason for change
- 2.10** Nationality

**2.11** National Insurance Number (or passport number)

**2.12** Place of birth

**2.13** Private (Home) address

**Postcode**



**I have supplied further information related to this section**

**YES**

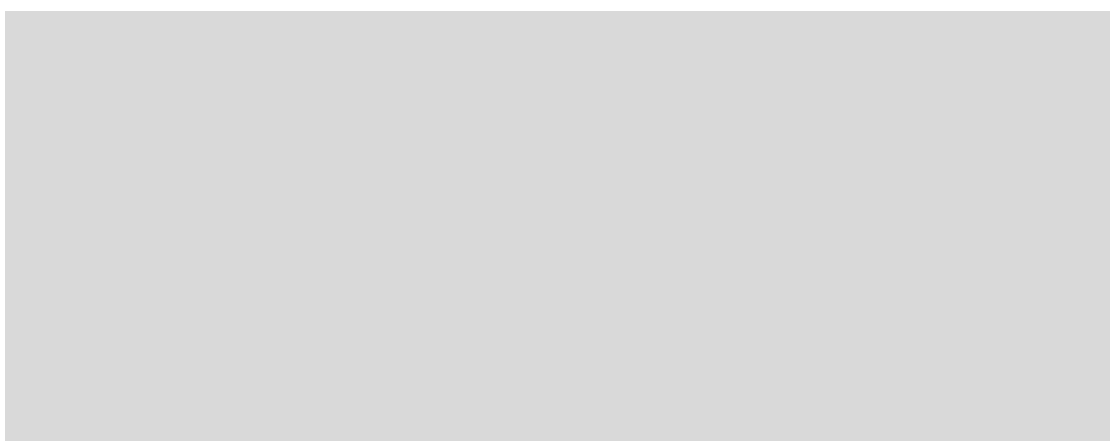
**NO**

## Description of the position being notified

**3.01** Name of the position and/or name of key function(s) for which the individual will be responsible



**3.02** Please note the key responsibilities of the role:



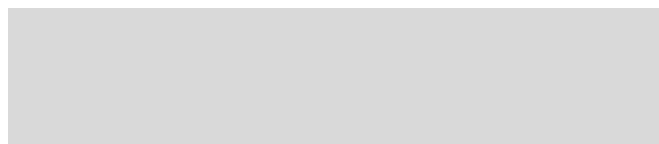
**3.03** Date of appointment



**3.04** If applicable, length of appointment



**3.05** Name of firm(s) and/or group for which the role will be exercised <sup>1</sup>



**3.06** FRN(s) (if applicable)



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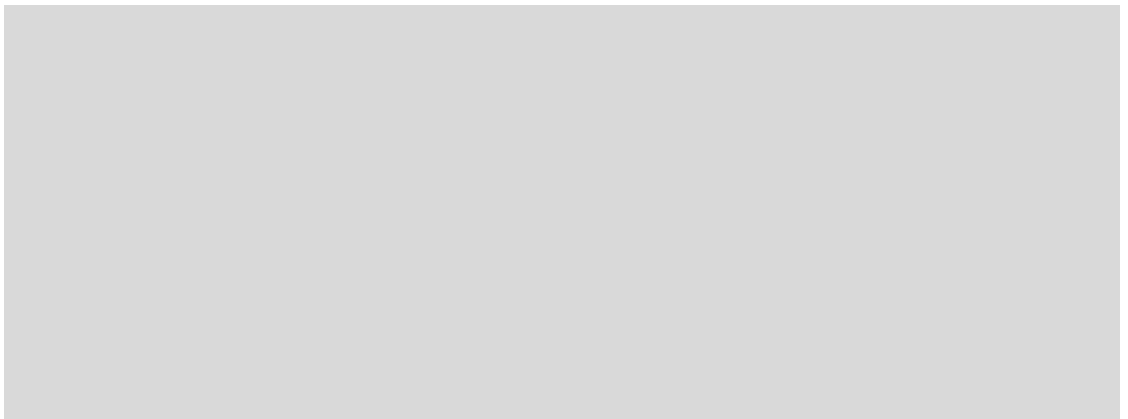
<sup>1</sup> If more space is required please detail on a separate sheet and attach with Supplementary Information

- 3.07** Please note how many other appointments the individual currently holds (Executive & Non-Executive) and how the *firm* considers that the appointee has sufficient time and resources to dedicate to the role:



**The following question is applicable to Non-Executive Directors only**

- 3.08** Please note how the *firm* considers that the appointment complements the composition of the Board, and ensures the appropriate levels of skills and experience:



**The following questions are applicable to Solvency II Key Function Holders only**

**3.09** Is the individual deemed to be in a position where they are effectively running the firm or group?

**3.10** Is the individual currently approved for a PRA or FCA Controlled Function at that firm or any other firm within that group? If so, please name that firm, and also name the relevant Controlled Function

**3.11** Is the individual applying on a separate form to perform a PRA or FCA Controlled Function at the same firm or any other firm within that group?



**I have supplied further information related to this section**

**YES**

**NO**



## Fitness and propriety

This section should be completed in reference to the guidance notes corresponding with this form.

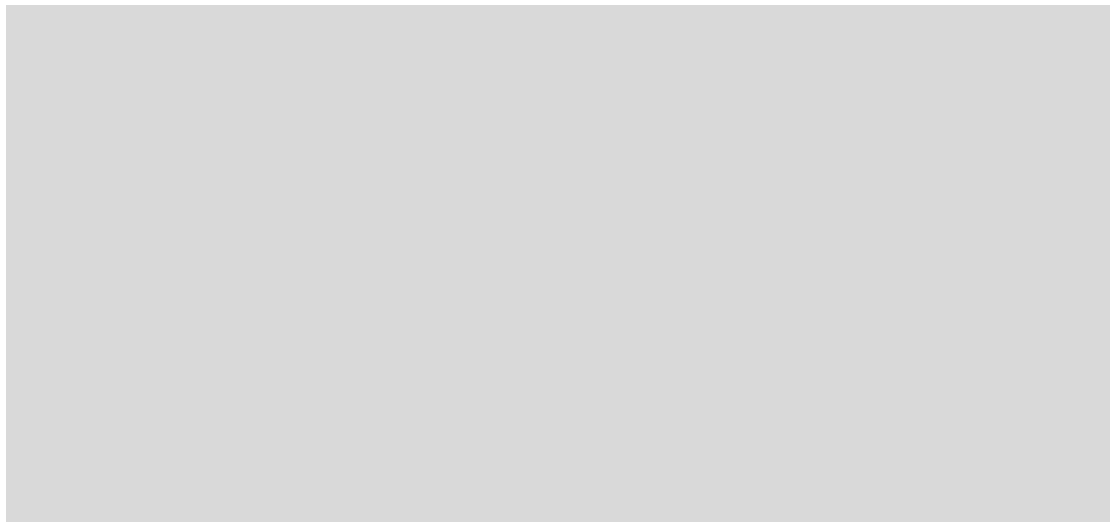
### Disclosure Note:

~~We require firms to disclose all relevant information relating to an appointee's fitness and propriety. If there is any doubt about the relevance of the information, the information should be disclosed. The PRA takes non-disclosure very seriously and may consider it to be evidence of dishonesty and/or lack of integrity. In all circumstances, disclosures should be full, frank and unambiguous; if in doubt, disclose. In the event that an appointee discloses adverse information to notifying firm (or the notifying firm knows of adverse information by some other means) the notifying firm has a duty to disclose that information candidly to the PRA and explain why the notifying firm considers this does not affect the appointee's fitness and propriety (this paragraph should be read in conjunction with the information on disclosure in the guidance notes corresponding to this form).~~

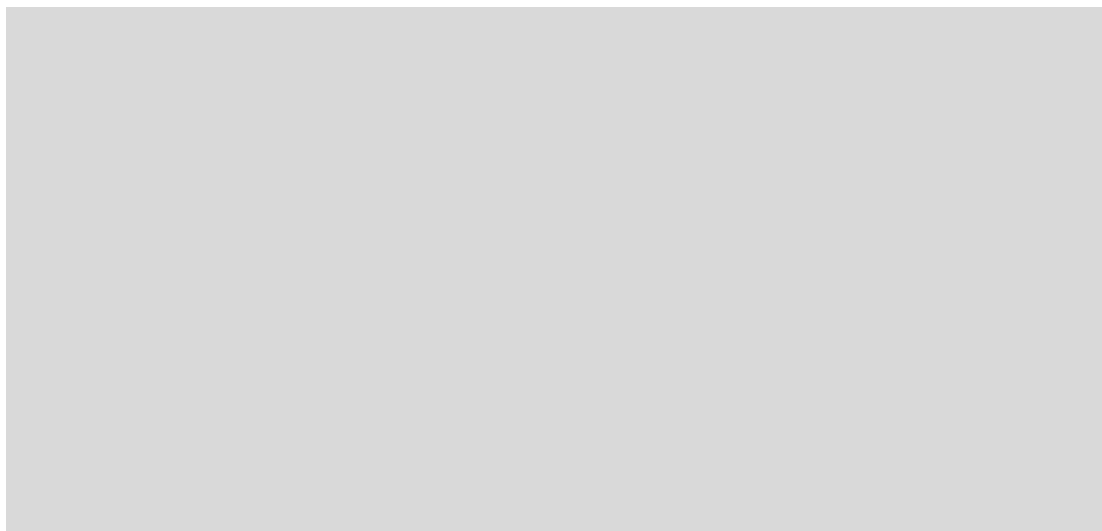
**4.01 Criminal Proceedings** – ~~Has the appointee **ever** been convicted of any criminal offence (whether spent or not), been given a caution, been subject to Criminal proceedings or been asked to produce documents pursuant to a criminal investigation (whether or not in the United Kingdom)?~~

Has the appointee **ever** been convicted of any criminal offence (excluding traffic offences that did not result in a ban from driving or did not involve driving without insurance)? Is the appointee **currently** the subject of any criminal proceedings? Has the appointee been ordered to produce documents pursuant to any **current** criminal investigation?

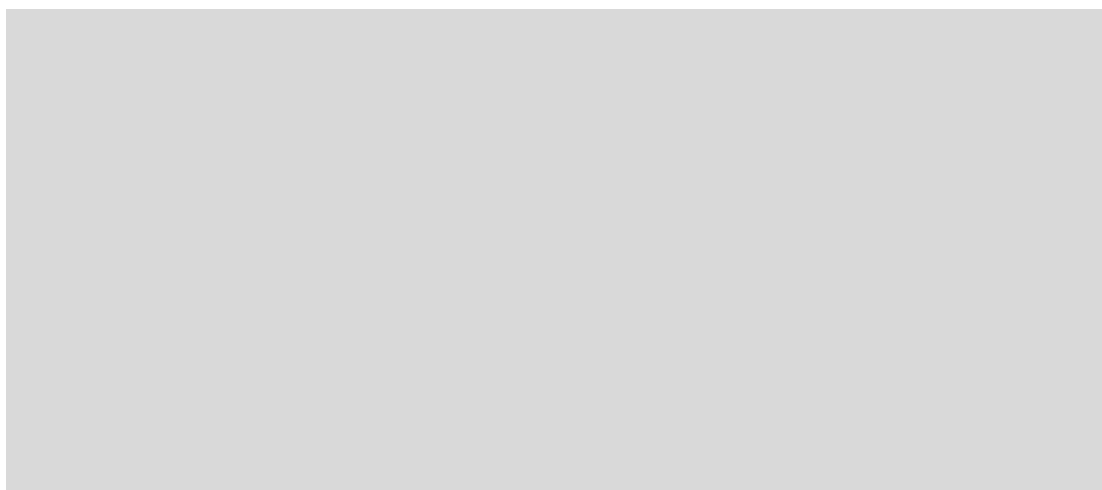
When answering the questions in this section, the appointee should include matters whether in the UK or overseas. By virtue of the Rehabilitation of Offenders Act 1974 (Exceptions) Order 1975, the appointee is not required to disclose spent convictions and cautions.



**4.02 Civil Proceedings** – Is the appointee currently subject or has **ever** been the subject of a judgement debt or award against the appointee or been party to civil proceeding which resulted in an order against the appointee? Does the appointee have any current judgement debts outstanding or have they ever failed to satisfy any such judgement debts. Has the appointee ever filed for or had a petition served for bankruptcy, been adjudged bankrupt, been subject of a bankruptcy restrictions order or made any arrangements with creditors?



**4.03 Conflicts of Interest** – Does the appointee have any potential conflicts of Interest such as other appointments, Close relatives with financial relations to companies subject to this notification, qualifying ownership or any other form of substantial influence in the firm?

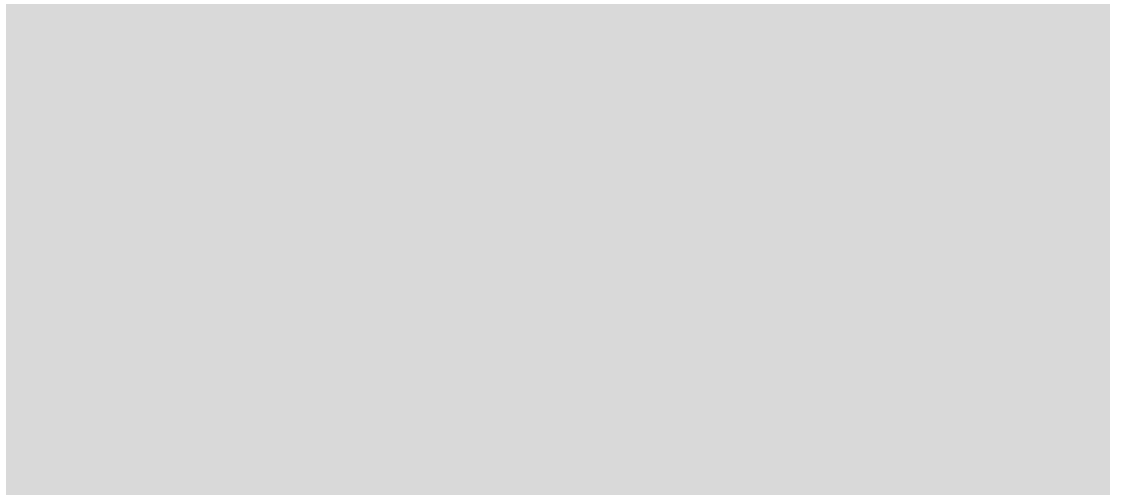


**4.04 Business and Employment Matters** – Has the appointee ever been dismissed from a position in a financial institution, company or from employment as a senior executive or subject to termination of an engagement as a board member or auditor in another firm?



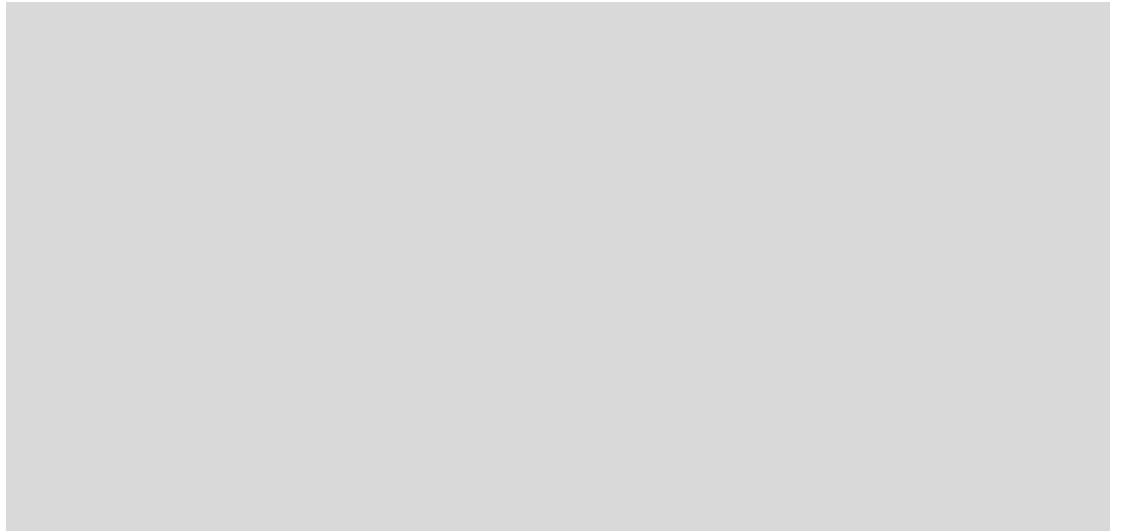
4.05

**Regulatory Matters** – In relation to activities regulated by the FCA and/or PRA or any other regulatory body. Has the appointee been subject of an investigation, been subject to the rejection of an application, exclusion or limitation in any other way in terms of the right to conduct operations, been the subject of supervisory sanctions, or been the subject of a notification of breach of conduct rules?



4.06

**Other Matters** - Are the appointee or the *firm* aware of any other information relevant to this notification that we might reasonably expect to receive?



**➔ I have supplied further information related to this section** YES  NO

## Supplementary Information

5.01 Please confirm that the *Firm* has provided the below documentation, in support of this notification:

5.01.1	the appointee's full CV including relevant employment history;	YES <input type="checkbox"/>	NO <input type="checkbox"/>
5.01.2	its assessment of whether the <i>appointee</i> has the personal characteristics required to perform the role effectively;	YES <input type="checkbox"/>	NO <input type="checkbox"/>
5.01.3	its assessment of whether the <i>appointee</i> possesses the level of competence, knowledge and experience required to perform the role effectively;	YES <input type="checkbox"/>	NO <input type="checkbox"/>
5.01.4	its assessment of whether the appointee has the qualifications required to perform the role effectively; and	YES <input type="checkbox"/>	NO <input type="checkbox"/>
5.01.5	its assessment of whether the appointee has undergone or is undergoing all training required to perform the role effectively.	YES <input type="checkbox"/>	NO <input type="checkbox"/>
5.01.6	<p><u>Has / Have a reference or references been obtained from current and previous employer(s) in accordance with the requirements of the PRA.</u></p> <p><u>If No, please provide details why the reference or references has/have not been obtained.</u></p> <p><u>Please note that a firm is required to take reasonable steps to obtain appropriate references from any current or previous employer of the appointee, or at any organisation at which the appointee is or was a non-executive director during the last 6 years (see Insurance-Fitness and Propriety 2.5, and Fitness and Propriety 2.7 in the PRA Rulebook).</u></p>	YES <input type="checkbox"/>	NO <input type="checkbox"/>

**5.02** Is the firm submitting any other information relevant to this notification?

YES

NO

**5.03** Please confirm total number of additional sheets being submitted

## Declarations and signatures

### Declaration of Firm

Knowingly or recklessly giving the *PRA* information which is false or misleading in a material particular may be a criminal offence (sections 398 and 400 of the Financial Services and Markets Act 2000). Rule 6 of the Notifications Part of the PRA CRR Rulebook require an *authorised person* to take reasonable steps to ensure the accuracy and completeness of information given to the *PRA* and to notify the *PRA* immediately if materially inaccurate information has been provided.

Fitness and Propriety 3.1(d) in the PRA CRR Rulebook and Insurance – Conduct Standards 2.2 in the PRA Solvency II Rulebook provide that a firm must require any key function holder or non-executive director to disclose appropriately any information of which the *PRA* would reasonably require notice. Contravention of these requirements may lead to disciplinary sanctions or other enforcement action against the *firm* by the *PRA*.

In addition, appointees should be reminded that a failure by the appointee to disclose relevant information either to the firm or to the *PRA* could be regarded as evidence that they were not fit and proper. It should not be assumed that information is known to the *PRA* merely because it is in the public domain or has previously been disclosed to the *PRA* or another regulatory body. If there is any doubt about the relevance of information, it should be included.

**In making this notification the *firm* believes on the basis of due and diligent enquiry that the appointee is a fit and proper person to perform the role. The firm also believes, on the basis of due and diligent enquiry, that the appointee is competent to fulfil the duties required in the performance of such function(s).**

**In signing this form on behalf of the firm I confirm that the information in this Form is accurate and complete to the best of my knowledge and belief and that I have read the notes to this Form.**

**(<http://fshandbook.info/FS/html/PRA/>)**

**(<http://www.bankofengland.co.uk/PRA/>)**

**6.01** Name of *person* signing on behalf of the *firm*

**6.02** Job title

**6.03** Signature

Date / /

## Declaration of Appointee

The appointee confirms that the information provided in this notification is accurate and complete to the best of his/her knowledge and that he or she has read the notes to this form. The *appointee* will notify the *PRA* immediately if there is a material change to the information provided.

The appointee confirms that the key responsibilities set out in Section 3.02 accurately reflect the aspects of the affairs of the firm which it is intended that the *appointee* will be responsible for managing. The *appointee* confirms that they have accepted all these responsibilities.

The appointee authorises the *PRA* to make such enquiries and seek such further information as it thinks appropriate to identify and verify information that it considers relevant to the assessment of this notification.

The appointee acknowledges and agrees that these checks may include credit reference checks or information pertaining to fitness and propriety, and is aware that the results of these enquiries may be disclosed to the employer.

The appointee agrees that he or she may be required to apply for a search to be made as to whether any criminal records are held in relation to him or her and to obtain a certificate (where such certificate can be obtained) and to disclose the result of that search to the firm submitting this application.

The appointee agrees that the *PRA* may use the address specified for the *appointee* in this Form as the proper address for service in the United Kingdom as defined in Financial Services and Markets Act 2000 (Service of Notice) Regulations (SI 2001/1420) to serve any notices on that signatory.

For the purposes of complying with the Data Protection Act 1998, the personal information provided in this Form will be used by the *PRA* to discharge its statutory functions under the Financial Services and Markets Act 2000 and other relevant legislation, and will not be disclosed for any other purpose without the permission of the appointeefirm.

The appointee confirms that he or she understands the regulatory responsibilities of the proposed role as set out in the *PRA* Insurance - Conduct Standards Instrument.



The appointee is aware that, while advice may be sought from a third party (e.g. legal advice), responsibility for the accuracy of information, as well as the disclosure of relevant information, on the Form is ultimately the responsibility of those who sign the notification.

<b>6.04</b>	Name	<input type="text"/>
<b>6.05</b>	Signature of appointee	<input type="text"/>
	Date	<input type="text" value="/ /"/>

## Appendix 11

### **PRA RULEBOOK: CRR FIRMS, NON-CRR FIRMS: DEFINITION OF CREDIT UNION INSTRUMENT [YEAR]**

#### **Powers exercised**

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (The PRA’s general rules);
  - (2) section 137T (General supplementary powers);
  - (3) section 213 (The Compensation scheme); and
  - (4) section 214 (General).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

### **PRA RULEBOOK: CRR FIRMS, NON-CRR FIRMS: DEFINITION OF CREDIT UNION INSTRUMENT [YEAR]**

- C. The PRA makes the rules in Annexes A and B to this instrument.

#### **Commencement**

- D. This instrument comes into force on [DATE].

#### **Citation**

- E. This instrument may be cited as the PRA Rulebook: CRR FIRMS, NON-CRR FIRMS: Definition Of Credit Union Instrument [Year]

#### **By order of the Board of the Prudential Regulation Authority**

[DATE]

## Annex A

### Amendments to the Glossary

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

...

*credit union*

~~has the meaning given in section 31 of~~ means a credit union as defined by:

(1) the Credit Unions Act 1979; or

(2) the Credit Unions (Northern Ireland) Order 1985

which is an *authorised person*.

...

## Annex B

### Amendments to the Depositor Protection Part

In this Annex, new text is underlined.

#### 1 APPLICATION AND DEFINITIONS

...

1.4 Unless otherwise stated, in this Part, the following definitions shall apply:

...

credit union

has the meaning given in section 31 of the Credit Unions Act 1979.