

**PRA RULEBOOK: CRR FIRMS, SOLVENCY II FIRMS: OPERATIONAL RESILIENCE
INSTRUMENT 2021**

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: CRR Firms, Solvency II Firms: Operational Resilience Instrument 2021

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

Part	Annex
Operational Resilience – CRR Firms	A
Operational Resilience – Solvency II Firms	B
Group Supervision	C

Commencement

- E. This instrument comes into force on 31 March 2022.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms, Solvency II Firms: Operational Resilience Instrument 2021.

By order of the Prudential Regulation Committee

24 March 2021

Annex A

In this Annex, the text is all new and is not underlined.

Part

OPERATIONAL RESILIENCE – CRR FIRMS

Chapter content

1. APPLICATION AND DEFINITIONS
2. OPERATIONAL RESILIENCE REQUIREMENTS
3. STRATEGIES, PROCESSES AND SYSTEMS
4. MAPPING
5. SCENARIO TESTING
6. SELF-ASSESSMENT
7. GOVERNANCE
8. GROUP ARRANGEMENTS

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part, the following definitions shall apply:

Capital Buffers Regulations

means the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014 (SI 2014/894).

external group end user

means a person who receives services and who is not a member of the *firm's consolidation group* on the basis of the *consolidated situation* of the *firm's UK parent undertaking*.

impact tolerance

means the maximum tolerable level of disruption to an *important business service* or an *important group business service* as measured by a length of time in addition to any other relevant metrics.

important business service

means a service provided by a *firm*, or by another *person* on behalf of the *firm*, to another *person* which, if disrupted, could pose a risk to:

- (1) where the *firm* is an *O-SII*, the stability of the *UK* financial system; or
- (2) the *firm's* safety and soundness.

important group business service

means a service provided by a member of the *firm's consolidation group* (other than the *firm*) on the basis of the *consolidated situation* of the *UK parent undertaking* of that *consolidation group*, to an *external group end user* which, if disrupted, could pose a risk to:

- (1) where the *firm* is an *O-SII*, the stability of the *UK* financial system; or
- (2) the *firm's* safety and soundness.

O-SII

means a *person* or group identified by the *PRA* in accordance with Part 5 of the *Capital Buffers Regulations*.

1.3 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 OPERATIONAL RESILIENCE REQUIREMENTS

2.1 A *firm* must identify its *important business services* and, where 8.2 applies, its *important group business services*.

2.2 A *firm* must set an *impact tolerance* for each of:

- (1) its *important business services*; and
- (2) where 8.2 applies, its *important group business services*.

2.3 The *impact tolerance* set for each *important business service* or *important group business service* must specify the first point at which a disruption to the *important business service* or *important group business service* would pose a risk to:

- (1) where the *firm* is an *O-SII*, the stability of the *UK* financial system; or
 - (2) the *firm's* safety and soundness.
- 2.4 The *impact tolerance* set for each *important business service* or *important group business service* must specify the length of or point in time, in addition to any other relevant metrics, for which a disruption to that *important business service* or *important group business service* can be tolerated.
- 2.5 A *firm* must ensure it can remain within its *impact tolerance* for each *important business service* in the event of a severe but plausible disruption to its operations.
- 2.6 A *firm* must comply with 2.5 within a reasonable time of the rule coming into effect and in any event by no later than 31 March 2025.

3 STRATEGIES, PROCESSES AND SYSTEMS

- 3.1 A *firm* must have in place sound, effective and comprehensive strategies, processes and systems that enable it adequately to:
- (1) identify its important business services and, where 8.2 applies, important group business services;
 - (2) set an impact tolerance for each important business service and, where 8.2 applies, each important group business service; and
 - (3) identify and address any risks to its ability to comply with the obligation under 2.5.
- 3.2 The strategies, processes and systems required by 3.1 must be proportionate to the nature, scale and complexity of the *firm's* activities.

4 MAPPING

- 4.1 As part of its obligation under 3.1, a *firm* must identify and document the necessary people, processes, technology, facilities and information required to deliver each of its *important business services*.

5 SCENARIO TESTING

- 5.1 As part of its obligation under 3.1, a *firm* must carry out regular scenario testing of its ability to remain within its *impact tolerance* for each of its *important business services* in the event of a severe but plausible disruption of its operations.
- 5.2 In carrying out the scenario testing required by 5.1, a *firm* must identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to its business and risk profile and consider the risks to delivery of the *firm's important business services* in those circumstances.
- 5.3 The scenario testing required by 5.1 must be proportionate to the nature, scale and complexity of the *firm's* activities.

6 SELF-ASSESSMENT

- 6.1 A *firm* must prepare and regularly update a written self-assessment of its compliance with this Part.
- 6.2 The content and level of detail of a *firm's* written self-assessment must be proportionate to the nature, scale and complexity of the *firm's* activities, and where applicable to the activities of the *consolidation group* of which the *firm* is a member.

- 6.3 A *firm* must maintain, and be able to provide to the *PRA* on request, a current version of its written self-assessment, together with all versions produced during the preceding three years.

7 GOVERNANCE

- 7.1 A *firm* must ensure that its *management body* approves the *important business services* and *important group business services* identified by the *firm* in compliance with 2.1 and 8.2.
- 7.2 A *firm* must ensure that its *management body* approves the *impact tolerances* set by the *firm* in compliance with 2.2 and 8.2.
- 7.3 A *firm* must ensure that its *management body* approves and regularly reviews the self-assessment required by 6.1.

8 GROUP ARRANGEMENTS

- 8.1 Where a *firm* is a member of a *group*, the *firm* must ensure it accounts for any additional risks arising elsewhere in the *group* that may affect the *firm's* ability to comply with the obligation under 2.5.
- 8.2 Where a *firm* is a member of a *consolidation group*, the *firm* must also comply with 2.1 and 2.2 in relation to its *important group business services*, on the basis of the *consolidated situation* of the *UK parent undertaking of the consolidation group*.
- 8.3 With the exception of 3.1(3), where a *firm* is a member of a *consolidation group*, the *firm* must ensure that the strategies, processes and systems at the level of the *consolidation group* of which it is a member comply with the obligations set out in 3 on the basis of the *consolidated situation* of the *UK parent undertaking of the consolidation group*.
- 8.4 Where a *firm* is a member of a *consolidation group*, the *firm* must ensure that the strategies, processes and systems at the level of its *consolidation group* enable the *firm* to assess on the basis of the *consolidated situation* of the *UK parent undertaking of the consolidation group* whether the member of that *consolidation group* providing each *important group business service* could remain within the *impact tolerance* in the event of a severe but plausible disruption to its operations.
- 8.5 The strategies, processes and systems required by this Chapter must be proportionate to the nature, scale and complexity of the *consolidation group's* activities.

Annex B

In this Annex, the text is all new and is not underlined.

Part

OPERATIONAL RESILIENCE – SOLVENCY II FIRMS

Chapter content

1. APPLICATION AND DEFINITIONS
2. OPERATIONAL RESILIENCE REQUIREMENTS
3. STRATEGIES, PROCESSES AND SYSTEMS
4. MAPPING
5. SCENARIO TESTING
6. SELF-ASSESSMENT
7. GOVERNANCE
8. GROUP ARRANGEMENTS
9. LLOYDS

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *UK Solvency II firm*;
- (2) in accordance with Insurance General Application 3, the *Society*, as modified by 9; and
- (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 9.

1.2 In this Part, the following definitions shall apply:

external group end user

means a person who receives services and who is outside of the *group* of which the *firm* is a member.

impact tolerance

means the maximum tolerable level of disruption to an *important business service* or an *important group business service* as measured by a length of time in addition to any other relevant metrics.

important business service

means a service provided by a *firm*, or by another *person* on behalf of the *firm*, to another *person* which, if disrupted, could pose a risk to:

- (1) where the *firm* is a *relevant Solvency II firm*, the stability of the *UK* financial system;
- (2) the *firm's* safety and soundness; or
- (3) an appropriate degree of protection for those who are or may become the *firm's* *policyholders*.

important group business service

means a service provided by a member of a *group* (other than the *firm*) to an *external group end user* which, if disrupted, could pose a risk to:

- (1) where a *relevant Solvency II firm* is a member of the *group*, the stability of the *UK* financial system;
- (2) the *firm's* safety and soundness; or
- (3) an appropriate degree of protection for those who are or may become the *firm's* *policyholders*.

relevant Solvency II firm

means a *firm* which fulfils any of the following conditions:

- (1) the *firm's* annual gross written premium income exceeds £15 billion; or
- (2) the total of the *firm's* *technical provisions*, gross of the amounts recoverable from *reinsurance contracts* and *UK ISPVs*, as referred to in Technical Provisions 2.1 to 2.3, exceeds £75 billion,

determined on the basis of the average annual amount assessed across a rolling period of three years, calculated by reference to the *firm's* *accounting reference date*; and where the *firm* has been in existence for less than three years, the assessment will be made on the basis of the annual average amount for the period during which the *firm* has existed (calculated by reference to the *firm's* *accounting reference date*).

2 OPERATIONAL RESILIENCE REQUIREMENTS

- 2.1 A *firm* must identify its *important business services* and, where Group Supervision 22.2 applies, its *important group business services*.
- 2.2 A *firm* must set an *impact tolerance* for each of:
- (1) its *important business services*; and
 - (2) (where Group Supervision 22.2 applies) its *important group business services*.
- 2.3 The *impact tolerance* set for each *important business service* or *important group business service* must specify the first point at which a disruption to the *important business service* or *important group business service* would pose a risk to:
- (1) where the *firm* is a *relevant Solvency II firm*, the stability of the *UK* financial system;
 - (2) the *firm's* safety and soundness; or
 - (3) an appropriate degree of protection for those who are or may become the *firm's* *policyholders*.
- 2.4 The *impact tolerance* set for each *important business service* or *important group business services* must specify the length of or point in time, in addition to any other relevant metrics, for which a disruption to that *important business service* or *important group business service* can be tolerated.
- 2.5 A *firm* must ensure it can remain within its *impact tolerance* for each *important business service* in the event of a severe but plausible disruption to its operations.
- 2.6 A *firm* must comply with 2.5 within a reasonable time of the rule coming into effect and in any event by no later than 31 March 2025.

3 STRATEGIES, PROCESSES AND SYSTEMS

- 3.1 A *firm* must have in place sound, effective and comprehensive strategies, processes and systems that enable it adequately to:
- (1) identify its *important business services* and, where Group Supervision 22.2 applies, its *important group business services*;
 - (2) set an *impact tolerance* for each *important business service* and, where Group Supervision 22.2 applies, each *important group business service*; and
 - (3) identify and address any risks to its ability to comply with the obligation in 2.5.
- 3.2 The strategies, processes and systems required by 3.1 must be proportionate to the nature, scale and complexity of the *firm's* activities.

4 MAPPING

- 4.1 As part of its obligation under 3.1, a *firm* must identify and document the necessary people, processes, technology, facilities and information required to deliver each of its *important business services*.

5 SCENARIO TESTING

- 5.1 As part of its obligation under 3.1, a *firm* must carry out regular scenario testing of its ability to remain within its *impact tolerance* for each of its *important business services* in the event of a severe but plausible disruption of its operations.
- 5.2 In carrying out the scenario testing required by 5.1, a *firm* must identify an appropriate range of adverse circumstances of varying nature, severity and duration relevant to its business and risk profile and consider the risks to delivery of the *firm's important business services* in those circumstances.
- 5.3 The scenario testing required by 5.1 must be proportionate to the nature, scale and complexity of the *firm's* activities.

6 SELF-ASSESSMENT

- 6.1 A *firm* must prepare and regularly update a written self-assessment of its compliance with this Part and Group Supervision 22.
- 6.2 The content and level of detail of a *firm's* written self-assessment must be proportionate to the nature, scale and complexity of the *firm's* activities and, where applicable, to the activities of the *group* of which the *firm* is a member.
- 6.3 A *firm* must maintain, and be able to provide to the *PRA* on request, a current version of its written self-assessment, together with all versions produced during the preceding three years.

7 GOVERNANCE

- 7.1 A *firm* must ensure that its *management body* approves the *important business services* and *important group business services* identified by the *firm* in compliance with 2.1 and Group Supervision 22.3.
- 7.2 A *firm* must ensure that its *management body* approves the *impact tolerances* set by the *firm* in compliance with 2.2 and Group Supervision 22.3.
- 7.3 A *firm* must ensure that its *management body* approves and regularly reviews the self-assessment required by 6.1.

8 GROUP ARRANGMENTS

- 8.1 Where a *firm* is a member of a *group*, the *firm* must ensure it accounts for any additional risks arising elsewhere in the *group* that may affect the *firm's* ability to comply with 2.5.

9 LLOYDS

- 9.1 This Part applies to the *Society* and *managing agents* separately.

Annex C

Amendments to the Group Supervision Part

In this Annex new text is underlined.

Part

GROUP SUPERVISION

Chapter content

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22. GROUP OPERATIONAL RESILIENCE

1 APPLICATION AND DEFINITIONS

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1.2 In this Part, the following definitions shall apply:

...

external group end user

means a person who receives services and who is outside of the *group* of which the *firm* is a member.

...

impact tolerance

means the maximum tolerable level of disruption to an *important business service* or an *important group business service* as measured by a length of time in addition to any other relevant metrics.

important business service

means a service provided by a *firm*, or by another *person* on behalf of the *firm*, to another *person* which, if disrupted, could pose a risk to:

- (1) where the *firm* is a *relevant Solvency II firm*, the stability of the *UK* financial system;
- or
- (2) the *firm's* safety and soundness.

important group business service

means a service provided by a member of a *group* (other than the *firm*) to an *external group end user* which, if disrupted, could pose a risk to:

- (1) where a *relevant Solvency II firm* is a member of the *group*, the stability of the *UK* financial system;
- (2) the *firm's* safety and soundness; or
- (3) an appropriate degree of protection for those who are or may become the *firm's* *policyholders*.

...

relevant Solvency II firm

means a *firm* which fulfils any of the following conditions:

- (1) the *firm's* annual gross written premium income exceeds £15 billion; or
- (2) the total of the *firm's* *technical provisions*, gross of the amounts recoverable from *reinsurance contracts* and *UK ISPVs*, as referred to in Technical Provisions 2.1 to 2.3, exceeds £75 billion,

determined on the basis of the average annual amount assessed across a rolling period of three years, assessed by reference to the *firm's* *accounting reference date*; and where the *firm* has been in existence for less than three years, the assessment will be made on the basis of the annual average amount for the period during which the *firm* has existed (calculated by reference to the *firm's* *accounting reference date*).

...

22 GROUP OPERATIONAL RESILIENCE

- 22.1 Rules 22.2 to 22.5 apply to any UK Solvency II firm that is a member of a group for which the PRA is the group supervisor.
- 22.2 Where a firm is a member of a group covered by 2.1(1), 2.1(2) or, subject to 22.5, 2.1(3), the firm must also comply with Operational Resilience – Solvency II Firms 2.1 and 2.2 in relation to its important group business services.
- 22.3 Where a firm is a member of a group covered by 2.1(1), 2.1(2) or, subject to 22.5, 2.1(3), with the exception of Operational Resilience – Solvency II Firms 3.1(3), the firm must ensure that the strategies, processes and systems at the level of the group of which it is a member comply with the obligations set out in Operational Resilience – Solvency II Firms 3.
- 22.4 Where a firm is a member of a group covered by 2.1(1), 2.1(2) or, subject to 22.5, 2.1(3) the firm must ensure that the strategies, processes and systems at the level of the group of which it is a member enable the firm to assess whether important group business services at the level of the group could remain within the impact tolerance in the event of a severe but plausible disruption to its operations.
- 22.5 Where a firm is a member of a group covered by 2.1(3), 22.2, 22.3 and 22.4 do not apply if, subject to 22.6, the third country in which the group's parent undertaking has its head office is assessed to be equivalent under Article 260 of the Solvency II Directive, Article 380 and 380A of the delegated act, or an equivalence determination under paragraph 12 of Schedule 1 of The Equivalence Determinations for Financial Services and Miscellaneous Provisions (Amendment etc) (EU Exit) Regulations 2019.
- 22.6 22.5 does not apply where, in the case of temporary equivalence under Article 260(5) of the Solvency II Directive, there is a Solvency II undertaking in the group that has a balance sheet total that exceeds the balance sheet total of the parent undertaking situated outside of the UK and Gibraltar.

EXTERNALLY DEFINED TERM

Term	Definition source
consolidated situation	Article 4(1)(47) of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012