

Appendix 3: Detailed analysis of objectives and have regards

The PRA has considered its primary and secondary objectives and had regard to the FSMA regulatory principles, the HM Treasury recommendation letter, including the have regard related to the Government’s commitment to achieve a net-zero economy by 2050, and the new matters in the Financial Services Act 2021 (FS Act). The analysis below summarises the areas where the impact of these considerations was most material on the PRA’s decisions and explains how the proposed rules are compatible with these considerations and how they affected the proposed rules.

Area	Summary	PRA objectives and have regards
Level of application	The PRA will permit the inclusion in a DoLSub of firms that are subsidiaries of a common immediate UK qualifying parent undertaking that is not a bank or PRA-designated investment firm, and is revising the set of conditions that firms must meet to qualify for a DoLSub permission, and the set of factors that the PRA will take into account when considering DoLSub applications.	<p>Overview</p> <ul style="list-style-type: none"> The PRA considered limiting the DoLSub permission such that firms would have been allowed to form a DoLSub only between a parent institution and its subsidiaries, and only where every member of the DoLSub was an institution to which the liquidity part of the PRA Rulebook applied on an individual basis. This approach would have advanced firms’ safety and soundness because other types of DoLSubs, where the immediate parent undertaking of the DoLSub entities is a holding company, could present risks to safety and soundness as they are not regulated on an individual basis in the same way as banks and PRA-designated investment firms. After considering responses to CP5/21 and CP19/21, and the matters to which it must have regard, the PRA has instead decided to amend the DoLSub framework to address these risks. The PRA considers that this will result in a framework that is proportionate, facilitates effective competition, helps to ensure accountability, and enhances the transparency with which the PRA carries out its functions. <p>PRA objectives</p> <ul style="list-style-type: none"> PRA’s primary objective: Neutrality to the types of group that may form a DoLSub could present additional risks to safety and soundness where the immediate parent undertaking of the DoLSub entities is a holding company, as that entity would not be included in the DoLSub or be subject to prudential requirements on an individual or sub-consolidated basis. The PRA could have mitigated this risk by limiting DoLSub eligibility to sub-groups headed by a parent undertaking that is a bank or PRA-designated investment firm. The PRA considers such risks could be mitigated in an effective but more proportionate manner by the enhanced conditions that must be met for firms to obtain a DoLSub permission.

		<ul style="list-style-type: none"> • PRA’s secondary objective: Neutrality in the DoLSub framework to the type of parent undertaking will help to facilitate effective competition by enabling a broader range of group structures to be potentially eligible for the DoLSub permission. The PRA considers this will enhance effective competition, by allowing firms operating via different group structures to benefit from the DoLSub approach to level of application of the PRA’s liquidity and funding requirements. <p>Have regards:</p> <ul style="list-style-type: none"> • International standards: The PRA considers that its approach is consistent with international standards, as the Basel standards do not specify a methodology for the application of standards on a sub-consolidated basis. • Proportionality: The PRA considers that its approach to DoLSubs results in a proportionate approach to the application of liquidity and funding requirements. While the PRA’s revised approach will result in some costs for some firms, the PRA considers that these costs are proportionate to the risks that the framework is intended to address, and has sought to design its approach such that it seeks not to increase unnecessarily the costs for firms that are renewing an existing DoLSub. • Transparency: The PRA considers that the revised Liquidity and Funding Permissions SoP enhances the extent to which the PRA exercises its functions transparently, making clearer the conditions for DoLSub permission and helping to ensure the consistency of the PRA’s assessment process for DoLSub applications. To enhance the transparency of its approach, the PRA has clarified that firms should provide a management responsibilities map alongside their applications. • The responsibilities of the senior management: The PRA has considered the aspects of the Senior Manager and Certification Regime (SM&CR) that support the effective governance of DoLSubs that include a bank or PRA-designated investment firm parent undertaking. Given that the SM&CR does not apply to holding companies, the PRA considers that a condition for accountability for the effective operation of a DoLSub which references the Senior Management Function 7 role (group entity senior manager) will help to provide assurance that the governance and accountability arrangements of a DoLSub with an immediate financial or mixed financial holding company are sufficiently clear and effective. In order to avoid firms re-submitting information they had already
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		<p>provided for recent DoLSub applications, the PRA decided to use senior manager attestation to help to provide assurance about the accuracy and validity of the information already provided by firms.</p> <ul style="list-style-type: none"> • Finance for the real economy: The updated DoLSub framework will potentially allow a larger set of firms to benefit from the efficiencies and reduced costs afforded by a DoLSub permission. This would support finance to the real economy, although the materiality of this impact is unclear. • Different business models: The PRA considers that not limiting the DoLSub permission to certain types of groups is more effective in recognising the different structures and business models firms may have. • Relative standing of the UK and competitiveness: The PRA considers that its approach would be positive for the relative standing of the UK, as other jurisdictions with a DoLSub regime allow for sibling DoLSubs. • The need to use the resources of [the PRA] in the most efficient and economic way: Neutrality to the types of group that may form a DoLSub could result in additional firms applying for the DoLSub permission than would otherwise be the case. Such applications would require additional PRA resource to process. However, the PRA considers that by enhancing the clarity of the factors that it will consider when assessing applications, this will improve the consistency of applications, and increase efficiency of processing a larger number of applications. • Climate change: The PRA has considered the Government’s commitment to achieve a net-zero economy by 2050 and has not identified any impacts from the updated DoLSub framework.
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