

**PRA RULEBOOK: CRR FIRMS AND NON-AUTHORISED PERSONS: RECOVERY PLAN
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);
 - (2) section 137T (general supplementary powers);
 - (3) section 192J (rules requiring provision of information by parent undertakings); and
 - (4) section 192JB (rules requiring parent undertakings to facilitate resolution).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.
- C. The PRA exercises the following powers in the Act to make those terms in the Glossary that are used in this instrument in rules applicable to qualifying parent undertakings:
- (1) section 192J ((rules requiring provision of information by parent undertakings);
 - (2) section 192JB (rules requiring parent undertakings to facilitate resolution); and
 - (3) section 137T (general supplementary powers).

Pre-conditions to making

- D. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. In accordance with section 137J of the Act (Rules about recovery plans: duty to consult), the PRA consulted the Treasury and the Bank of England. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Rulebook: CRR Firms and Non-Authorised Persons: Recovery Plan Instrument 2015

- E. The PRA makes the rules in Annex A, Annex B and Annex C to this instrument.
- F. The Recovery and Resolution Part of the PRA Rulebook is deleted.

Commencement

- G. This instrument comes into force on 19 January 2015.

Citation

- H. This instrument may be cited as the PRA Rulebook: CRR Firms and Non-Authorised Persons: Recovery Plan Instrument 2015

By order of the Board of the Prudential Regulation Authority

15 January 2015

Annex A**PRA RULEBOOK - GLOSSARY**

Insert the following new definitions into the Glossary Part of the PRA Rulebook:

BRRD

means Directive 2014/59/EU of the European Parliament and the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU , and Regulations (EU) No 1093/2010 and (EU) No 648/2012 of the European Parliament and of the Council.

BRRD undertaking

means a *CRR firm* or a *qualifying parent undertaking* of a *CRR firm*.

MiFID II

means Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU (recast).

MiFIR

means Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012.

qualifying parent undertaking

has the meaning given in section 192B of *FSMA*.

Annex B

Amendments to the Interpretation Part of the PRA Rulebook

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

1 APPLICATIONS AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *firm* and a *qualifying parent undertaking*.

Annex C

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

Part

Recovery Plans

Chapter content

1. APPLICATION AND DEFINITIONS
2. RECOVERY PLANS
3. GROUP RECOVERY PLANS
4. REVIEW OF RECOVERY PLAN AND GROUP RECOVERY PLAN
5. GOVERNANCE
6. RECOVERY PLAN AND GROUP RECOVERY PLAN INDICATORS

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *BRRD undertaking*.

1.2 In this Part, the following definitions shall apply:

Article 1(1)(b) entity

means a *financial institution* that is established in an *EEA State* when the *financial institution* is a *subsidiary* of a *credit institution* or *investment firm*, or of an *Article 1(1)(c) entity* or an *Article 1(1)(d) entity*, and is covered by the supervision of the *parent undertaking* on a *consolidated basis* in accordance with Articles 6 to 17 of *CRR*.

Article 1(1)(c) entity

means a *financial holding company*, *mixed financial holding company* or *mixed activity holding company* that is established in an *EEA State*.

Article 1(1)(d) entity

means a *parent financial holding company in an EEA State*, an *EEA parent financial holding company*, a *parent mixed financial holding company in an EEA State* or an *EEA parent mixed financial holding company*.

competent authority

means a public authority or body officially recognised by national law which is empowered by national law to supervise *institutions* as part of the supervisory system in operation in the *EEA State* concerned or the European Central Bank with regard to the specified tasks conferred on it by Article 4 of Council Regulation (EU) No. 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

conditions for early intervention

means where an *institution* infringes or is likely in the near future to infringe the requirements of the *CRR*, *CRD*, *MiFID II* or any of Articles 3 to 7, 14 to 17 and 24, 25 and 26 of *MiFIR*.

EEA consolidating supervisor

means a *competent authority* responsible for the exercise of supervision on a *consolidated basis* of:

- (1) an *EEA parent institution*; or
- (2) *institutions controlled by an EEA parent financial holding company* or an *EEA parent mixed financial holding company*.

EEA parent financial holding company

means a *parent financial holding company in an EEA State* which is not a *subsidiary* of an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

EEA parent institution

means a *parent institution in an EEA State* which is not a *subsidiary* of another *institution* authorised in an *EEA State* or of a *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

EEA parent mixed financial holding company

means a *parent mixed financial holding company in an EEA State* which is not a *subsidiary* of an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

EEA parent undertaking

means an *EEA parent institution*, an *EEA parent financial holding company* or an *EEA parent mixed financial holding company*.

extraordinary public financial support

means *State aid*, or any other public financial support at supra-national level, which, if provided for at national level, would constitute *State aid*, that is provided in order to preserve or restore the viability, liquidity or solvency of an *institution* or *Article 1(1)(b) entity*, *Article 1(1)(c) entity*, *Article 1(1)(d) entity* or of a group of which such an *institution* or entity forms part.

group recovery plan

means a group recovery plan drawn up by a *BRRD undertaking* in accordance with Chapter 3.

management body

means a *BRRD undertaking's* body or bodies, which are appointed in accordance with national law, which are empowered to set the *BRRD undertaking's* strategy, objectives and overall direction, and which oversee and monitor management decision-making, and include the *persons* who effectively direct the business of the *BRRD undertaking*.

own funds requirement

means the requirements laid down in Articles 92 to 98 of the *CRR*.

parent financial holding company in an EEA State

means a *financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

parent mixed financial holding company in an EEA State

means a *mixed financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

parent institution in an EEA State

means an *institution* authorised in an *EEA State* which has an *institution* or *financial institution* as a *subsidiary* or which holds a participation in such an *institution* or *financial institution*, and which is not itself a *subsidiary* of another *institution* authorised in the same *EEA State* or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

parent undertaking

has the meaning given in Article 4(1)(15) of the *CRR*.

recovery plan

means a recovery plan drawn up by a *firm* in accordance with 2.

significant branch

means a *branch* of an *institution* that would be designated as being significant in accordance with Article 51(1) of the *CRD*.

State aid

means any aid granted by an *EEA State* or through an *EEA State's* resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods, and which affects trade between *EEA States*.

- 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 RECOVERY PLANS

- 2.1 This Chapter applies to a *firm* that is not part of a *group* subject to consolidated supervision pursuant to Articles 111 and 112 of the *CRD*.

[Note: Art. 5(1) of the *BRRD*]

- 2.2 A *firm* must draw up and maintain a *recovery plan* providing for measures to be taken by the *firm* to restore its financial position following a significant deterioration of its financial situation.

[Note: Art. 5(1) of the *BRRD*]

- 2.3 A *firm* must submit its *recovery plan* to the *PRA*.

[Note: Art. 6(1) of the *BRRD*]

- 2.4 A *firm* must provide its *recovery plan* to the *PRA* by online submission through:

- (1) email; or
- (2) the appropriate systems made available to *firms*.

- 2.5 A *recovery plan* must not assume any access to or receipt of *extraordinary public financial support*.

[Note: Art. 5(3) of the *BRRD*]

- 2.6 A *recovery plan* must include, where applicable, an analysis of how and when the *firm* may apply, in the conditions addressed by the plan, for the use of central bank facilities and must identify those assets which would be expected to qualify as collateral.

[Note: Art. 5(4) of the BRRD]

- 2.7 The *recovery plan* must include the information set out in Section A of the Annex to the BRRD.

[Note: Art. 5(5) of the BRRD]

- 2.8 A *recovery plan* must include possible measures which could be taken by the *firm* where the conditions for early intervention are met.

[Note: Art. 5(5) of the BRRD]

- 2.9 A *recovery plan* must include appropriate conditions and procedures to ensure the timely implementation of recovery actions as well as a wide range of recovery options.

[Note: Art. 5(6) of the BRRD]

- 2.10 A *recovery plan* must contemplate a range of scenarios of severe macroeconomic and financial stress relevant to the *firm's* specific conditions including system-wide events and stress specific to individual legal persons and to *groups*.

[Note: Art. 5(6) of the BRRD]

- 2.11 A *firm* must demonstrate to the PRA that the *recovery plan* meets the requirements set out in this Chapter and the following criteria:
- (1) the implementation of the arrangements proposed in the *recovery plan* is reasonably likely to maintain or restore the viability and financial position of the *institution* or of the *group*, taking into account the preparatory measures that the *institution* has taken or has planned to take;
 - (2) the *recovery plan* and specific options within the *recovery plan* are reasonably likely to be implemented quickly and effectively in situations of financial stress and avoiding to the maximum extent possible any significant adverse effect on the financial system, including in scenarios which would lead other *institutions* to implement *recovery plans* within the same period.

[Note: Art. 6(1) of the BRRD]

3 GROUP RECOVERY PLANS

- 3.1 This Chapter applies to a BRRD undertaking which is:
- (1) an EEA parent undertaking unless the FCA is the EEA consolidating supervisor of its group; or
 - (2) a firm controlled by an EEA parent financial holding company or an EEA parent mixed financial holding company if:
 - (a) the EEA parent financial holding company or EEA parent mixed financial holding company is not incorporated in the UK and does not have a place of business in the UK; and

(b) the *PRA* is the *EEA consolidating supervisor* of the *firm*.

3.2 If the *EEA consolidating supervisor* is the *PRA*, a *BRRD undertaking* must draw up a *group recovery plan* and submit the *group recovery plan* to the *PRA*. If the *EEA consolidating supervisor* is not the *PRA*, a *BRRD undertaking* that is a *qualifying parent undertaking* must make arrangements to ensure that a *group recovery plan* is drawn up and submitted to the *EEA consolidating supervisor*.

[Note: Art. 7(1) of the *BRRD*]

3.3 The *group recovery plan* must consist of a recovery plan for the *group* headed by the *EEA parent undertaking* as a whole.

[Note: Art. 7(1) of the *BRRD*]

3.4 A *BRRD undertaking* which is required by 3.2 to submit the *group recovery plan* to the *PRA* must provide its *recovery plan* to the *PRA* by online submission through:

- (1) email; or
- (2) the appropriate systems made available to *BRRD undertakings*.

3.5 The *group recovery plan* must identify measures that may be required to be implemented at the level of the *EEA parent undertaking* and each individual *subsidiary*.

[Note: Art. 7(1) of the *BRRD*]

3.6 The *group recovery plan* must aim to achieve the stabilisation of the *group* as a whole, or any *institution* of the *group*, when it is in a situation of stress so as to address or remove the causes of the distress and restore the financial position of the *group* or the *institution* in question, at the same time taking into account the financial position of other *group* entities.

[Note: Art. 7(4) of the *BRRD*]

3.7 The *group recovery plan* must include arrangements to ensure the coordination and consistency of measures to be taken at the level of the *EEA parent undertaking*, at the level of an *Article 1(1)(c) entity* or *Article 1(1)(d) entity*, as well as measures to be taken at the level of a *subsidiary* and, where applicable, in accordance with the *CRD* at the level of a *significant branch*.

[Note: Art. 7(4) of the *BRRD*]

3.8 The *group recovery plan* must include the elements specified in 2.6 – 2.9. The *group recovery plan* must include, where applicable, arrangements for intra-group financial support adopted pursuant to an agreement for intra-group financial support that has been concluded in accordance with Articles 19 – 26 of the *BRRD* or Group Financial Support 2 – 8.

[Note: Art. 7(5) of the *BRRD*]

3.9 The *group recovery plan* must include a range of recovery options setting out actions to address a range of scenarios of severe macroeconomic and financial stress relevant to the *group's* specific conditions including system-wide events and stress specific to individual legal persons and to *groups*.

[Note: Art. 7(6) of the *BRRD*]

- 3.10 For each scenario, the *group recovery plan* must identify whether there are obstacles to the implementation of recovery measures within the *group*, including at the level of individual entities covered by the plan, and whether there are substantial practical or legal impediments to the prompt transfer of *own funds* or the repayment of liabilities or assets within the *group*.

[Note: Art. 7(6) of the BRRD]

- 3.11 A *BRRD undertaking* that is a *firm* must demonstrate to the *PRA* that the *group recovery plan* meets the requirements set out in this Chapter and the following criteria:
- (1) the implementation of the arrangements proposed in the *group recovery plan* is reasonably likely to maintain or restore the viability and financial position of the *group* or of an individual *subsidiary* in the *group*, taking into account the preparatory measures that the individual *subsidiary* has taken or has planned to take; and
 - (2) the *group recovery plan* and specific options within the *group recovery plan* are reasonably likely to be implemented quickly and effectively in situations of financial stress and avoiding to the maximum extent possible any significant adverse effect on the financial system, including in scenarios which would lead other *institutions* to implement *group recovery plans* within the same period.

[Note: Art. 6(1) of the BRRD]

- 3.12 A *BRRD undertaking* that is a *qualifying parent undertaking* must make arrangements to ensure it is demonstrated to the *EEA consolidating supervisor* that the *group recovery plan* meets the requirements set out in this Chapter and the following criteria:
- (1) the implementation of the arrangements proposed in the *group recovery plan* is reasonably likely to maintain or restore the viability and financial position of the *group* or of an individual *subsidiary* in the *group*, taking into account the preparatory measures that the individual *subsidiary* has taken or has planned to take; and
 - (2) the *group recovery plan* and specific options within the *group recovery plan* are reasonably likely to be implemented quickly and effectively in situations of financial stress and avoiding to the maximum extent possible any significant adverse effect on the financial system, including in scenarios which would lead other *institutions* to implement *group recovery plans* within the same period.

[Note: Art. 6(1) of the BRRD]

4 REVIEW OF RECOVERY PLAN AND GROUP RECOVERY PLAN

- 4.1 This Chapter applies to a *BRRD undertaking* which is required to draw up a *recovery plan* or *group recovery plan* under 2 or 3.
- 4.2 A *BRRD undertaking* that is a *firm* must:
- (1) review its *recovery plan* or *group recovery plan* at least once a year; and
 - (2) keep its *recovery plan* or *group recovery plan* up to date, which includes ensuring that it is updated to reflect any change to the legal or organisational structure of the *firm* or *group*, its business or its financial situation, which could have a material effect on, or necessitates a change to, the *recovery plan* or *group recovery plan*.

[Note: Art. 5(2) of the BRRD]

- 4.3 A *BRRD undertaking* that is a *qualifying parent undertaking* must make arrangements to ensure that:
- (1) its *group recovery plan* is reviewed at least once a year; and
 - (2) its *group recovery plan* is kept up to date, which includes ensuring that it is updated to reflect any change to the legal or organisational structure of the *group*, its business or its financial situation, which could have a material effect on, or necessitates a change to, the *group recovery plan*.

[Note: Art. 5(2) of the *BRRD*]

- 4.4 A *firm* must notify the *PRA* of any material changes made to its *recovery plan* promptly and, in any event, within one month of making any such change.
- 4.5 A *BRRD undertaking* which is required by 3.2 to submit a *group recovery plan* to the *PRA* must notify the *PRA* of any material changes made to its *group recovery plan* promptly and, in any event, within one month of making any such change.

5 GOVERNANCE ARRANGEMENTS

- 5.1 This Chapter applies to a *BRRD undertaking* which is required to draw up a *recovery plan* or a *group recovery plan* under 2 or 3.
- 5.2 A *firm* which is required to draw up a *recovery plan* must, taking into account the nature, scale and complexity of its business, establish and maintain appropriate internal processes regarding the governance of its *recovery plan* and must:
- (1) ensure that its *management body* oversees, assesses and approves the *recovery plan* before the *firm* submits the *recovery plan* to the *PRA*;
 - (2) ensure that its audit committee periodically reviews the *recovery plan*; and
 - (3) nominate an executive *director* who is a member of the *firm's management body* to have responsibility for the *recovery plan* and for overseeing the internal processes regarding its governance.
- 5.3 A *BRRD undertaking* which is required to draw up a *group recovery plan* must, taking into account the nature, scale and complexity of its business and the business of other members of its *group*, establish and maintain appropriate internal processes regarding the governance of the *group recovery plan* and must:
- (1) ensure that its *management body* oversees, assesses and approves the *group recovery plan* before the *BRRD undertaking* submits the *group recovery plan* to the *EEA consolidating supervisor*;
 - (2) ensure that its audit committee periodically reviews the *group recovery plan*; and
 - (3) nominate an executive *director* who is a member of the *BRRD undertaking's management body* to have responsibility for the *group recovery plan* and for overseeing the internal processes regarding its governance.

[Note: Art. 5(9) and 7(7) of the *BRRD*]

6 RECOVERY PLAN AND GROUP RECOVERY PLAN INDICATORS

- 6.1 This Chapter applies to a *BRRD undertaking* which is required to draw up a *recovery plan* or *group recovery plan* under 2 or 3.
- 6.2 A *recovery plan* and a *group recovery plan* must include a framework of indicators established by the *BRRD undertaking* which identifies the points at which appropriate actions referred to in the *recovery plan* or *group recovery plan* may be taken.

[Note: Art. 9(1) of the *BRRD*]

- 6.3 The indicators may be of a qualitative or quantitative nature relating to the *firm's* or the *group's* financial position and must be capable of being monitored easily.

[Note: Art. 9(1) of the *BRRD*]

- 6.4 A *BRRD undertaking* must have in place appropriate arrangements for the regular monitoring of the indicators.

[Note: Art. 9(1) of the *BRRD*]

- 6.5 A *firm* must notify the *PRA* without delay if it decides to take action under its *recovery plan* or *group recovery plan* or if it decides to refrain from taking action.

[Note: Art. 9(1) of the *BRRD*]

- 6.6 A *BRRD undertaking* that is a *qualifying parent undertaking* must:
- (1) notify the *PRA* without delay if it (or any member of its *group*) decides to take action under the *group recovery plan* or to refrain from taking action and the *PRA* is the *EEA consolidating supervisor*; and
 - (2) make arrangements to ensure the *EEA consolidating supervisor* is notified without delay if it (or any member of its *group*) decides to take action under the *group recovery plan* or to refrain from taking action and the *PRA* is not the *EEA consolidating supervisor*.

**PRA RULEBOOK: CRR FIRMS AND NON-AUTHORISED PERSONS: RESOLUTION PACK
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);
 - (2) section 137T (general supplementary powers); and
 - (3) section 192J (rules requiring provision of information by parent undertakings); and
 - (4) section 192JB (rules requiring parent undertakings to facilitate resolution).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.
- C. The PRA exercises the following powers in the Act to make those terms in the Glossary that are used in this instrument in rules applicable to qualifying parent undertakings:
- (1) section 192J ((rules requiring provision of information by parent undertakings);
 - (2) section 192JB (rules requiring parent undertakings to facilitate resolution); and
 - (3) section 137T (general supplementary powers).

Pre-conditions to making

- D. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. In accordance with section 137K of the Act (PRA rules about resolution plans: duty to consult), the PRA consulted the Treasury and the Bank of England. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Rulebook: CRR Firms and Non-Authorised Persons: Resolution Pack Instrument 2015

- E. The PRA makes the rules in the Annex to this instrument.

Commencement

- F. This instrument comes into force on 19 January 2015.

Citation

- G. This instrument may be cited as the PRA Rulebook: CRR Firms and Non-Authorised Persons: Resolution Pack Instrument 2015

By order of the Board of the Prudential Regulation Authority

15 January 2015

Annex

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

Part

RESOLUTION PACK

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. RESOLUTION PACK**
- 3. GROUP RESOLUTION PACK**
- 4. REVIEW OF RESOLUTION PACK AND GROUP RESOLUTION PACK**
- 5. GOVERNANCE ARRANGEMENTS**

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *BRRD undertaking*.

1.2 In this Part, the following definitions shall apply:

competent authority

means a public authority or body officially recognised by national law which is empowered by national law to supervise *institutions* as part of the supervisory system in operation in the *EEA State* concerned or the European Central Bank with regard to the specific tasks conferred on it by Article 4 of Council Regulation (EU) No. 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

EEA consolidating supervisor

means a *competent authority* responsible under the *CRD* for the exercise of supervision on a *consolidated basis* of:

- (1) *an EEA parent institution*; or
- (2) *institutions controlled by an EEA parent financial holding company or an EEA parent mixed financial holding company.*

EEA parent financial holding company

means a *parent financial holding company in an EEA State* which is not a *subsidiary* of an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

EEA parent institution

means a *parent institution in an EEA State* which is not a *subsidiary* of another *institution* authorised in an *EEA State* or of a *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

EEA parent mixed financial holding company

means a *parent mixed financial holding company in an EEA State* which is not a *subsidiary* of an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

EEA parent undertaking

means an *EEA parent institution*, an *EEA parent financial holding company* or an *EEA parent mixed financial holding company*.

group-level resolution authority

means the *resolution authority* in the *EEA State* in which the *EEA consolidating supervisor* is situated.

group resolution pack

means a document containing the information necessary to draw up and implement a *group resolution plan*.

group resolution plan

means a plan for the resolution of a *group* drawn up in accordance with Articles 12 and 13 of the *BRRD*.

parent financial holding company in an EEA State

means a *financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

parent mixed financial holding company in an EEA State

means a *mixed financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

parent institution in an EEA State

means an *institution* authorised in an *EEA State* which has an *institution* or *financial institution* as *subsidiary* or which holds a *participation* in such an *institution* or *financial institution*, and which is not itself a *subsidiary* of another *institution* authorised in the same *EEA State* or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

resolution authority

means an authority designated by an *EEA State* in accordance with Article 3 of the *BRRD*.

resolution pack

means a document containing the information necessary to draw up and implement a *resolution plan*.

resolution plan

means a resolution plan for a *firm* drawn up by the *Bank of England* in accordance with Article 37 of The Bank Recovery and Resolution (No. 2) Order 2014.

- 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 RESOLUTION PACK

2.1 This Chapter:

- (1) applies to every *firm* which is not required to prepare, maintain and submit a *group resolution pack* under 3; but
- (2) does not apply to a *firm* that is a member of a *group* for which a *group resolution pack* has been submitted to the *PRA* under 3.

2.2 In this Chapter:

- (1) references to the taking of action include the taking of action by:
 - (a) a *firm*;
 - (b) any other *person* in the same *group* as a *firm*; and
 - (c) a *partnership* of which a *firm* is a member;
 - (2) references to the business of a *firm* include references to the business of:
 - (a) any other *person* in the same *group* as the *firm*; and
 - (b) a *partnership* of which the *firm* is a member.
- 2.3 A *firm* must prepare and maintain a *resolution pack*.
- 2.4 A *firm* must provide its *resolution pack* to the *PRA* by online submission through:
- (1) email; or
 - (2) the appropriate systems made available to *firms*.
- 2.5 A *resolution pack* must contain sufficient information and analysis to facilitate the planning for or taking of action in the event of:
- (1) circumstances arising in which it is likely that the business (or any part of the business) of the *firm* will fail; or
 - (2) the failure of the business (or any part of the business) of the *firm*.
- 2.6 In 2.5, references to the planning for or taking of action include the planning or taking of action by *The Treasury* or the *Bank of England* in relation to the possible exercise of any of their powers under the Banking Act 2009.
- 2.7 A *resolution pack* must take into account the wider business of the *group* of which the *firm* is a member.

3 GROUP RESOLUTION PACK

- 3.1 This Chapter applies to a *BRRD undertaking* which is:
- (1) an *EEA parent undertaking* unless the *FCA* is the *EEA consolidating supervisor* of its *group*; or
 - (2) a *firm controlled by an EEA parent financial holding company* or an *EEA parent mixed financial holding company* if:
 - (a) the holding company is not incorporated in the *UK* and does not have a place of business in the *UK*; and
 - (b) the *PRA* is the *EEA consolidating supervisor* of the *firm*.
- 3.2 In this Chapter:
- (1) references to the taking of action include the taking of action by:
 - (a) a *BRRD undertaking*;

- (b) any other *person* in the same *group* as a *BRRD undertaking*; and
 - (c) a *partnership* of which a *BRRD undertaking* is a member;
- (2) references to the business of a *BRRD undertaking* include references to the business of:
 - (a) any other *person* in the same *group* as the *BRRD undertaking*; and
 - (b) a *partnership* of which the *BRRD undertaking* is a member.
- 3.3 A *BRRD undertaking* must prepare and maintain a *group resolution pack*.
- 3.4 A *BRRD undertaking* must submit its *group resolution pack* to the *PRA* if the *PRA* is the *EEA consolidating supervisor* and, in any other case, to the *group-level resolution authority*.
- 3.5 A *BRRD undertaking* required by 3.4 to submit its *group resolution pack* to the *PRA* must provide the *group resolution pack* to the *PRA* by online submission through:
 - (1) email; or
 - (2) the appropriate systems made available to *BRRD undertakings*.
- 3.6 A *group resolution pack* must contain sufficient information and analysis to facilitate the planning for or taking of action in the event of:
 - (1) circumstances arising in which it is likely that the business (or any part of the business) of the *BRRD undertaking* or any other member of its *group* will fail; or
 - (2) the failure of the business (or any part of the business) of the *BRRD undertaking* or any other member of its *group*.
- 3.7 In 3.6, references to the planning for or taking of action include the planning or taking of action by *The Treasury* or the *Bank of England* in relation to the possible exercise of any of their powers under the Banking Act 2009 in respect of any member of the *group*.
- 3.8 The *group resolution pack* must contain information concerning:
 - (1) the *BRRD undertaking*; and
 - (2) each of the other members of its *group*.

[Note: Art. 13(1) of the *BRRD*]

4 REVIEW OF RESOLUTION PACK AND GROUP RESOLUTION PACK

- 4.1 A *firm* required to prepare, maintain and submit to the *PRA* a *resolution pack* under 2 must:
 - (1) keep the *resolution pack* up to date, which includes ensuring that the *resolution pack* is updated to reflect any material developments in the *firm's* business; and
 - (2) notify the *PRA* of any material changes made to the *resolution pack* promptly and, in any event, within one month of making any such change.
- 4.2 A *BRRD undertaking* required to prepare, maintain and submit a *group resolution pack* under 3 must keep the *group resolution pack* up to date, which includes ensuring that the *group resolution pack* is updated to reflect any material developments in its business and the business of other member of its *group*.

- 4.3 A *BRRD undertaking* required to prepare, maintain and submit to the *PRA* a *group resolution pack* under 3 must notify the *PRA* of any material changes made to the *group resolution pack* promptly and, in any event, within one month of making any such change.

5 GOVERNANCE ARRANGEMENTS

- 5.1 A *firm* required to prepare, maintain and submit to the *PRA* a *resolution pack* under 2 must:
- (1) taking into account the nature, scale and complexity of its business, establish and maintain appropriate internal processes regarding the governance of its *resolution pack*;
 - (2) ensure that its *governing body* is responsible for assessing, approving and overseeing the *firm's* arrangements in place to produce the *firm's resolution pack*;
 - (3) ensure that its audit committee periodically reviews these arrangements; and
 - (4) nominate an executive *director* who is a member of the *firm's governing body* to have responsibility for the *resolution pack* and for overseeing the internal processes regarding its governance.
- 5.2 A *BRRD undertaking* required to prepare, maintain and submit a *group resolution pack* under 3 must:
- (1) taking into account the nature, scale and complexity of its business and the business of other members of its *group*, establish and maintain appropriate internal processes regarding the governance of its *group resolution pack*;
 - (2) ensure that its *governing body* is responsible for assessing, approving and overseeing the arrangements in place to produce the *group resolution pack*;
 - (3) ensure that its audit committee periodically reviews these arrangements; and
 - (4) nominate an executive *director* who is a member of its *governing body* to have responsibility for the *group resolution pack* and for overseeing the internal processes regarding its governance.

**PRA RULEBOOK: CRR FIRMS AND NON-AUTHORISED PERSONS: GROUP FINANCIAL
SUPPORT 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);
 - (2) section 137T (general supplementary powers);
 - (3) section 192J (rules requiring provision of information by parent undertakings); and
 - (4) section 192JB (rules requiring parent undertakings to facilitate resolution).
- B. The PRA exercises the following powers in the Act to make those terms in the Glossary that are used in this instrument in rules applicable to qualifying parent undertakings:
- (1) section 192J (rules requiring provision of information by parent undertakings);
 - (2) section 192JB (rules requiring parent undertakings to facilitate resolution); and
 - (3) section 137T (general supplementary powers).
- C. 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

- D. 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 and Non-Authorised Persons: Group Financial Support Instrument 2015

- E. The PRA makes the rules in Annex A to this instrument.

Commencement

- F. This instrument comes into force on 19 January 2015.

Citation

- G. This instrument may be cited as the PRA Rulebook: CRR Firms and Non-Authorised Persons: Group Financial Support Instrument 2015.

By order of the Board of the Prudential Regulation Authority

15 January 2015

Annex A

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

Part

GROUP FINANCIAL SUPPORT

Chapter content

1. APPLICATION AND DEFINITIONS
2. GROUP FINANCIAL SUPPORT AGREEMENT
3. SUBMISSION OF GROUP FINANCIAL SUPPORT AGREEMENT
4. CONDITIONS FOR GROUP FINANCIAL SUPPORT
5. DECISION TO PROVIDE OR ACCEPT GROUP FINANCIAL SUPPORT
6. NOTIFICATION OF PROPOSED GROUP FINANCIAL SUPPORT
7. PROVISION AND NOTIFICATION OF GROUP FINANCIAL SUPPORT
8. DISCLOSURE

Links

1 APPLICATION AND DEFINITIONS

- 1.1 Unless otherwise stated, this Part applies to a *BRRD undertaking* which is a *CRR firm*, a *financial holding company*, a *mixed financial holding company* or a *mixed activity holding company*.
- 1.2 This Part does not apply in relation to:
- (1) financial arrangements, other than *group financial support agreements*, including funding arrangements and the operation of centralised funding arrangements, provided that no *institution* that is party to such arrangements meets the *conditions for early intervention*; and
 - (2) financial support provided by a *BRRD undertaking* to a member of its *group* that experiences financial difficulties if the *BRRD undertaking* decides to do so on a case-by-case basis and according to *group* policies if it does not represent a risk for the *group*.

[Note: Art. 19(2) and (3) of the *BRRD*]

- 1.3 In this Part, the following definitions shall apply:

competent authority

means a public authority or body officially recognised by national law which is empowered by national law to supervise *institutions* as part of the supervisory system in operation in the *EEA State* concerned or the European Central Bank with regard to the specific tasks conferred on it by Article 4 of Council Regulation (EU) No. 1024/2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of *credit institutions*.

conditions for early intervention

means circumstances in which an *institution* infringes or is likely in the near future to infringe the requirements of the *CRR*, the *CRD*, *MiFID II* or any of Articles 3 - 7, 14 - 17 and 24, - 26 of *MiFIR*.

EEA consolidating supervisor

means a *competent authority* responsible under the *CRD* for the exercise of supervision on a *consolidated basis* of:

- (1) an *EEA parent institution*; or
- (2) *institutions controlled* by an *EEA parent financial holding company* or an *EEA parent mixed financial holding company*.

EEA parent financial holding company

means a *parent financial holding company* in an *EEA State* which is not a *subsidiary* of an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

EEA parent institution

means a *parent institution in an EEA State* which is not a *subsidiary* of another *institution* authorised in an *EEA State* or of a *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

EEA parent mixed financial holding company

means a *parent mixed financial holding company in an EEA State* which is not a *subsidiary* of an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

EEA parent undertaking

means an *EEA parent institution*, an *EEA parent financial holding company* or an *EEA parent mixed financial holding company*.

group

means a *parent undertaking* and its *subsidiaries*.

group financial support agreement

means an agreement between:

- (1) a *parent institution in an EEA State*, an *EEA parent institution* or a *qualifying parent undertaking*, a *financial holding company*, *mixed financial holding company* or *mixed-activity holding company* established in an *EEA State*; and
- (2) a *subsidiary* of an entity referred to in (1) set up in a different *EEA State* to that of the entity referred to in (1) or in a *third country* and that is an *institution* or a *financial institution* covered by the consolidated supervision of the entity referred to in (1),

to provide financial support to a party that is an *institution* at a time when that *institution* meets the *conditions for early intervention*.

management body

means a *BRRD undertaking's* body or bodies, which are appointed in accordance with national law, which are empowered to set the *BRRD undertaking's* strategy, objectives and overall direction, and which oversee and monitor management decision-making, and include the *persons* who effectively direct the business of the *BRRD undertaking*.

own funds requirement

means the requirements laid down in Articles 92 - 98 of the *CRR*.

parent institution in an EEA State

means an *institution* authorised in an *EEA State* which has an *institution* or *financial institution* as *subsidiary* or which holds a *participation* in such an *institution* or *financial institution*, and which is not itself a *subsidiary* of another *institution* authorised in the same *EEA State* or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

parent financial holding company in an EEA State

means a *financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

parent mixed financial holding company in an EEA State

means a *mixed financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

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

2 GROUP FINANCIAL SUPPORT AGREEMENT

- 2.1 A *BRRD undertaking* must not enter into a *group financial support agreement* unless the following conditions are satisfied:

- (1) the *group financial support agreement* specifies the principles for the calculation of the consideration for any transaction made under it, which:
 - (a) need not take into account any anticipated temporary impact on market prices arising from events external to the *group*;
 - (b) may take into account information unavailable to the market in the possession of the party providing financial support based on it being in the same *group* as the party receiving financial support; and
 - (c) must require that the consideration is set at the time of the provision of financial support;
- (2) each party acts freely in entering into the *group financial support agreement*;
- (3) in entering into the *group financial support agreement* and in determining the consideration for the provision of financial support, each party acts in its own best interests which may take account of any direct or any indirect benefit that may accrue to a party as a result of the provision of the financial support;
- (4) each party providing financial support has full disclosure of relevant information from any party receiving financial support prior to determination of the consideration for the provision of financial support and prior to any decision to provide financial support;

[Note: Art. 19(7) of the *BRRD*]

- (5) any right, claim or action arising from the *group financial support agreement* may be exercised only by the parties to the agreement; and

[Note: Art. 19(9) of the *BRRD*]

- (6) the terms of the *group financial support agreement* are consistent with the conditions for the provision of financial support in 4.1.

[Note: Art. 20(3) of the *BRRD*]

- 2.2 A *BRRD undertaking* must not enter into a proposed *group financial support agreement* if:
- (1) the *EEA consolidating supervisor* has not granted permission to do so; or
 - (2) at the time the proposed agreement is made, a *competent authority* has decided that a party to the agreement that is an *institution* meets the *conditions for early intervention*.

[Note: Art. 19(8) and Art. 20(3) of the BRRD]

3 SUBMISSION OF GROUP FINANCIAL SUPPORT AGREEMENT

- 3.1 This Chapter applies to a *BRRD undertaking* which is an *EEA parent undertaking*, unless the *FCA* is the *EEA consolidating supervisor* of its *group*.
- 3.2 If a *BRRD undertaking* or any member of its *group* intends to enter into a *group financial support agreement*, or amend a *group financial support agreement* previously authorised by an *EEA consolidating supervisor*, the *BRRD undertaking* must submit to the *EEA consolidating supervisor* an application for authorisation of the proposed agreement or amendment.
- 3.3 The application referred to in 3.2 must contain the text of the proposed *group financial support agreement* and identify any other *persons* in the same *group* as the *BRRD undertaking* that propose to be parties to the proposed agreement.

[Note: Art. 20(1) of the BRRD]

4 CONDITIONS FOR GROUP FINANCIAL SUPPORT

- 4.1 A *BRRD undertaking* must not provide financial support in accordance with a *group financial support agreement* unless the following conditions are met:
- (1) there is a reasonable prospect that the financial support provided significantly redresses the financial difficulties of the *group* member receiving the support;
 - (2) the provision of financial support has the objective of preserving or restoring the financial stability of the *group* as a whole or any of the members of the *group* and is in the interests of the *BRRD undertaking* providing the support;
 - (3) the financial support is provided on terms, including consideration, in accordance with 2;
 - (4) there is a reasonable prospect, on the basis of the information available to the *management body* of the *BRRD undertaking* providing financial support at the time when the decision to grant financial support is taken, that the consideration for the financial support will be paid and, in particular:
 - (a) if the financial support is given in the form of a loan, the loan will be repaid by the *group* entity receiving the support; and
 - (b) if the financial support is given in the form of a guarantee or any form of security, the liability of the *group* entity receiving the support that arises in the

event that the guarantee is called upon or the security is enforced, will be paid.

- (5) the provision of the financial support would not jeopardise the liquidity or solvency of the *BRRD undertaking* providing the financial support;
- (6) the provision of the financial support would not create a threat to financial stability, in particular in the *UK*;
- (7) where a *firm* provides the financial support, it complies at the time the financial support is provided, with the requirements of the *CRD* relating to capital or liquidity and any requirements imposed pursuant to Article 104(2) of the *CRD* and the provision of the financial support does not cause the *firm* to infringe those requirements;
- (8) where a *firm* provides the financial support, it complies at the time when the financial support is provided, with the requirements relating to large exposures laid down in the *CRR* and in the Large Exposures Part, and the provision of the financial support must not cause the *firm* to infringe those requirements; and
- (9) the provision of the financial support would not undermine the resolvability of the *BRRD undertaking* providing the financial support.

[Note: Art. 23 of the *BRRD*]

5 DECISION TO PROVIDE OR ACCEPT GROUP FINANCIAL SUPPORT

- 5.1 A *BRRD undertaking* that intends to provide financial support in accordance with a *group financial support agreement* must ensure that the decision to provide financial support is taken by its *management body*.
- 5.2 The decision must be reasoned and indicate the objective of the proposed financial support; in particular, the decision must indicate how the provision of the financial support complies with the conditions in 4.1.
- 5.3 A *firm* that intends to accept financial support in accordance with a *group financial support agreement* must ensure that the decision to accept financial support is taken by its *management body*.

[Note: Art. 24 of the *BRRD*]

6 NOTIFICATION OF PROPOSED GROUP FINANCIAL SUPPORT

- 6.1 A *BRRD undertaking* that intends to provide financial support in accordance with a *group financial support agreement* must ensure that its *management body* notifies:
 - (1) the *PRA*;
 - (2) where different from the authorities in (1) and (3), where applicable, the *EEA consolidating supervisor*;

(3) where different from the authorities in (1) and (2), the *competent authority* of the *group* member receiving the financial support; and

(4) the *EBA*,

before it provides that financial support.

6.2 The notification must include the reasoned decision of the *management body* and details of the proposed financial support including a copy of the *group financial support agreement*.

[Note: Art. 25(1) of the *BRRD*]

7 PROVISION AND NOTIFICATION OF GROUP FINANCIAL SUPPORT

7.1 A *BRRD undertaking* may only provide financial support in accordance with a *group financial support agreement* if:

(1) the *PRA* has not, within five *business days* from the date of receipt by the *PRA* of the complete notification in 6.1, prohibited the provision of the financial support;

(2) the *PRA* has agreed to the provision of the proposed financial support; or

(3) the *PRA* has agreed to the provision of financial support subject to restrictions.

7.2 Where the *PRA* has agreed to the provision of financial support subject to restrictions, a *BRRD undertaking* may only provide financial support in accordance with those restrictions.

[Note: Art. 25(5) of the *BRRD*]

7.3 Where the *management body* of a *BRRD undertaking* decides to provide the financial support, that *BRRD undertaking* must notify:

(1) the *PRA*;

(2) where different from the authorities in (1) and (3), where applicable, the *EEA consolidating supervisor*;

(3) where different from (1) and (2), the *competent authority* of the *group* member receiving the financial support; and

(4) the *EBA*.

[Note: Art. 25(6) of the *BRRD*]

8 DISCLOSURE

8.1 A *BRRD undertaking* must, in accordance with the general principles set out in Articles 431 - 434 of the *CRR*, disclose:

(1) whether or not it has entered into a *group financial support agreement*;

(2) a description of the general terms of any such agreement; and

(3) the names of the *group* members that are party to the agreement.

8.2 A *BRRD undertaking* must update the information disclosed at least annually.

[Note: Art. 26(1) of the *BRRD*]

**PRA RULEBOOK: NOTIFICATIONS (BANK RECOVERY AND RESOLUTION DIRECTIVE)
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);
 - (2) section 137T (General supplementary powers); and
 - (3) section 192J (rules requiring provision of information by parent undertakings).
- B. The PRA exercises the following powers in the Act to make those terms in the Glossary that are used in this instrument in rules applicable to qualifying parent undertakings:
- (1) section 192J (rules requiring provision of information by parent undertakings);
 - (2) section 192JB (rules requiring parent undertakings to facilitate resolution); and
 - (3) section 137T (general supplementary powers).
- C. 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

- D. 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 directions and had regard to representations made.

Amendments

- E. The Notifications Part of the PRA Rulebook is amended in accordance with the Annex to this instrument.

Commencement

- F. This instrument comes into force on 19 January 2015.

Citation

- G. This instrument may be cited as the PRA Rulebook: Notifications (Bank Recovery and Resolution Directive) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

15 January 2015

Annex

Amendments to the Notifications Part of the PRA Rulebook

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

Insert the following new definitions in the appropriate alphabetical position in Notifications 1.2:

extraordinary public financial support

means State aid, or any other public financial support at supra-national level, which, if provided for at national level, would constitute State aid, that is provided in order to preserve or restore the viability, liquidity or solvency of a BRRD undertaking or of a group of which a BRRD undertaking forms part.

BRRD management body

means a BRRD undertaking's body or bodies, which are appointed in accordance with national law, which are empowered to set the BRRD undertaking's strategy, objectives and overall direction, and which oversee and monitor management decision-making, and include the persons who effectively direct the business of the BRRD undertaking.

financial holding company

has the meaning set out at point 20 of Article 4(1) of the CRR.

mixed financial holding company

has the meaning set out at point 21 of Article 4(1) of the CRR.

mixed-activity holding company

has the meaning set out at point 22 of Article 4(1) of the CRR.

own funds

has the meaning set out at point (118) of Article 4(1) of the CRR.

State aid

means any aid granted by an EEA State or through an EEA State's resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods and which affects trade between EEA States.

Make the following amendments to the Notifications Part of the PRA Rulebook:

1 APPLICATIONS AND DEFINITIONS

-
- 1.1 Unless otherwise stated, this Part applies to every *firm* and Chapter 8 applies only to a BRRD undertaking.

...

1.3 This Part applies to *incoming firms* without a *top-up permission* as follows:

...

(9) ~~6-9~~ 6, 7 and 9 apply in full.

...

8 SPECIFIC NOTIFICATIONS

8.0 This Chapter applies to a *BRRD undertaking*.

8.1 A *CRR firm* must report to the *PRA* immediately any case in which its counterparty in a *repurchase transaction* or securities or commodities lending or borrowing transaction defaults on its obligations.

8.2 A *BRRD undertaking*, which is a *CRR firm*, a *financial holding company*, a *mixed financial holding company* or a *mixed activity holding company* must notify the *PRA* immediately if its *BRRD management body* considers that:

(1) the assets of the *BRRD undertaking* are or there are objective elements to support a determination that the assets of the *BRRD undertaking* will, in the near future, be less than its liabilities;

(2) the *BRRD undertaking* is or there are objective elements to support a determination that the *BRRD undertaking* will, in the near future, be unable to pay its debts or other liabilities as they fall due; or

(3) *extraordinary public financial support* is required for the *BRRD undertaking* or the *group* of which the *BRRD undertaking* forms part.

8.3 A *BRRD undertaking*, which is a *CRR firm*, must notify the *PRA* immediately if its *management body* considers that the *firm* is failing or there are objective elements to support a determination that the *firm* will, in the near future, fail to satisfy one or more of the *threshold conditions*, including as a result of the *firm* having incurred or being likely to incur losses that will deplete all or a significant amount of its *own funds*.

[Note: Art. 81(1) of the *BRRD*]

8.4 A notification required from a *BRRD undertaking* under 8.2 or 8.3 must be delivered to the *PRA* by the method of electronic mail to an address for the usual supervisory contact at the *PRA* for the *BRRD undertaking* or its *group*.

...

**PRA RULEBOOK: CRR FIRMS AND NON-AUTHORISED PERSONS: CONTRACTUAL
RECOGNITION OF BAIL-IN 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);
 - (2) section 137T (general supplementary powers); and
 - (3) section 192JB (rules requiring parent undertakings to facilitate resolution).
- B. The PRA exercises the following powers in the Act to make those terms in the Glossary that are used in this instrument in rules applicable to qualifying parent undertakings:
- (1) section 192JB (rules requiring parent undertakings to facilitate resolution); and
 - (2) section 137T (general supplementary powers).
- C. 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

- D. 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 and Non-Authorised Persons: Contractual Recognition of Bail-In Instrument 2014

- E. The PRA makes the rules in Annex A and Annex B to this instrument.
F. With effect from 1 January 2016 the PRA deletes rules 3.1 to 3.3 in Annex A.

Commencement

- G. Rules 1.1(1) to (3), 1.2, 1.3 and 3.1 to 3.3 in Annex A to this instrument come into force on 19 February 2015.
H. Rules 1.1(4), 2.1 and 2.2 in Annex A to this instrument come into force on 1 January 2016.
I. Annex B to this instrument comes into force on 19 February 2015.

Citation

- J. This instrument may be cited as the PRA Rulebook: CRR Firms and Non-Authorised Persons: Contractual Recognition of Bail-In Instrument 2015.

By order of the Board of the Prudential Regulation Authority
15 January 2015

Annex A

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

Part

CONTRACTUAL RECOGNITION OF BAIL-IN

Chapter content

1. APPLICATION AND DEFINITIONS
2. CONTRACTUAL RECOGNITION OF BAIL-IN
3. CONTRACTUAL RECOGNITION OF BAIL-IN – TRANSITIONAL PROVISIONS

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *BRRD undertaking* which is:

- (1) a *CRR firm*;
- (2) a *financial holding company*;
- (3) a *mixed financial holding company*; or
- (4) a *mixed activity holding company* which has at least one *subsidiary* which is an *institution* which is not the *subsidiary* of a *financial holding company* which is also a *subsidiary* of the *mixed activity holding company*.

1.2 In this Part, the following definitions shall apply:

eligible deposit

has the meaning given in point 4 of Article 2(1) of Directive 2014/49/EU.

excluded deposit

means

- (1) an *eligible deposit* from natural persons and *micro, small and medium-sized enterprises*; or
- (2) a deposit that would be an *eligible deposits* from natural persons or *micro, small and medium-sized enterprises* if the deposit had not been made through a *branch* of the *firm* located in a *third country*.

excluded liability

has the meaning given in section 48B(7A)(a) of the Banking Act 2009.

liability

means any debt or liability to which the *BRRD undertaking* is subject, whether it is present or future, certain or contingent, ascertained or sounding only in damages.

mandatory reduction provision

has the meaning give in section 6B(2) of the Banking Act 2009.

micro, small and medium-sized enterprises

means micro, small and medium-sized enterprises as defined with regard to the annual turnover criterion referred to in Article 2(1) of the Annex to Commission Recommendation 2003/361/EC.

special bail-in provision

has the meaning given in section 48B(1) of the Banking Act 2009.

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 CONTRACTUAL RECOGNITION OF BAIL-IN

2.1 A *BRRD undertaking* must include in the contract governing a *liability* a term by which the creditor or party to the agreement creating the *liability* recognises that the *liability* may be subject to the exercise of a power by the Bank of England to make *special bail-in provision* or *mandatory reduction provision* and agrees to be bound by any reduction of the principal or outstanding amount due or by any conversion or cancellation effected by the exercise of that power, provided that such *liability* is:

- (1) not an *excluded liability*;
- (2) not an *excluded deposit*;
- (3) governed by the law of a *third country*; and
- (4) issued, entered into or arising after 31 December 2015.

[Note: Art. 55(1) (part) of the *BRRD*]

2.2 In respect of a *liability* that is:

- (1) an *additional tier 1 instrument*, or
- (2) a *tier 2 instrument*,

a *BRRD undertaking* that is a *CRR firm* must provide to the *PRA* a properly reasoned independent legal opinion from an individual appropriately qualified in the relevant *third country* on the enforceability and effectiveness of the term referred to in 2.1.

3 CONTRACTUAL RECOGNITION OF BAIL-IN - TRANSITIONAL PROVISIONS

3.1 In this Chapter, the following definitions shall apply:

debt instruments

means any form of transferable debt security or instrument, whether registered or bearer, including commercial paper, bills of exchange, banker's acceptances, certificates of deposit and bonds, with the exception of debt securities or instruments which are *Additional Tier 1 instruments* or *Tier 2 instruments*.

unsecured liability

means a *liability* where the right of the creditor to payment or other form of performance is not secured by a charge, pledge, lien or mortgage, or collateral arrangements including *liabilities* arising from repurchase transactions and other title transfer collateral arrangements.

3.2 A *BRRD undertaking* must include in the contract governing a *liability* a term by which the creditor or party to the agreement creating the *liability* recognises that the *liability* may be subject to the exercise of power by the Bank of England to make a *special bail-in provision* or *mandatory reduction provision* and agrees to be bound by any reduction of the principal or

outstanding amount due or by any conversion or cancellation effected by the exercise of that power, provided that such *liability* is:

- (1) not an *excluded liability*;
- (2) not an *excluded deposit*;
- (3) governed by the law of a *third country*;
- (4) issued, entered into or arising after 19 February 2015; and
- (5) either a *debt instrument* which is an *unsecured liability*, or an *additional Tier 1 instrument* or a *tier 2 instrument*.

[Note: Art. 55(1) (part) of the BRRD]

3.3 In respect of a *liability* that is:

- (1) an *additional tier 1 instrument*; or
- (2) a *tier 2 instrument*,

a *BRRD undertaking* that is a *CRR firm* must provide to the *PRA* a properly reasoned independent legal opinion from an individual appropriately qualified in the relevant *third country* on the enforceability and effectiveness of the term referred to in 2.1.

Annex B

Amendments to the Definition of Capital Part of the PRA Rulebook

Chapter 6 is deleted in its entirety.

**PRA RULEBOOK: CRR FIRMS NON-CRR FIRMS: INDIVIDUAL ACCOUNTABILITY 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 59 (Approval for particular arrangements);
 - (2) section 60A (Vetting of candidates by relevant authorised persons);
 - (3) section 61 (Determination of applications);
 - (4) section 63E (Certification of employees by relevant authorised persons);
 - (5) section 63F (Issuing of certificates);
 - (6) section 137G (The PRA’s general rules); and
 - (7) 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: Individual Accountability Instrument 2015

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

Commencement

- E. This instrument comes into force on 7 March 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms Non-CRR Firms: Individual Accountability Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex A

Amendments to the Glossary

In the Glossary Part of the PRA Rulebook, insert the following new definitions:

certificate

means a certificate issued under section 63F(1) of *FSMA* (Issuing of certificates).

certification function

has the meaning given in Certification 2.2 – 2.4.

certification employee

means an employee (within the meaning in section 63E(9) of *FSMA* (certification of employees by relevant authorised persons)) of a *firm* who has a valid *certificate* issued by that *firm*.

FCA controlled function

means a *controlled function* specified by the *FCA* under section 59 of *FSMA* (Approval for particular arrangements).

non-executive director

means a *director* of a *firm* who does not perform an executive function in relation to that *firm*.

PRA approved person

means a *person* approved by the *PRA* under section 59 of *FSMA* (Approval for particular arrangements) to perform a *PRA senior management function*.

PRA senior management function

means a function specified as a *controlled function* in Senior Management Functions 2 in relation to the carrying on of a *regulated activity* by a *firm*.

relevant senior management function

has the meaning given in s64A(3) of *FSMA*.

senior insurance management function

means that aspect of any *key function* relating to the carrying on of a *regulated activity* by a *firm*, which is specified by the *PRA* in Insurance – Senior Insurance Management Functions 3 – 10 pursuant to section 59 of *FSMA*.

senior insurance management function holder

means any *person* who is responsible for discharging a *senior insurance management function*.

Annex B

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

Part

SENIOR MANAGEMENT FUNCTIONS

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. GENERAL**
- 3. EXECUTIVE**
- 4. OVERSIGHT**
- 5. GROUP ENTITIES**
- 6. CREDIT UNIONS**
- 7. COMBINATION OF SENIOR MANAGEMENT FUNCTIONS**

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* that is:

- (1) a *CRR firm*; or
- (2) a *credit union*.

1.2 In this Part, the following definitions shall apply:

Chairman function

has the meaning given in 4.2.

Chairman of Audit Committee function

has the meaning given in 4.4.

Chairman of Remuneration Committee function

has the meaning given in 4.5.

Chairman of Risk Committee function

has the meaning given in 4.3.

Chief Executive function

has the meaning given in 3.2.

Chief Finance function

has the meaning given in 3.3.

Head of Internal Audit function

has the meaning given in 3.5

Chief Risk function

has the meaning given in 3.4.

Credit Union Senior Manager function

has the meaning given in 6.2.

FCA approval

means at any time an approval granted to and in effect for a *person* by the *FCA* under section 59 of *FSMA* (Approval for particular arrangements) for the performance of a *controlled function* specified by the *FCA*.

FCA governing function

means a *controlled function* specified by the *FCA* in SUP 10C.5 of the *FCA Handbook*.

FCA responsibilities

means any of the functions referred to in

- (1) SYSC 4.7.7R (Table of senior management responsibilities); and
- (2) SYSC 4 Annex 1G (The main business areas and management functions of a relevant authorised person),

of the *FCA Handbook*.

Group Entity Senior Manager function

has the meaning given in 5.2.

Head of Key Business Area function

has the meaning given in 3.6.

Senior Independent Director function

has the meaning given in 4.6.

1.3 This Part does not apply to a function performed by:

- (1) a *person* acting as an insolvency practitioner within the meaning of section 388 of the Insolvency Act 1986; or
- (2) a *person* acting as a nominee in relation to a voluntary arrangement under Parts I (Company Voluntary Arrangements) and VIII (Individual Voluntary Arrangements) of the Insolvency Act 1986; or
- (3) a *person* acting as an insolvency practitioner within the meaning of Article 3 of the Insolvency (Northern Ireland) Order 1989; or
- (4) a *person* acting as a nominee in relation to a voluntary arrangement under Parts II (Company Voluntary Arrangements) and VIII (Individual Voluntary arrangements) of the Insolvency (Northern Ireland) Order 1989.

2 GENERAL

2.1 Each of the functions in 3- 6 is a *controlled function*.

- 2.2 (1) A *firm* (other than a *credit union*) must ensure that one or more *person* performs each of the following *PRA senior management functions* on its behalf:
- (a) the *Chief Executive function*;
 - (b) the *Chief Finance function*; and
 - (c) the *Chairman function*.
- (2) If a vacancy arises in respect of one or more of the *PRA senior management functions* set out in (1), a *firm* must ensure that it appoints a *person* to fill that vacancy as soon as practicable.

2.3 To the extent that,

- (1) a *firm* appoints a *person* to perform a function which, but for this rule, would be a *PRA senior management function*;
 - (2) the appointment is solely to provide cover for a *PRA approved person* whose absence is:
 - (a) temporary; or
 - (b) reasonably unforeseen; and
 - (3) the appointment is for less than 12 weeks in a consecutive 12-month period,
- the description of that *PRA senior management function* does not relate to those activities of that *person*.

- 2.4
- (1) If a *person* has been approved to perform a *PRA senior management function* in relation to a *firm* and also performs a function which would, except for SUP10C.9.8R of the *FCA Handbook*, be an *FCA governing function* (such function, the *FCA activities*) performance of the *PRA senior management function* will include the performance of those *FCA activities*, provided the following conditions are met:
 - (a) the *PRA's* approval to perform a *PRA senior management function* has been granted and continues in force;
 - (b) at the time of approval being granted by the *PRA*, that *person* was not subject to an *FCA approval* to perform that particular *FCA governing function*;
 - (c) the *firm* made the notification required by SUP10.9.8 R (4) of the *FCA Handbook*; and
 - (d) that *person* performs and is continuing to perform those *FCA activities*.
 - (2) If a *person* has been approved to perform a *PRA senior management function* in relation to a *firm* which includes performance of *FCA activities* in the circumstances set out in (1), and that *person*:
 - (a) ceases to perform the *PRA senior management function*;
 - (b) within three months of ceasing performance, is approved to perform a new *PRA senior management function*; and
 - (c) continues to perform the *FCA activities*,

performance of the new *PRA senior management function* will include the performance of those *FCA activities*, provided the conditions in (1) (a)-(d) are met.

- 2.5
- If a *PRA approved person* who has been performing a *PRA senior management function* which includes *FCA activities* in the circumstances set out in 2.4, ceases to perform a *PRA senior management function* but continues to perform the *FCA activities*, 2.4 will continue to apply in respect of the performance of the *FCA activities* until the earlier of:
- (1) approval by the *FCA* in respect of the performance by that person of those *FCA activities* as an *FCA governing function* in relation to the firm; or
 - (2) three *months* from the time that the *person* ceased to perform that *PRA senior management function*.

- 2.6 If a *PRA approved person*:
- (1) (other than in the circumstances set out in 2.4 or 2.5), performs one or more *FCA responsibilities* allocated under SYSC 4.7.5R of the *FCA Handbook*;
 - (2) ceases to perform any *PRA senior management function*; and
 - (3) that *person* does not have an *FCA approval* to perform an *FCA controlled function* in relation to that firm

the functions in (1) will continue to be part of the *PRA senior management function* which the *person* most recently performed for that *firm*) until the earlier of:

- (1) approval by the *FCA* in respect of the performance by that person of an *FCA controlled function* in relation to the *firm*; or
 - (2) three *months* from the time that the *person* ceased to perform that *PRA senior management function*.
- 2.7 (1) A *firm* must take all reasonable steps to ensure that before a *person*:
- (a) begins to perform a *PRA senior management function*; or
 - (b) begins to perform new or revised responsibilities in performance of a *PRA senior management function*
- that *person* is provided with all of the information and materials that the *person* may reasonably expect in order to perform that *PRA senior management function* or those new or revised responsibilities effectively and in accordance with the *regulatory system*.
- (2) A *firm* must have a policy about how it complies with (1) including the systems and controls it uses and must maintain adequate records of the steps taken to comply with (1).

3 EXECUTIVE

- 3.1 This Chapter does not apply to a *credit union*.
- 3.2 The *Chief Executive function* (SMF1) is the function of having responsibility, under the immediate authority of the *governing body*, alone or jointly with others, for carrying out the management of the conduct of the whole of the business (or relevant activities) of a *firm*.
- 3.3 The *Chief Finance function* (SMF2) is the function of having responsibility for management of the financial resources of a *firm* and reporting directly to the *governing body* of the *firm* in relation to its financial affairs.
- 3.4 The *Chief Risk function* (SMF4) is the function of having responsibility for overall management of the risk controls of a *firm*, including the setting and managing of its risk exposures, and reporting directly to the *governing body* of the *firm* in relation to its risk management arrangements.

- 3.5 The *Head of Internal Audit function* (SMF5) is the function of having responsibility for management of the internal audit function of a *firm* and for reporting directly to the *governing body* of the *firm* on the internal audit function.
- 3.6 The *Head of Key Business Area function* (SMF6) is the function of having responsibility, for management of a business area or division of a *firm*, where:
- (1) that business area or division:
 - (a) has gross total assets equal to or in excess of £10 billion; and (b) either
 - (i) accounts for more than 20% of the *firm's* gross revenue; or
 - (ii) where the *firm* is part of a *group*, accounts for more than 20% of the total gross revenue of the *group*; and
 - (2) the *person* performing that function does not report to a *person* performing the *Head of Key Business Area function* in respect of that same business area or division of the *firm*.
- 3.7 For the purposes of 3.6, the gross total assets of the business area or division of the *firm* and the percentage of the gross revenue of the *firm* or *group* shall be determined on the basis of either:
- (1) the assets and revenues for the business area or division, and the *firm* or *group*, as the case may be, for the *firm's* financial year immediately preceding that in which the *person* is allocated with the specified responsibilities; or
 - (2) if the threshold amount is not met for that period, on the basis of the annual average amount calculated across a rolling period of five years (calculated by reference to the *firm's* annual accounting date). Where the *firm* or the business area or division has been in existence for less than five years, the calculation will be made on the basis of the annual average amount for the period during which the *firm* or that business line or division has existed (calculated by reference to the *firm's* annual accounting date).

4 OVERSIGHT

- 4.1 This Chapter does not apply to a *credit union*.
- 4.2 The *Chairman function* (SMF9) is the function of having responsibility for chairing, and overseeing the performance of the role of, the *governing body* of a *firm*.
- 4.3 The *Chairman of Risk Committee function* (SMF10) is the function of having responsibility for chairing, and overseeing the performance of any committee responsible for the oversight of the risk management systems, policies and procedures of a *firm* specified in SYSC 7.1 of the *PRA Handbook*, including where applicable to the *firm*, a committee established in accordance with SYSC 7.1.18R of the *PRA Handbook*.
- 4.4 The *Chairman of Audit Committee function* (SMF11) is the function of having responsibility for chairing, and overseeing the performance of any committee responsible for the internal audit system of a *firm* specified in SYSC 6.2 of the *PRA Handbook*.
- 4.5 The *Chairman of Remuneration Committee function* (SMF12) is the function of having responsibility for chairing, and overseeing the performance of any committee responsible for

the oversight of the design and the implementation of the remuneration policies of a *firm*, including where applicable to the firm, a committee established in accordance with SYSC 19A.3.12R of the *PRA Handbook*.

- 4.6 The *Senior Independent Director function* (SMF14) is the function of performing the role of a senior independent *director*, and having particular responsibility for leading the assessment of the performance of the *person* performing the *Chairman function*.

5 GROUP ENTITIES

- 5.1 This Chapter does not apply to a *credit union*.
- 5.2 The *Group Entity Senior Manager function* (SMF7) is the function of having a significant influence on the management or conduct of one or more aspects of the affairs of a *firm* in relation to its *regulated activities* (other than in the course of the performance of another *PRA senior management function*) and which is performed by a *person* employed by, or an officer of:
- (1) a *parent undertaking* or *holding company* of a *firm*; or
 - (2) another *undertaking* which is a member of the *firm's group*.

6 CREDIT UNIONS

- 6.1 This Chapter applies only to a *credit union*.
- 6.2 The *Credit Union Senior Manager function* (SMF8) is the function of having responsibility for the conduct of, and/or chairing the committee of management of a *credit union*.
- 6.3
- (1) A *credit union* must ensure that at least one *person* performs the *Credit Union Senior Manager function* on its behalf.
 - (2) If a vacancy arises in respect of the *Credit Union Senior Manager function*, a *credit union* must ensure that it appoints a *person* to fill that vacancy as soon as practicable.

7 COMBINATION OF SENIOR MANAGEMENT FUNCTIONS

- 7.1 Except as otherwise provided in this Chapter, a *person* may perform more than one *PRA senior management function* on behalf of a *firm*.
- 7.2 A *firm* must ensure that a *person* who performs the *Chairman function* on its behalf does not simultaneously perform the *Chief Executive function* within the same *firm*.

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

Annex C

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

Part

ALLOCATION OF RESPONSIBILITIES

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. STATEMENT OF RESPONSIBILITIES**
- 3. ALLOCATION OF RESPONSIBILITIES**
- 4. PRESCRIBED RESPONSIBILITIES**
- 5. PRESCRIBED RESPONSIBILITIES: SMALL FIRMS**
- 6. RECORDS**
- 7. CHAIRMAN'S OFFICE**

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* that is:

- (1) a *CRR firm*; or
- (2) a *credit union*.

1.2 In this Part, the following definitions shall apply:

ancillary services

means any of the services listed in Section B of Annex I to *MiFID*.

certification rules

means the rules set out in Certification of Employees.

Chairman function

has the meaning given in Senior Management Functions 4.2.

Chief Risk function

has the meaning given in Senior Management Functions 3.4.

compliance oversight function

means an *FCA controlled function* specified in SUP 10C.6.1R of the *FCA Handbook*.

Credit Union Senior Manager function

has the meaning given in Senior Management Functions 6.2.

FCA approved person

means a *person* approved to perform an *FCA controlled function* by the *FCA* under section 59 of *FSMA*.

FCA Chairman of nomination committee function

means an *FCA controlled function* specified in SUP 10C.5.2R of the *FCA Handbook*.

FCA designated senior management function

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

FCA significant responsibility senior management function

means the *FCA controlled function* specified in SUP10C.7.1R of the *FCA Handbook*.

FCA business functions

means any of the functions set out in SUP10C Annex 1R of the *FCA Handbook*.

FCA responsibilities

means any of the functions set out in

- (1) SYSC 4.7.7R (Table of FCA Prescribed senior management responsibilities); and
- (2) SYSC 4 Annex 1G (The main business activities and functions of a relevant authorised person),

of the *FCA Handbook*.

Group Entity Senior Manager function

has the meaning given in Senior Management Functions 5.2.

management responsibilities map

has the meaning given in 6.

oversight PRA senior management function

means a *PRA senior management function* set out in Senior Management Functions 4.

prescribed responsibility

means one of the responsibilities in 4.1 and 4.2.

proprietary trading

means

- (a) the *regulated activity* of *dealing in investments as principal* as specified in Article 14 of the *Regulated Activities Order* (Dealing in investments as principal), disregarding the exclusion in Article 15 of the *Regulated Activities Order* (Absence of holding out etc.); and
- (b) *ancillary activities* and (in relation to *MiFID business*) *ancillary services* carried out in relation to the *regulated activity*.

recovery plan

has the meaning given in Recovery Plans 1.2.

resolution pack

has the meaning given in Resolution Pack 1.2.

ring-fencing requirement

means any requirement imposed on a *ring-fenced body* by or under *FSMA*, as a consequence of it being a *ring-fenced body*, including any *ring-fencing rule* or under s142G of *FSMA*.

ring-fenced body prescribed responsibility

means the responsibility in 4.2(4).

senior management regime

means the requirements of the *regulatory system* which apply to *relevant authorised persons* insofar as they relate to *approved persons performing PRA senior management functions* and *FCA designated senior management functions*, including those set out in Senior Management Functions and Allocation of Responsibilities.

small CRR firm

means a *CRR firm* which has gross total assets of £250 million or less, determined on the basis of the annual average amount calculated across a rolling period of five years (calculated by reference to the *firm's* annual accounting date). Where the *firm* has been in existence for less than five years, the calculation will be made on the basis of the annual average amount for the period during which the *firm* has been in existence (calculated by reference to the *firm's* annual accounting date).

small firm prescribed responsibility

has the meaning given in 5.2.

statement of responsibilities

means a statement of the affairs of a *relevant authorised person* for which it is intended that a *person* who performs (or is subject to an application to perform) a *PRA senior management function* is (or will be) responsible.

1.3 This Part does not apply to a function performed by:

- (1) a *person* acting as an insolvency practitioner within the meaning of section 388 of the Insolvency Act 1986; or
- (2) a *person* acting as a nominee in relation to a voluntary arrangement under Parts I (Company Voluntary Arrangements) and VIII (Individual Voluntary Arrangements) of the Insolvency Act 1986; or
- (3) a *person* acting as an insolvency practitioner within the meaning of Article 3 of the Insolvency (Northern Ireland) Order 1989; or
- (4) a *person* acting as a nominee in relation to a voluntary arrangement under Parts II (Company Voluntary Arrangements) and VIII (Individual Voluntary arrangements) of the Insolvency (Northern Ireland) Order 1989.

2 STATEMENT OF RESPONSIBILITIES

2.1 A *firm* must ensure that any application it makes for the approval of a *person* to perform a *PRA senior management function* is accompanied by a *statement of responsibilities*.

2.2 A *firm* must ensure that the *statement of responsibilities* accompanying an application for approval to perform a *PRA senior management function* in relation to it includes any *prescribed responsibilities*, *small firm prescribed responsibilities*, *FCA responsibilities* and other responsibilities allocated to, and which are to form part of the responsibilities of, that *person*.

2.3 A *firm* must ensure that any responsibilities allocated to, and that form part of the responsibilities of, a *person* who performs a *PRA senior management function* in relation to it are consistent with the scope of that *PRA senior management function* and of any *prescribed*

responsibilities, small firm prescribed responsibilities, FCA responsibilities and other responsibilities allocated to that person.

3 ALLOCATION OF RESPONSIBILITIES

- 3.1 (1) A *firm* (other than a *small CRR firm* or a *credit union*) must allocate each of the *prescribed responsibilities* set out in 4.1 (other than 4.1(13) to (19)) to one or more *persons* who perform:
- (a) a *PRA senior management function*; or
 - (b) subject to 3.5(1), an *FCA designated senior management function*
- on behalf of the *firm*.
- (2) If the circumstances set out in a *prescribed responsibility* in 4.2 (1), (2), or (3) apply to a *firm* (other than a *small CRR firm* or a *credit union*), the *firm* must allocate the *prescribed responsibility* to one or more *persons* who perform:
- (a) a *PRA senior management function*; or
 - (b) subject to 3.5(1), an *FCA designated senior management functions*
- on behalf of the *firm*.
- 3.2 (1) A *firm* (other than a *small CRR firm* or a *credit union*) must allocate each of the *prescribed responsibilities* in 4.1(13) to (19) to one or more *persons* who perform:
- (a) an *oversight PRA senior management function*; or
 - (c) the *FCA Chairman of nomination committee function*
- on behalf of the *firm*.
- 3.3 (1) A *small CRR firm* must allocate each of the *small firm prescribed responsibilities* to one or more *persons* who perform:
- (a) a *PRA senior management function*; or
 - (b) subject to 3.5(2), an *FCA designated senior management function*
- on behalf of the *small CRR firm*.
- (2) A *credit union* must allocate each of the *small firm prescribed responsibilities* to one or more *persons* who perform:
- (a) the *Credit Union Senior Manager function*; or
 - (b) subject to 3.5(2), an *FCA designated senior management function*
- on behalf of the *credit union*.
- 3.4 A *firm* which is a *ring-fenced body* must ensure that the *ring-fenced body prescribed responsibility* is allocated to each *person* who:
- (1) performs a *PRA senior management function* or an *FCA designated senior management function*; and

- (2) is responsible for managing any area of the *ring-fenced body's* business that is subject to a *ring-fencing requirement*

on behalf of the *firm*.

- 3.5 (1) A *firm* must not allocate a *prescribed responsibility* to a person who performs an *FCA significant responsibility senior management function*.
- (2) A *small CRR firm* or a *credit union* must not allocate a *small firm prescribed responsibility* to a person who performs an *FCA significant responsibility senior management function*.

4 PRESCRIBED RESPONSIBILITIES

4.1 Each of the responsibilities set out in this rule is a *prescribed responsibility*:

- (1) responsibility for the *firm's* performance of its obligations under the *senior management regime*;
- (2) responsibility for the *firm's* performance of its obligations under the *certification rules*;
- (3) responsibility for compliance with the *firm's* obligations in relation to its *management responsibilities map*;
- (4) responsibility for the allocation of all *prescribed responsibilities* in accordance with 3.1;
- (5) responsibility for monitoring effective implementation of policies and procedures for the induction, training and professional development of *senior management*, other than members of the *governing body*;
- (6) responsibility for overseeing the adoption of the *firm's* culture in the day-to-day management of the *firm*;
- (7) responsibility for managing the allocation and maintenance of the *firm's* capital, funding and liquidity;
- (8) responsibility for the *firm's* treasury management functions;
- (9) responsibility for the production and integrity of the *firm's* financial information and its regulatory reporting under the *regulatory system*;
- (10) responsibility for developing and maintaining the *firm's recovery plan* and *resolution pack* and for overseeing the internal processes regarding their governance;
- (11) responsibility for managing the *firm's* internal stress-tests and ensuring the accuracy and timeliness of information provided to the *PRA* and other regulatory bodies for the purposes of stress- testing;
- (12) responsibility for the development and maintenance of the *firm's* business model by the *governing body*;
- (13) responsibility for leading the development and monitoring effective implementation of policies and procedures for the induction, training and professional development of all members of the *firm's governing body*;

- (14) responsibility for leading the development of the *firm's* culture by the *governing body* as a whole;
- (15) responsibility for safeguarding the independence of, and overseeing the performance of, the internal audit function, including the performance of a *person* approved to perform the *Head of Internal Audit function* on behalf of the *firm*, in accordance with SYSC 6.2 (Internal audit) of the *PRA Handbook*;
- (16) responsibility for safeguarding the independence of, and overseeing the performance of, the compliance function, including the performance of a *person* approved by the *FCA* to perform the *compliance oversight function* on behalf of the *firm*, in accordance with SYSC 6.1 (Compliance) of the *PRA Handbook*;
- (17) responsibility for safeguarding the independence of, and overseeing of the performance of, the risk function, including the performance of a *person* approved to perform the *Chief Risk function* on behalf of the *firm*, in accordance with SYSC 7.1.21R and SYSC 7.1.22R (Risk control) of the *PRA Handbook*;
- (18) responsibility for developing and overseeing the firm's remuneration policies and practices in accordance with SYSC 19A (Remuneration Code) of the *PRA Handbook*;
- (19) responsibility for the independence, autonomy and effectiveness of the *firm's* policies and procedures on whistleblowing, including the procedures for protection of staff who raise concerns from detrimental treatment.

4.2 Each of the responsibilities set out in this rule is a *prescribed responsibility* in the circumstances specified:

- (1) if the firm carries out *proprietary trading*, responsibility for the *firm's proprietary trading* activities;
- (2) if the *firm* does not have a *person* who performs the *Chief Risk function*, responsibility for the compliance of the firm's risk management systems, policies and procedures with the requirements of SYSC 7.1.2R to SYSC 7.1.5R of the *PRA Handbook*;
- (3) if the *firm* outsources its internal audit function, responsibility for taking reasonable steps to ensure that every *person* involved in the performance of that function is independent from the *persons* who perform external audit, including:
 - (a) supervision and management of the work of outsourced internal auditors; and
 - (b) management of potential conflicts of interest between the provision of external audit and internal audit services;
- (4) if the *firm* is a *ring-fenced body*, responsibility for ensuring that those aspects of the *firm's* affairs for which a person is responsible for managing are in compliance with the *ring-fencing requirements*.

5 PRESCRIBED RESPONSIBILITIES: SMALL FIRMS

5.1 This Chapter applies only to

- (1) a small *CRR firm*; and
- (2) a *credit union*.

- 5.2 Each of the responsibilities listed in this rule is a *small firm prescribed responsibility*:
- (1) each of the *prescribed responsibilities* in 4.1(1) – (3);
 - (2) responsibility for allocation of all *small firm prescribed responsibilities* in accordance with 3.3(1) or (2), as the case may be;
 - (3) responsibility for implementing and managing the *firm's* risk management policies and procedures;
 - (4) responsibility for managing the systems and controls of the *firm*;
 - (5) responsibility for managing the *firm's* financial resources; and
 - (6) responsibility for ensuring the *governing body* is informed of its legal and regulatory obligations.

6 RECORDS

- 6.1 A *firm* must at all times have a comprehensive and up-to-date single document (a *management responsibilities map*) that describes the *firm's* management and governance arrangements including:
- (1) details of the reporting lines and the lines of responsibility; and
 - (2) reasonable details about the *persons* who are part of these arrangements;
 - (3) the responsibilities of those *persons*.
- 6.2 A *management responsibilities map* must in particular include:
- (1) the names of all the *firm's approved persons* (including *FCA approved persons*), *senior management* and the responsibilities held by each, including all *FCA business functions* and *FCA responsibilities*;
 - (2) if any *PRA senior management functions* or *FCA designated senior management functions* are performed by more than one *person*, or any *prescribed responsibilities* or *small firm prescribed responsibilities*, as the case may be, are allocated to more than one *person*, details of how the performance or discharge of the responsibilities is to be carried out by those *persons*;
 - (3) matters reserved to the *management body* (including the terms of reference of its committees);
 - (4) where the *firm* is a member of a *group*;
 - (a) how the *firm's* management and governance arrangements fit together with those of its *group* and the extent to which the *firm's* management and governance arrangements are provided by or shared with other members of its *group*; and
 - (b) details of the reporting lines and the lines of responsibility (if any) to *persons* who are *employees* or officers of other *group* members or to committees or other bodies of the *group* or of other *group* members; and

(5) details of how the matters set out in (1) to (4) fit into the *firm's* management and governance arrangements as a whole.

6.3 If the content of a *statement of responsibilities* is modified or revised, a *firm* must send a copy of that revised *statement of responsibilities* to the *PRA* as soon as possible.

6.4 A *firm* must retain a copy of each version of:

- (1) its *management responsibilities map*; and
- (2) the *statement of responsibilities* for each person who performs or has performed a *PRA senior management function* for the *firm*

for a period of ten years from the date on which the *management responsibilities map* or the *statement of responsibilities*, as the case may be, is superseded by a more up-to-date version.

7 CHAIRMAN'S OFFICE

7.1 A *firm* must ensure that the office of the *Chairman function* has resources that are adequate as to both quality and quantity to enable it to fulfil its role within the *firm*.

Annex D

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

Part

CERTIFICATION

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. PERFORMANCE OF CERTIFICATION FUNCTIONS**

Links

Material Risk Takers Regulation

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* that is:

- (1) a *CRR firm*; or
- (2) a *credit union*.

1.2 In this Part, the following definitions shall apply:

employee

in relation to a *firm*, includes any *person* within the description set out in section 63E(9) of *FSMA*.

Material Risk Takers Regulation

means Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.

significant risk taker

means

- (1) any *employee* of a *CRR firm* who meets any of the criteria set out in Articles 3 to 5 of the *Material Risk Takers Regulation*; or
- (2) any *employee* of a *credit union* who:
 - (a) is a member of the *governing body*;
 - (b) is a member of the *senior management*;
 - (c) is responsible and accountable to the *management body* for the activities of the independent risk management function, compliance function or internal audit function; or
 - (d) heads a function responsible for legal affairs, finance including taxation and budgeting, human resources, remuneration policy, information technology or economic analysis.

1.3 This Part does not apply to a function performed by:

- (1) a *person* acting as an insolvency practitioner within the meaning of section 388 of the *Insolvency Act 1986*;
- (2) a *person* acting as a nominee in relation to a voluntary arrangement under Part I (*Company Voluntary Arrangements*) of the *Insolvency Act 1986*;
- (3) a *person* acting as an insolvency practitioner within the meaning of Article 3 of the *Insolvency (Northern Ireland) Order 1989*; or

- (4) a *person* acting as a nominee in relation to a voluntary arrangement under Part II (Company Voluntary Arrangements) of the Insolvency (Northern Ireland) Order 1989.

2 PERFORMANCE OF CERTIFICATION FUNCTIONS

- 2.1 A *firm* must take reasonable care to ensure that none of its *employees* performs a *certification function* under an arrangement entered into by the *firm* in relation to the carrying on by the *firm* of a *regulated activity*, unless the *employee* has a valid *certificate* issued by the *firm*.
- 2.2 For the purposes of this Part, any function that is performed by a *significant risk taker* for a *firm* is a *certification function* to the extent that the function requires the *significant risk taker* to be involved in one or more aspects of the *firm's* affairs, so far as relating to a *regulated activity* carried on by the *firm*.
- 2.3 However, a *significant risk taker* does not perform a *certification function* for a *firm* under 2.2 if the *significant risk taker* is performing any *controlled function* for that *firm*.
- 2.4 To the extent that:
- (1) a *firm* appoints a *person* to perform a function which, but for this rule, would be a *certification function*;
 - (2) the appointment solely is to provide cover for a *certification employee* whose absence is reasonably unforeseen; and
 - (3) the appointment is for less than four weeks;
- such a *person* does not perform a *certification function*.

Annex E

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

Part

FITNESS AND PROPRIETY

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS**

Links

1 APPLICATION AND DEFINITIONS

- 1.1 Unless otherwise stated, this Part applies to every *firm* that is:
- (1) a *CRR firm*; or
 - (2) a *credit union*.
- 1.2 The matters referred to in 2 are relevant to the *PRA*'s determination of whether a *person* to whom a *senior management application* relates is fit and proper.
- 1.3 In this Part, the following definitions shall apply:
- senior management application*

means an application for the *PRA*'s approval under section 59 of *FSMA*.

2 FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS

- 2.1
- (1) A *firm* must not make a *senior management application* in relation to a *person* unless it is satisfied that *person* is fit and proper to perform the *PRA senior management function* to which the application relates.
 - (2) A *firm* must not issue a *certificate* in relation to a *person*, unless it is satisfied that *person* is fit and proper to perform the *certification function* to which the *certificate* relates.
 - (3) In deciding whether a *person* is fit and proper, a *firm* must be satisfied the *person*:
 - (a) has the personal characteristics (including being of good repute and integrity);
 - (b) possesses the level of competence, knowledge and experience;
 - (c) has the qualifications; and
 - (d) has undergone or is undergoing all training,
required to enable such *person* to perform his or her function effectively and in accordance with any relevant regulatory requirements, including those under the *regulatory system*, and to enable sound and prudent management of the *firm*.
 - (4) Before deciding whether a *person* is fit and proper, a *firm* must take reasonable steps to obtain appropriate references from that *person*'s previous employers covering at least the past five years.
 - (5) In deciding whether a *person* (P) is fit and proper in connection with a *senior management application*, a *firm* must:
 - (a) obtain P's consent for the *firm* to request the fullest information in relation to P that it is lawfully able to request under the Police Act 1997 (Certificates of Criminal records, etc) and related subordinated legislation of the *UK* or any part of the *UK*;
 - (b) if P has lived or worked outside the *UK* for a material time in the previous five years, obtain P's consent for the *firm* to request the fullest information in

relation to P that it is lawfully able to request under equivalent overseas legislation; and

(c) request, and have regard to, such information.

**PRA RULEBOOK: SOLVENCY II FIRMS: SENIOR INSURANCE MANAGERS REGIME
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 59 (approval for particular arrangements);
 - (2) section 60 (applications for approval);
 - (3) section 137G (the PRA’s general rules); and
 - (4) 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 Instrument 2015

- D. The PRA makes the rules in Annex A, Annex B and Annex C to this instrument.

Commencement

- E. This instrument comes into force on 7 March 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Senior Insurance Managers Regime Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex A

Part

INSURANCE – SENIOR INSURANCE MANAGEMENT FUNCTIONS

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. GENERAL**
- 3. EXECUTIVE**
- 4. OVERSIGHT**
- 5. GROUP ENTITIES**
- 6. HEAD OF THIRD COUNTRY BRANCH**
- 7. CHIEF ACTUARY**
- 8. WITH-PROFITS ACTUARY**
- 9. CHIEF UNDERWRITING OFFICER**
- 10. UNDERWRITING RISK OVERSIGHT**
- 11. LLOYD'S**
- 12. ISPVs**

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 11;
- (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 11;
- (4) a *third country branch undertaking* (other than a *Swiss general insurer*); and
- (5) an *ISPV*, in accordance with 12.

1.2 In this Part, the following definitions shall apply:

Chief Actuary function

has the meaning given in 7.1.

Chief Executive function

has the meaning given in 3.1.

Chief Finance function

has the meaning given in 3.2.

Chief Risk function

has the meaning given in 3.3.

Chief Underwriting Officer function

has the meaning given in 9.2.

Group Entity Senior Insurance Manager function

has the meaning given in 5.1.

Head of Internal Audit function

has the meaning given in 3.4.

Head of Third Country Branch function

has the meaning given in 6.2.

Underwriting Risk Oversight function

has the meaning given in 10.2.

With-Profits Actuary function

has the meaning given in 8.2.

2 GENERAL

- 2.1 Each of the functions in 3 –10 is a *controlled function* and a *senior insurance management function*.
- 2.2 *Senior insurance management function holders* must each be approved by the PRA to perform the applicable *senior insurance management function*.
- 2.3 (1) A *firm* (other than a *third country branch undertaking*) must ensure that one or more *persons* performs each of the following *senior insurance management functions* on its behalf:
- (a) the *Chief Executive function*; and
 - (b) the *Chief Finance function*.
- (2) If a vacancy arises in respect of one or more of the *senior insurance management functions* set out in (1), a *firm* must ensure that it appoints a *person* to fill that vacancy as soon as practicable.
- 2.4 To the extent that:
- (1) a *firm* appoints a *person* to perform a *key function* which, but for this rule, would be a *senior insurance management function*;
 - (2) the appointment is solely to provide cover for a *senior insurance management function holder* whose absence is:
 - (a) temporary; or
 - (b) reasonably unforeseen; and
 - (3) the appointment is for less than 12 weeks in a consecutive 12-month period,
- the description of the applicable *senior insurance management function* does not relate to those activities of that *person*.

3 EXECUTIVE

- 3.1 The *Chief Executive function* (SIMF1) is the function of having responsibility, under the immediate authority of the *governing body*, alone or jointly with others, for carrying out the management of the conduct of the whole of the business (or relevant activities) of a *firm*.
- 3.2 The *Chief Finance function* (SIMF2) is the function of having responsibility for the management of the financial resources of a *firm* and reporting to the *governing body* of a *firm* in relation to its financial affairs.
- 3.3 The *Chief Risk function* (SIMF4) is the function of having responsibility for overall management of the risk management system specified in Conditions Governing Business 3.
- 3.4 The *Head of Internal Audit function* (SIMF5) is the function of having responsibility for the management of the internal audit *function* specified in Conditions Governing Business 5.

4 OVERSIGHT

[Not yet in force]

5 GROUP ENTITIES

- 5.1 The *Group Entity Senior Insurance Manager function* (SIMF7) is the function of having a significant influence on the management or conduct of one or more aspects of the affairs of a *firm* in relation to its *regulated activities* (other than in the course of the performance of another *senior insurance management function*) and which is performed by a *person* employed by, or an officer (other than a *non-executive director*) of:
- (1) a *parent undertaking* or holding company of a *firm*; or
 - (2) another *undertaking* which is a *member* of the *firm's group*.

6 HEAD OF THIRD COUNTRY BRANCH

- 6.1 This Chapter applies only to a *firm* that is a *third country branch undertaking*.
- 6.2 The *Head of Third Country Branch function* (SIMF19) is the function of having responsibility for the conduct of all activities of the *third country branch undertaking* that are subject to the *regulatory system*.
- 6.3
- (1) A *third country branch undertaking* 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 *third country branch undertaking* must ensure that it appoints a *person* to fill that vacancy as soon as possible.
- 6.4 A *third country branch undertaking* that transacts *with-profits insurance business* must have at least one person approved to perform the *With-Profits Actuary function* (SIMF21).
- 6.5 A *third country branch undertaking* is not required to have any *person(s)* approved to perform any of the other *senior insurance management functions*.

7 CHIEF ACTUARY

- 7.1 The *Chief Actuary function* (SIMF20) is the function of having responsibility for the actuarial *function* specified in Conditions Governing Business 6.

8 WITH-PROFITS ACTUARY

- 8.1 This Chapter applies only to *firms* that carry on *with-profits insurance business*.
- 8.2 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 Actuarial 5.1.

9 CHIEF UNDERWRITING OFFICER

- 9.1 This Chapter applies only to *firms* that carry on *general insurance business* and to *managing agents*.
- 9.2 The *Chief Underwriting Officer function* (SIMF22) is the function of having responsibility for the underwriting decisions in respect of material insurance risks that:
- (1) in relation to *firms* that carry on *general insurance business*, are borne by the *firm*; or
 - (2) in relation to *managing agents*, are borne by *members*.

10 UNDERWRITING RISK OVERSIGHT

- 10.1 This Chapter applies only to the *Society*.
- 10.2 The *Underwriting Risk Oversight function* (SIMF23) is the function of overseeing and influencing underwriting plans by *managing agents* in respect of risks borne by *members*.

11 LLOYD'S

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

12 ISPVS

- 12.1 This Chapter applies only to *firms* that are *ISPVs*.
- 12.2 The following *senior insurance management functions* do not apply to an *ISPV*:
- (1) *Chief Risk function* (SIMF4);
 - (2) *Head of Internal Audit function* (SIMF5);
 - (3) *Head of Third Country Branch function* (SIMF19);
 - (4) *With-Profits Actuary function* (SIMF21); and
 - (5) *Chief Underwriting Officer function* (SIMF22).

Annex B

Part

INSURANCE – FITNESS AND PROPRIETY

Chapter content

1. APPLICATION
2. FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS
3. OBLIGATION TO PROVIDE REFERENCES
4. DISCLOSURE AND REPLACEMENTS
5. LLOYD'S

1 APPLICATION

- 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 5;
 - (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 5;
 - (4) a *third country branch undertaking* (other than a *Swiss general insurer*); and
 - (5) an *ISPV*.

2 FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS

- 2.1 A *firm* must ensure that all *persons* who perform *key functions* are at all times fit and proper *persons*.

[Note: Art. 42(1) of the *Solvency II Directive*]

- 2.2 In deciding whether a *person* is fit and proper pursuant to 2.1, a *firm* must be satisfied that the *person*:
- (1) has the personal characteristics (including being of good repute and integrity);
 - (2) possesses the level of competence, knowledge and experience;
 - (3) has the qualifications; and
 - (4) has undergone or is undergoing all training,

required to enable such *person* to perform his or her *key function* effectively and in accordance with any relevant regulatory requirements, including those under the *regulatory system*, and to enable sound and prudent management of the *firm*.

[Note: Art. 42(1) of the *Solvency II Directive*]

- 2.3 Before deciding, and in considering on an on-going basis, whether a *person* is fit and proper pursuant to 2.1 and 2.2, a *firm* must consider the *person's* past business conduct.

[Note: Art. 42(1) of the *Solvency II Directive*]

- 2.4 Before deciding whether a *person* (P) is fit and proper to become a *senior insurance management function holder*, a *firm* must:
- (1) obtain P's consent for the *firm* to request the fullest information in relation to P that it is lawfully able to request under the Police Act 1997 and related subordinated legislation of the *UK* or any part of the *UK*;
 - (2) if P has lived or worked outside the *UK* for a material time in the previous five years, obtain P's consent for the *firm* to request the fullest information in relation to P that it is lawfully able to request under equivalent overseas legislation; and
 - (3) request, and have regard to, such information.

- 2.5 Before deciding whether a *person* is fit and proper to become a *senior insurance management function holder*, a *firm* must take reasonable steps to obtain appropriate references from that *person's* current and previous employers covering at least the past five years.
- 2.6 Where a *firm* (A) seeks a reference pursuant to 2.5 from an *FCA-authorised person* or a *PRA-authorised person* (B), A must also request that B discloses all matters of which B is aware that are relevant to the assessment of that *person's* fitness and propriety.

3 OBLIGATION TO PROVIDE REFERENCES

- 3.1 [Not yet in force]

4 DISCLOSURE AND REPLACEMENTS

- 4.1 (1) A *firm* (other than an *ISPV*) shall notify the *PRA* of any changes to the identity of *key function holders* and shall provide the *PRA* with:
- (a) all the information needed to assess whether such *person* is fit and proper pursuant to 2.2; and
 - (b) the information referred to in Insurance - Allocation of Responsibilities 5.1(3) in respect of that *person*.
- (2) An *ISPV* shall notify the *PRA* of any changes to the identity of *key function holders* who are effectively running the *firm* and shall provide the *PRA* with all the information needed to assess whether such *person* is fit and proper pursuant to 2.2.

[Note: Art. 42(2) of the Solvency II Directive]

- 4.2 Where:
- (1) a *key function holder* is to be approved by the *PRA* to perform a *senior insurance management function*; and
 - (2) the *firm* includes the information referred to in 4.1 in its application to the *PRA* for the approval of that *person* to perform the *senior insurance management function*,

this shall discharge the obligation in 4.1 in respect of that *key function* appointment.

- 4.3 If a *firm* becomes aware of information which would reasonably be expected to be material to the assessment of a current or former *key function holder's* fitness and propriety under this Part, it must inform the *PRA* as soon as practicable.

[Note: Art. 42(3) of the Solvency II Directive]

- 4.4 Where a *firm* replaces a *key function holder* because the *firm* considers that that *person* is no longer fit and proper pursuant to 2.1 and 2.2, the *firm* must notify the *PRA* as soon as reasonably practicable.

[Note: Art. 42(3) of the Solvency II Directive]

5. LLOYD'S

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

Annex C

Part

INSURANCE – ALLOCATION OF RESPONSIBILITIES

Chapter content

1. APPLICATION AND DEFINITIONS
2. ALLOCATION OF RESPONSIBILITIES
3. SIMR PRESCRIBED RESPONSIBILITIES
4. IDENTIFICATION OF KEY FUNCTIONS
5. RECORDS
6. LLOYD'S

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 6;
- (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 6; and
- (4) a *third country branch undertaking* (other than a *Swiss general insurer*).

1.2 In this Part, the following definitions shall apply:

governance map

has the meaning given in 5.1.

SIMR prescribed responsibility

- (1) for a *firm* (other than a *third country branch undertaking*) means the responsibilities in 3.1;
- (2) for a *third country branch undertaking* (other than a *UK-deposit insurer* or a *Swiss general insurer*) means the responsibilities set out in 3.1 to the extent only that they are relevant to the operations effected by its *third country branch*, save in relation to 3.1(4) which shall also take account of the operations of the *third country branch undertaking* to the same extent as is necessary to ensure compliance by the *third country branch undertaking* with Third Country Branches 13;
- (3) for a *UK-deposit insurer*, means the responsibilities set out in 3.1 to the extent only that they are relevant to the operations effected by its *third country branch* and all its *third country undertaking EEA branches*, save in relation to 3.1(4) which shall also take account of the operations of the *third country branch undertaking* to the same extent as is necessary to ensure compliance by the *third country branch undertaking* with Third Country Branches 13.

2 ALLOCATION OF RESPONSIBILITIES

2.1 A *firm* (other than a *third country branch undertaking*) must allocate each element of the *SIMR prescribed responsibilities* set out in 3.1 (other than 3.1(10) and (11)), to one or more *persons* who 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 *third country branch undertaking*) must allocate each element of the *SIMR prescribed responsibilities* set out in 3.1(10) and (11) to one or more *non-executive directors*.

2.3 A *third country branch undertaking* must allocate each element of the *SIMR prescribed responsibilities* set out in 3.1(1), (4), (5), (6) and (7) to one or more *persons* who 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*.

3 SIMR PRESCRIBED RESPONSIBILITIES

3.1 Each of the responsibilities set out in this rule is an *SIMR prescribed responsibility*.

- (1) responsibility for ensuring that the *firm* has complied with its obligation in Insurance - Fitness and Propriety 2.1 to ensure that every *person* who performs a *key function* (including those in respect of whom an application under section 59 of *FSMA* is made) is a fit and proper *person*;
- (2) responsibility for leading the development of the *firm's* culture by the *governing body* as a whole;
- (3) responsibility for overseeing the adoption of the *firm's* culture in the day-to-day management of the *firm*;
- (4) responsibility for the production and integrity of the *firm's* financial information and its regulatory reporting;
- (5) responsibility for management of the allocation and maintenance of the *firm's*;
 - (a) capital; and
 - (b) liquidity;
- (6) responsibility for the development and maintenance of the *firm's* business model by the *governing body*;
- (7) responsibility for performance of the *firm's* *ORSA*;
- (8) responsibility for leading the development and monitoring effective implementation of policies and procedures for the induction, training and professional development of all members of the *firm's* *governing body*;
- (9) responsibility for monitoring effective implementation of policies and procedures for the induction, training and professional development of all of the *firm's* *key function holders* (other than members of the *firm's* *governing body*);
- (10) responsibility for the independence, autonomy and effectiveness of the *firm's* policies and procedures on whistleblowing including the procedures for protection of staff who raise concerns from detrimental treatment; and
- (11) responsibility for developing and overseeing the *firm's* remuneration policies and practices.

4 IDENTIFICATION OF KEY FUNCTIONS

4.1 A *firm* must identify:

- (1) each of the *functions* that the *firm* considers to be a *key function*; and
- (2) any such *key function* that amounts to effectively running the *firm* (or, for a *third country branch undertaking*, 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).

- 4.2 A firm must keep its identification of *key functions* pursuant to 4.1 up-to-date.
- 4.3 A firm must keep a record of its reasoning for the identification of *key functions* pursuant to 4.1.

5 RECORDS

5.1 A firm must have and maintain a *governance map*, which is a clear and coherent document or series of documents with the following details:

- (1) a list of the *key functions* identified by the firm in accordance with 4.1 highlighting those that amount to effectively running the firm (or, for a *third country branch undertaking*, 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*);
- (2) the names of the *persons* who effectively run the firm (or, for a *third country branch undertaking*, effectively run 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*) or who are responsible for other *key functions* listed pursuant to 5.1(1);
- (3) for each *person* named pursuant to 5.1(2), a summary of the significant responsibilities allocated to that *person* (including, if applicable, any *SIMR prescribed responsibilities* that have been allocated to that *person* in accordance with 2);
- (4) where any responsibilities covered by 5.1(3) are allocated to more than one *person*, details of how those responsibilities are shared or divided between the *persons* concerned;
- (5) reporting lines and lines of responsibility for each *person* listed pursuant to 5.1(2);
- (6) where a firm (other than a *third country branch undertaking*) is a member of a *group*:
 - (a) how the firm's management and governance arrangements fit together with those of its *group* and the extent to which the firm's management and governance arrangements are provided by or shared with other members of its *group*; and
 - (b) for the *persons* listed pursuant to 5.1(2), details of the reporting lines and the lines of responsibility (if any) to *persons* who are employees or officers of other *group* members or to committees or other bodies of the *group* or of other *group* members.

5.2 A firm must update the *governance map*:

- (1) at least quarterly; and
- (2) in the event of a significant change to:
 - (a) the firm's governance structure;
 - (b) the significant responsibilities allocated to a *key function holder*; or

(c) the reporting lines or lines of responsibility for a *key function holder*.

5.3 A *firm* must, as soon as reasonably practicable, provide the following to the *PRA*:

- (1) upon request by the *PRA*, a copy of the *governance map*; and
- (2) in the event of an update pursuant to 5.2(2), a copy of the relevant part of the *governance map*.

6 LLOYD'S

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

**PRA RULEBOOK: SOLVENCY II FIRMS: SENIOR INSURANCE MANAGERS REGIME –
SOLVENCY II 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 – Solvency II Instrument 2015

- D. The PRA makes the rules in Annex A and Annex B to this instrument.

Commencement

- E. This instrument comes into force on 1 January 2016 and will remain in force up to and including 6 March 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Senior Insurance Managers Regime – Solvency II Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex A

Part

INSURANCE – FITNESS AND PROPRIETY

Chapter content

1. APPLICATION
2. FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS
3. OBLIGATION TO PROVIDE REFERENCES
4. DISCLOSURE AND REPLACEMENTS
5. LLOYD'S

1 APPLICATION

- 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 5;
 - (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 5;
 - (4) a *third country branch undertaking* (other than a *Swiss general insurer*); and
 - (5) an *ISPV*.

2 FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS

- 2.1 A *firm* must ensure that all *persons* who perform *key functions* are at all times fit and proper *persons*.

[Note: Art. 42(1) of the *Solvency II Directive*]

- 2.2 In deciding whether a *person* is fit and proper pursuant to 2.1, a *firm* must be satisfied that the *person*:
- (1) has the personal characteristics (including being of good repute and integrity);
 - (2) possesses the level of competence, knowledge and experience;
 - (3) has the qualifications; and
 - (4) has undergone or is undergoing all training,

required to enable such *person* to perform his or her *key function* effectively and in accordance with any relevant regulatory requirements, including those under the *regulatory system*, and to enable sound and prudent management of the *firm*.

[Note: Art. 42(1) of the *Solvency II Directive*]

- 2.3 Before deciding, and in considering on an on-going basis, whether a *person* is fit and proper pursuant to 2.1 and 2.2, a *firm* must consider the *person's* past business conduct.

[Note: Art. 42(1) of the *Solvency II Directive*]

- 2.4 [Not yet in force]
- 2.5 [Not yet in force]
- 2.6 [Not yet in force]

3 OBLIGATION TO PROVIDE REFERENCES

- 3.1 [Not yet in force]

4 DISCLOSURE AND REPLACEMENTS

- 4.1 (1) A *firm* (other than an *ISPV*) shall notify the *PRA* of any changes to the identity of *key function holders* and shall provide the *PRA* with:

- (a) all the information needed to assess whether such *person* is fit and proper pursuant to 2.2; and
 - (b) the information referred to in Insurance - Allocation of Responsibilities 5.1(3) in respect of that *person*.
- (2) An *ISPV* shall notify the *PRA* of any changes to the identity of *key function holders* who are effectively running the *firm* and shall provide the *PRA* with all the information needed to assess whether such *person* is fit and proper pursuant to 2.2.

[Note: Art. 42(2) of the Solvency II Directive]

4.2 Where:

- (1) a *key function holder* is to be approved by the *PRA* to perform a *senior insurance management function*; and
- (2) the *firm* includes the information referred to in 4.1 in its application to the *PRA* for the approval of that *person* to perform the *senior insurance management function*,

this shall discharge the obligation in 4.1 in respect of that *key function* appointment.

4.3 If a *firm* becomes aware of information which would reasonably be expected to be material to the assessment of a current or former *key function holder's* fitness and propriety under this Part, it must inform the *PRA* as soon as practicable.

[Note: Art. 42(3) of the Solvency II Directive]

4.4 Where a *firm* replaces a *key function holder* because the *firm* considers that that *person* is no longer fit and proper pursuant to 2.1 and 2.2, the *firm* must notify the *PRA* as soon as reasonably practicable.

[Note: Art. 42(3) of the Solvency II Directive]

5. LLOYD'S

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

Annex B

Part

INSURANCE – ALLOCATION OF RESPONSIBILITIES

Chapter content

1. APPLICATION AND DEFINITIONS
2. ALLOCATION OF RESPONSIBILITIES
3. SIMR PRESCRIBED RESPONSIBILITIES
4. IDENTIFICATION OF KEY FUNCTIONS
5. RECORDS
6. LLOYD'S

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 6;
- (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 6; and
- (4) a *third country branch undertaking* (other than a *Swiss general insurer*).

1.2 In this Part, the following definitions shall apply:

governance map

has the meaning given in 5.1.

2 ALLOCATION OF RESPONSIBILITIES

2.1 [Not yet in force]

2.2 [Not yet in force]

2.3 [Not yet in force]

3 SIMR PRESCRIBED RESPONSIBILITIES

3.1 [Not yet in force]

4 IDENTIFICATION OF KEY FUNCTIONS

4.1 A *firm* must identify:

- (1) each of the *functions* that the *firm* considers to be a *key function*; and
- (2) any such *key function* that amounts to effectively running the *firm* (or, for a *third country branch undertaking*, 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*).

4.2 A *firm* must keep its identification of *key functions* pursuant to 4.1 up-to-date.

4.3 A *firm* must keep a record of its reasoning for the identification of *key functions* pursuant to 4.1.

5 RECORDS

5.1 A *firm* must have and maintain a *governance map*, which is a clear and coherent document or series of documents with the following details:

- (1) a list of the *key functions* identified by the *firm* in accordance with 4.1 highlighting those that amount to effectively running the *firm* (or, for a *third country branch undertaking*, 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*);

- (2) the names of the *persons* who effectively run the *firm* (or, for a *third country branch undertaking*, effectively run 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*) or who are responsible for other *key functions* listed pursuant to 5.1(1);
- (3) for each *person* named pursuant to 5.1(2), a summary of the significant responsibilities allocated to that *person*;
- (4) where any responsibilities covered by 5.1(3) are allocated to more than one *person*, details of how those responsibilities are shared or divided between the *persons* concerned;
- (5) reporting lines and lines of responsibility for each *person* listed pursuant to 5.1(2);
- (6) where a *firm* (other than a *third country branch undertaking*) is a member of a *group*:
 - (a) how the *firm's* management and governance arrangements fit together with those of its *group* and the extent to which the *firm's* management and governance arrangements are provided by or shared with other members of its *group*; and
 - (b) for the *persons* listed pursuant to 5.1(2), details of the reporting lines and the lines of responsibility (if any) to *persons* who are employees or officers of other *group* members or to committees or other bodies of the *group* or of other *group* members.

5.2 A *firm* must update the *governance map*:

- (1) at least quarterly; and
- (2) in the event of a significant change to:
 - (a) the *firm's* governance structure;
 - (b) the significant responsibilities allocated to a *key function holder*; or
 - (c) the reporting lines or lines of responsibility for a *key function holder*.

5.3 A *firm* must, as soon as reasonably practicable, provide the following to the *PRA*:

- (1) upon request by the *PRA*, a copy of the *governance map*; and
- (2) in the event of an update pursuant to 5.2(2), a copy of the relevant part of the *governance map*.

6. LLOYD'S

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

**PRA RULEBOOK: SOLVENCY II FIRMS NON-SOLVENCY II FIRMS: INSURANCE GENERAL
APPLICATION 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 with the Financial Conduct Authority), 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: Insurance General Application
Instrument 2015**

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms Non-Solvency II Firms: Insurance General Application Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

INSURANCE GENERAL APPLICATION

Chapter content

1. APPLICATION AND DEFINITIONS
2. UK SOLVENCY II FIRM
3. LLOYD'S
4. EURO INTERPRETATION

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to all *firms* for the purposes of determining whether they are subject to any of the provisions of the Solvency II Firms Sector of the *PRA* Rulebook.

1.2 In this Part, the following definitions shall apply:

ancillary risk

- (1) subject to (2), means (in relation to an *insurer* with *Part 4A permission* to insure a principal risk belonging to one *class of general insurance business*) a risk included in another such *class* which is:
- (a) connected with the principal risk,
 - (b) concerned with the object which is covered against the principal risk, and
 - (c) the subject of the same contract insuring the principal risk.
- (2) the risks included in *classes* 14, 15 and 17 may not be treated as risks ancillary to other *classes*, except that the risk included in *class* 17 may be regarded as an ancillary risk of *class* 18 where:
- (a) the conditions laid down in (1)(a) to (1)(c) are fulfilled, and
 - (b) the principal risk relates solely to *assistance* provided for persons who fall into difficulties while travelling, while away from home or while away from their permanent residence or where it concerns disputes or risks arising out of, or in connection with, the use of sea going vessels.

[Note: Art. 16 of the Solvency II Directive]

assistance

means the *class of contract of general insurance*, specified in paragraph 18 of Part I of Schedule 1 to the *Regulated Activities Order*.

non-Solvency I firm

means a *firm* that immediately before the *Solvency II implementation date* fell outside the scope of the *Solvency I Directive*.

requirement

means a requirement or limitation included in a *firm's Part 4A permission* under section 55F(4) of *FSMA* (Giving permission: the PRA), section 55L(3) of *FSMA* (Imposition of requirements by the FCA), section 55M(3) of *FSMA* (Imposition of Requirements by the PRA) or section 55O of *FSMA* (Imposition of requirements on acquisition of control).

Second Non-Life Directive

means the Council Directive of 22 June 1988 (no 88/357/EEC) on the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance and laying down provisions to facilitate the effective exercise of freedom to provide services and amending Directive 73/239/EEC.

Solvency I Directive

means each of:

- (1) the *Consolidated Life Directive*;
- (2) the *First Non-Life Directive*;
- (3) the *Second Non-Life Directive*;
- (4) the *Third Non-Life Directive*; and
- (5) the *Reinsurance Directive*.

Solvency I firm

means a *firm* that immediately before the *Solvency II implementation date* was an *insurer* that fell within the scope of *Solvency I Directive*.

Solvency II excluded operations

means:

- (1) a *mutual* whose *insurance business* is restricted to the provision of benefits which vary according to the resources available and in which the contributions of the members are determined on a flat-rate basis; or
- (2) a *mutual* whose liabilities in respect of *contracts of general insurance* must be fully reinsured with or guaranteed by other *mutuals* (including *friendly societies*) and the *mutuals* providing the *reinsurance* or the guarantees are *Solvency II undertakings*.

syndicate liabilities

means liabilities managed by a *managing agent* in respect of *insurance business* carried on through a *syndicate*.

2 UK SOLVENCY II FIRM

2.1 A *UK Solvency II firm* means a *firm*:

- (1) that satisfies the conditions set out in 2.2, or
- (2) whose *Part 4A permission* includes a *requirement* that it comply with the Solvency II Firms Sector of the *PRA Rulebook*.

2.2 The conditions referred to in 2.1(1) are, subject to the exclusions in 2.3 to 2.6:

- (1) the *firm* is an *insurer*;
- (2) the *firm* has its head office in the *UK*;

- (3) the *firm's Part 4A permission* does not include a *requirement* that it must only carry on *Solvency II excluded operations*;
- (4) the *firm* is a *Solvency I firm* that is not excluded pursuant to 2.6;
- (5) the *firm* is a *non-Solvency I firm* that is not excluded pursuant to:
 - (a) 2.3 on the *Solvency II implementation date*; or
 - (b) 2.6;
- (6) if it obtained its *Part 4A permission* to *effect contracts of insurance* and/or *carry out contracts of insurance* on or after *Solvency II implementation date*, the *firm* is not excluded pursuant to:
 - (a) 2.3 on the date it obtains such *Part 4A permission*, unless 2.5 applies; or
 - (b) 2.6; and
- (7) the *firm* is not a *pure reinsurer* which ceased to conduct new *reinsurance contracts* before 10 December 2007.

[Note: Art. 2(1), Art. 4(1), (3), (4), Art. 5(2), Art. 7, Art. 9(1), (2), Art. 12(1) of the *Solvency II Directive*]

2.3 Subject to 2.5, a *firm* of the kind mentioned in 2.2(5) or 2.2(6) is excluded if it fulfils all of the following conditions:

- (1) the *firm's* annual gross written premium income does not exceed 5,000,000 euro;
- (2) the total of the *firm's technical provisions*, gross of the amounts recoverable from *reinsurance contracts* and *ISPVs*, as referred to in Technical Provisions 2.1 to 2.3 does not exceed 25,000,000 euro;
- (3) where the *firm* belongs to a *group*, the total of the *technical provisions* of the *group* defined as gross of the amounts recoverable from *reinsurance contracts* and *ISPVs* does not exceed 25,000,000 euro;
- (4) the business of the *firm* does not include insurance or *reinsurance* activities covering liability, credit and suretyship insurance risks, unless they constitute *ancillary risks*; and
- (5) the business of the *firm* does not include *reinsurance* operations:
 - (a) exceeding:
 - (i) 500,000 euro of its gross written premium income; or
 - (ii) 2,500,000 euro of its *technical provisions* gross of the amounts recoverable from *reinsurance contracts* and *ISPVs*; or
 - (b) with more than 10% of its gross written premium income or more than 10% of its *technical provisions* gross of the amounts recoverable from *reinsurance contracts* and *ISPVs*.

[Note: Art. 4(1) of the *Solvency II Directive*]

2.4 A *firm* excluded under 2.3 shall cease to be excluded under that rule:

- (1) from the fourth year if any of the amounts set out in 2.3(1), 2.3(2), 2.3(3) or 2.3(5) are exceeded in each of the three preceding consecutive years after the *Solvency II implementation date*; and
- (2) immediately and for as long as:
 - (a) it exercises *EEA rights* under the *Solvency II Directive*;
 - (b) its business includes insurance or *reinsurance* activities covering liability, credit or suretyship insurance risks, unless they constitute *ancillary risks*.

[Note: Art. 4(2), Art. 4(4)(2nd sub-paragraph) of the *Solvency II Directive*]

- 2.5 Subject to 2.6, a *firm* of the kind mentioned in 2.2(6) is not excluded under 2.3 if;
- (1) any of the amounts set out in 2.3(1), 2.3(2), 2.3(3) or 2.3(5) are expected to be exceeded within five years of the date the *firm* obtained its *Part 4A permission to effect contracts of insurance and/or carry out contracts of insurance*;
 - (2) it exercises *EEA rights* under the *Solvency II Directive*.

[Note: Art. 4(3), Art. 4(4)(2nd sub-paragraph) of the *Solvency II Directive*]

- 2.6 A *firm* of the kind mentioned in 2.2(4), 2.2(5) or 2.2(6) is excluded provided
- (1) it is not exercising *EEA rights* under the *Solvency II Directive*; and
 - (2) none of the thresholds set out in 2.3:
 - (a) has been exceeded for three consecutive years; and
 - (b) is expected to be exceeded during the following five years.

[Note: Art. 4(4) of the *Solvency II Directive*]

3 LLOYD'S

- 3.1 Where a provision in the Solvency II Firms Sector of the *PRA Rulebook* is expressed to apply to the *Society* "in accordance with" this Chapter, the *Society* must:
- (1) manage each *member's funds at Lloyd's*;
 - (2) carry out any applicable calculations in respect of each *member's funds at Lloyd's*;
 - (3) manage its *central assets* and *central liabilities*;
 - (4) where the context requires, supervise the *insurance business* carried on by each *member* at Lloyd's; and
 - (5) take such further steps as may be required,

in order to achieve, in relation to those assets and liabilities and that *insurance business*, the same effect as the relevant provision of the Solvency II Firms Sector of the *PRA Rulebook* would have (that is, conforming with the requirements of any rule) when applied to a *UK Solvency II firm*.

3.2 Where a provision in the Solvency II Firms Sector of the *PRA* Rulebook is expressed to apply to a *managing agent* “in accordance with” this Chapter, the *managing agent* must, in relation to each *syndicate* managed by it and for each *syndicate* year:

- (1) manage the *syndicate assets* and *syndicate liabilities*;
- (2) manage the *insurance business* carried on by the *members* of the *syndicate* through that *syndicate*; and
- (3) take such further steps as may be required,

in order to achieve, in relation to those *syndicate assets* and *syndicate liabilities* and that *insurance business*, the same effect as the relevant provision of the Solvency II Firms Sector of the *PRA* Rulebook would have (that is, conforming with the requirements of any rule) when applied to a *UK Solvency II firm*.

4 EURO INTERPRETATION

4.1 Where a provision in the Solvency II Firms Sector of the *PRA* Rulebook makes reference to amounts in euro, the exchange rate from the euro to the pound sterling for each year with effect from 31 December is the rate applicable on the last day of the preceding October for which the exchange rates for the currencies of all of the EU member states were published in the Official Journal of the European Union.

[Note: Art. 299 of the *Solvency II Directive*]

4.2 Where a provision in the Solvency II Firms Sector of the *PRA* Rulebook makes reference to amounts in euro a *firm* must interpret those amounts as being succeeded by any such amounts published in the Official Journal of the European Union reflecting the percentage change in the Harmonised Indices of Consumer Prices (comprising all EU member states, as published by Eurostat) starting from 31 December 2015 until the date of revision and rounded up to a multiple of 100,000 euro, provided that where the percentage change since the previous revision is less than 5% the amounts will not be revised.

[Note: Art. 300 of the *Solvency II Directive*]

PRA RULEBOOK: SOLVENCY II FIRMS: VALUATION 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 with the Financial Conduct Authority), 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: Valuation Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Valuation Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

VALUATION

Chapter content

1. APPLICATION
2. VALUATION OF ASSETS AND LIABILITIES

Links

1 APPLICATION

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*; and
- (3) in accordance with Insurance General Application 3, *managing agents*.

2 VALUATION OF ASSETS AND LIABILITIES

2.1 A *firm* must, except where otherwise provided, value:

- (1) assets at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction; and
- (2) liabilities at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

[Note: Art. 75(1) of the *Solvency II Directive*]

2.2 For the purposes of 2.1(2) when valuing liabilities no adjustment must be made to take account of the own credit standing of the *firm*.

[Note: Art. 75(1) of the *Solvency II Directive*]

PRA RULEBOOK: SOLVENCY II FIRMS: TECHNICAL PROVISIONS 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 with the Financial Conduct Authority), 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: Technical Provisions Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Technical Provisions Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

TECHNICAL PROVISIONS

Chapter content

1. APPLICATION AND DEFINITIONS
2. CALCULATION OF TECHNICAL PROVISIONS
3. BEST ESTIMATE
4. RISK MARGIN
5. RISK FREE INTEREST RATE TERM STRUCTURE
6. MATCHING ADJUSTMENT TO THE RELEVANT RISK FREE INTEREST RATE TERM STRUCTURE
7. CALCULATION OF THE MATCHING ADJUSTMENT
8. VOLATILITY ADJUSTMENT
9. OTHER ELEMENTS TO BE TAKEN INTO ACCOUNT
10. SEGMENTATION
11. RECOVERABLES FROM REINSURANCE CONTRACTS AND ISPVs.
12. DATA QUALITY AND APPLICATION OF APPROXIMATIONS
13. COMPARISON AGAINST EXPERIENCE
14. APPROPRIATENESS OF THE LEVEL OF TECHNICAL PROVISIONS
15. COMMUNITY CO-OPERATION OPERATIONS
16. LLOYD'S

Links

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 16; and
- (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 16.

1.2 In this Part, the following definition shall apply:

basic relevant risk-free interest rate term structure

means the *relevant risk-free interest rate term structure* without:

- (1) a *matching adjustment*;
- (2) a *volatility adjustment*; or
- (3) a *risk-free interest rate transitional measure*.

cost-of-capital rate

means the rate (above the relevant risk-free interest rate) that must be used in the determination of the cost that a *Solvency II undertaking* would incur in order to hold an amount of *eligible own funds* equal to the *SCR* necessary to support the insurance and *reinsurance* obligations over their lifetime, as specified in the *Solvency II Regulations* adopted under Article 86 of the *Solvency II Directive*.

relevant portfolio of assets

means the assigned portfolio of assets, consisting of bonds and other assets with similar cash-flow characteristics, to cover the *best estimate* of the *relevant portfolio of insurance or reinsurance obligations*, referred to in regulation 42(4)(a) and (b) of the *Solvency 2 Regulations 2015*.

volatility adjustment approval

means the approval granted to a *firm* by the *PRA* to permit it to apply a *volatility adjustment* for the purposes of calculating the *best estimate*.

2 CALCULATION OF TECHNICAL PROVISIONS

2.1 *Firms* must establish adequate *technical provisions* with respect to all of their insurance and *reinsurance* obligations towards *policyholders*.

[Note: Art. 76(1) of the *Solvency II Directive*]

2.2 The value of *technical provisions* must correspond to the current amount that the *firm* would have to pay if it were to transfer its insurance and *reinsurance* obligations immediately to another *Solvency II undertaking*.

[Note: Art. 76(2) of the *Solvency II Directive*]

2.3 *Firms* must calculate their *technical provisions*:

- (1) such that the calculation makes use of and is consistent with information provided by the financial markets and generally available data on *underwriting risks* (market consistency);
- (2) in a prudent, reliable and objective manner;
- (3) taking into account the principles set out in Valuation 2; and
- (4) in accordance with 2.4 to 12.2.

[Note: Art. 76(3)–(5) of the Solvency II Directive]

2.4 The value of *technical provisions* must be equal to the sum of a *best estimate* and a *risk margin* which must be calculated in accordance with 2.5, 3 and 4.

[Note: Art. 77(1) of the Solvency II Directive]

- 2.5 (1) *Firms* must value the *best estimate* and the *risk margin* separately, except where (2) applies.
- (2) Where:
- (a) future cash-flows associated with insurance or *reinsurance* obligations can be replicated reliably; and
 - (b) that replication is provided using financial instruments; and
 - (c) those financial instruments have a reliable market value which is observable;
- then the value of *technical provisions* associated with those future cash-flows must be determined on the basis of the market value of those financial instruments.

[Note: Art. 77(4) of the Solvency II Directive]

3 BEST ESTIMATE

3.1 The *best estimate* must:

- (1) correspond to the probability-weighted average of future cash-flows, taking into account the time value of money (expected present value of future cash-flows) using the *relevant risk-free interest rate term structure*; and
- (2) be calculated:
 - (a) based upon up-to-date and credible information and realistic assumptions;
 - (b) using adequate, applicable and relevant actuarial and statistical methods; and
 - (c) gross, without deduction of the amounts recoverable from *reinsurance contracts* and *ISPVs*, which *firms* must calculate separately in accordance with 11.

[Note: Art. 77(2) of the Solvency II Directive]

3.2 The cash-flow projection used in the calculation of the *best estimate* (whether valued separately or determined on the basis of financial instruments in accordance with 2.5) must

take into account all the cash in- and out-flows required to settle the insurance and *reinsurance* obligations over their lifetime.

[Note: Art. 77(2) of the Solvency II Directive]

4 RISK MARGIN

4.1 Where *firms* value the *best estimate* and *risk margin* separately, the *risk margin* must be an amount equal to the cost that a *Solvency II undertaking* would incur in order to hold *eligible own funds* to cover the *SCR* necessary to support the insurance and *reinsurance* obligations over their lifetime, determined using the *cost-of-capital rate*.

[Note: Art. 77(5) of the Solvency II Directive]

4.2 The *risk margin* must be such as to ensure that the value of the *technical provisions* is equivalent to the amount that a *Solvency II undertaking* would be expected to require in order to take over and meet the insurance and *reinsurance* obligations over their lifetime.

[Note: Art. 77(3) of the Solvency II Directive]

5 RISK-FREE INTEREST RATE TERM STRUCTURE

5.1 *Firms* must ensure that the *relevant risk-free interest rate term structure*:

- (1) is determined using, and consistent with, information derived from relevant financial instruments;
- (2) takes account of relevant financial instruments of those maturities where the markets for those financial instruments as well as for bonds, are deep, liquid and transparent; and
- (3) is only extrapolated for maturities where the markets for the relevant financial instruments or for bonds are not deep, liquid and transparent.

5.2 For the purpose of 5.1, the extrapolated part of the *relevant risk-free interest rate term structure* shall be based on forward rates converging smoothly from one set of forward rates in relation to the longest maturities for which the relevant financial instrument and the bonds can be observed in a deep, liquid and transparent market to an ultimate forward rate.

[Note: Art. 77a of the Solvency II Directive]

6 MATCHING ADJUSTMENT TO THE RELEVANT RISK FREE INTEREST RATE TERM STRUCTURE

6.1 A *firm* must not apply a *matching adjustment* to the *relevant risk-free interest rate term structure* to calculate the *best estimate* of its insurance or *reinsurance* obligations unless it has a *matching adjustment approval*.

6.2 *Firms* that apply the *matching adjustment* to a *relevant portfolio of insurance or reinsurance obligations* shall not revert back to the approach that does not include a *matching adjustment*.

6.3 Where a *firm* that applies the *matching adjustment* is no longer able to comply with the conditions specified in regulation 42(4)-(6) of the Solvency 2 Regulations 2015, it shall immediately:

- (1) inform the *PRA*; and

- (2) take the necessary measures to restore compliance with these conditions as soon as possible.

6.4 Where a *firm* is not able to restore compliance with the conditions referred to in 6.3 within two *months* of the date of non-compliance, it shall cease to apply the *matching adjustment* to any of its insurance or *reinsurance* obligations.

[Note: Art. 77b of the Solvency II Directive]

7 CALCULATION OF THE MATCHING ADJUSTMENT

7.1 This Chapter applies to a *firm* that has been granted a *matching adjustment approval*.

7.2 The *matching adjustment* shall be calculated for each currency in accordance with the following principles:

- (1) the *matching adjustment* shall be equal to the difference of the following:
- (a) the annual effective rate, calculated as the single discount rate that, where applied to the cash-flows of the *relevant portfolio of insurance or reinsurance obligations*, results in a value that is equal to the value (in accordance with the Valuation Part of the *PRA Rulebook*) of the *relevant portfolio of assets*;
 - (b) the annual effective rate, calculated as the single discount rate that, where applied to the cash-flows of the *relevant portfolio of insurance or reinsurance obligations*, results in a value that is equal to the value of the *best estimate* of the *relevant portfolio of insurance or reinsurance obligations*, where the time value is taken into account using the *basic relevant risk-free interest rate term structure*;
- (2) the *matching adjustment* shall not include the fundamental spread reflecting the risks retained by the *firm*;
- (3) notwithstanding (1), the fundamental spread shall be increased where necessary to ensure that the *matching adjustment* for assets with sub-investment grade credit quality does not exceed the *matching adjustment* for assets of investment grade quality, of the same duration and asset class; and
- (4) the use of external credit assessments in the calculation of the *matching adjustment* shall be in line with the specifications set out in the *Solvency II Regulations* adopted under Article 111(1)(n) of the *Solvency II Directive*.

7.3 For the purposes of 7.2(2) and subject to 7.5, the fundamental spread shall be:

- (1) equal to the sum of the following:
- (a) the credit spread corresponding to the probability of default of the assets; and
 - (b) the credit spread corresponding to the expected loss resulting from downgrading of the assets;
- (2) for exposures to *EEA States'* central governments and central banks, no lower than 30% of the long term average of the spread over the risk-free interest rate of assets of the same duration, credit quality and asset class, as observed in financial markets;

- (3) for assets other than exposures to *EEA States'* central governments and central banks, no lower than 35% of the long-term average of the spread over the risk-free interest rate of assets of the same duration, credit quality and asset class, as observed in financial markets;
- 7.4 The probability of default referred to in 7.3(1)(a) shall be based on long-term default statistics that are relevant for the asset in relation to its duration, credit quality and asset class.
- 7.5 Where no reliable credit spread can be derived from the default statistics referred to in 7.3, the fundamental spread shall be equal to the portion of the long term average of the spread over the risk-free interest rate set out in 7.3(2) and 7.3(3).

[Note: Art. 77c and Art. 77e(3) of the Solvency II Directive]

8 VOLATILITY ADJUSTMENT

- 8.1 A *firm* must not apply a *volatility adjustment* to the *relevant risk-free interest rate term structure* to calculate the *best estimate* of its insurance or *reinsurance* obligations unless:
- (1) it has been granted a *volatility adjustment approval*; and
 - (2) the *volatility adjustment* has been set out in *Solvency II Regulations* adopted under Article 77e of the *Solvency II Directive*.
- 8.2 The *volatility adjustment* must not be applied to the risk-free interest rates of the *relevant risk-free interest rate term structure* that are derived by means of extrapolation in accordance with 5.
- 8.3 Where a *firm* applies a *volatility adjustment* in accordance with 8, the extrapolation of the *relevant risk-free interest rate term structure* referred to in 5 shall be based on the risk-free interest rates adjusted with the *volatility adjustment*.
- 8.4 A *firm* must only apply a *volatility adjustment* that includes a relevant country increase referred to in Article 77d(4) of the *Solvency II Directive* to calculate the *best estimate* of its insurance or *reinsurance* obligations of products sold in the insurance market of that country, respectively.
- 8.5 The *volatility adjustment* shall not be applied with respect to insurance or *reinsurance* obligations where the *relevant risk-free interest rate term structure* to calculate the *best estimate* for those obligations includes a *matching adjustment*.

[Note: Art. 77d and Art. 77e(3) of the Solvency II Directive]

9 OTHER ELEMENTS TO BE TAKEN INTO ACCOUNT

- 9.1 When calculating *technical provisions*, *firms* must take into account:
- (1) all expenses that will be incurred in servicing insurance and *reinsurance* obligations;
 - (2) inflation, including expenses and claims inflation; and
 - (3) all payments to *policyholders*, including future discretionary bonuses, which *firms* expect to make, whether or not those payments are contractually guaranteed, unless those payments fall within Surplus Funds 2.1.

[Note: Art. 78 of the Solvency II Directive]

- 9.2 (1) When calculating *technical provisions*, firms must take account of the value of financial guarantees and any contractual options included in *contracts of insurance and reinsurance contracts*.
- (2) Any assumptions used by a firm to determine the likelihood that *policyholders* will exercise contractual options, including lapses and surrenders, must:
- (a) be realistic and based on current and credible information; and
 - (b) take into account, either explicitly or implicitly, the impact that future changes in financial and non-financial conditions may have on the exercise of those options.

[Note: Art. 79 of the Solvency II Directive]

10 SEGMENTATION

- 10.1 When calculating *technical provisions*, firms must segment their insurance and *reinsurance* obligations into homogenous risk groups and, as a minimum, by lines of business as contemplated by the *Solvency II Regulations*.

[Note: Art. 80 of the Solvency II Directive]

11 RECOVERABLES FROM REINSURANCE CONTRACTS AND ISPVs

- 11.1 (1) Firms must calculate amounts recoverable from *reinsurance contracts* and *ISPVs* in accordance with 2 to 10.
- (2) For the purposes of (1), firms must take into account the time difference between amounts becoming recoverable and the actual receipt of those amounts.
- (3) Firms must adjust the calculation referred to in (1) to take into account expected losses due to the default of the counterparty. That adjustment must be based on an assessment of the probability of default of the counterparty and the average loss that would result from that default (loss-given- default).

[Note: Art. 81 of the Solvency II Directive]

12 DATA QUALITY AND APPLICATION OF APPROXIMATIONS

- 12.1 Firms must ensure that the data used in the calculation of their *technical provisions* is appropriate, complete and accurate.
- 12.2 Where firms have insufficient data of appropriate quality to apply a reliable actuarial method to a set or subset of their insurance and *reinsurance* obligations, or amounts recoverable from their *reinsurance contracts* and *ISPVs*, firms may use appropriate approximations, including case-by-case approaches, in the calculation of the *best estimate*.

[Note: Art. 82 of the Solvency II Directive]

13 COMPARISON AGAINST EXPERIENCE

- 13.1 (1) Firms must ensure that the *best estimate*, and the assumptions underlying the calculation of the *best estimate*, are regularly compared against experience.
- (2) Where the comparison in (1) identifies that a systematic deviation exists between the firm's *best estimate* calculations and experience, the firm must make appropriate

adjustments to the actuarial methods being used and/or the assumptions being made to ensure that the *best estimate* is calculated in accordance with 2 to 12.

[Note: Art. 83 of the Solvency II Directive]

14 APPROPRIATENESS OF THE LEVEL OF TECHNICAL PROVISIONS

- 14.1 Upon request by the *PRA*, the *firm* must demonstrate to the *PRA*:
- (1) the appropriateness of the level of the *firm's technical provisions*;
 - (2) the applicability and relevance of the methods applied; and
 - (3) the adequacy of the underlying statistical data used.

[Note: Art. 84 of the Solvency II Directive]

15 COMMUNITY CO-INSURANCE OPERATIONS

- 15.1 In relation to *Community co-insurance operations*, where a *firm* is a *leading insurer* or a *relevant insurer*, the amount of *technical provisions* shall be determined according to 2 to 13.
- 15.2 The *technical provisions* calculated by a *firm* which is a *relevant insurer* shall be at least equal to those determined by the *leading insurer*.

[Note: Art. 190 and Art. 192 of the Solvency II Directive]

16 LLOYD'S

- 16.1 This Chapter applies to the *Society* and *managing agents*.
- 16.2 For the purposes of complying with 4.1, *managing agents* must construe the reference to "SCR" in 4.1 as a reference to the notional *syndicate SCR* required to be calculated pursuant to Solvency Capital Requirement – General Provisions 8.2.
- 16.3 For the purpose of complying with 1.1(2) the *Society* must calculate *technical provisions* in respect of the *insurance business* of each *member*.
- 16.4 For the purpose of complying with 1.1(3), a *managing agent* must calculate *technical provisions* in respect of each *syndicate* it manages
- 16.5 In respect of business that has been subject to an *approved reinsurance to close*, *managing agents* must calculate *technical provisions* (before and after deduction of *reinsurance cessions*) for the reinsuring and not for the reinsured *member*.
- 16.6 For the purposes of 10.1 in relation to *managing agents*, a *managing agent* must carry out the segmentation referred to in that rule in respect of each *syndicate* managed by the *managing agent*.

PRA RULEBOOK: SOLVENCY II FIRMS: OWN FUNDS 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 with the Financial Conduct Authority), 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: Own Funds Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Own Funds Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

OWN FUNDS

Chapter content

- 1. APPLICATION**
- 2. DETERMINATION OF OWN FUNDS**
- 3. CLASSIFICATION OF OWN FUNDS INTO TIERS**
- 4. ELIGIBILITY AND LIMITS APPLICABLE TO TIERS**
- 5. NOTIFICATION OF ISSUANCE OF OWN FUNDS ITEMS**
- 6. LLOYD'S**

Links

1 APPLICATION

1.1 Unless otherwise stated, this Part applies to:

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

2 DETERMINATION OF OWN FUNDS

2.1 A *firm's own funds* comprise the sum of its *basic own funds* and *ancillary own funds*.

[Note: Art. 87 of the *Solvency II Directive*]

2.2 The *firm's basic own funds* consist of the following items:

- (1) the excess of assets over liabilities, less the amount of own *shares* held by the *firm*; and
- (2) subordinated liabilities.

[Note: Art. 88 of the *Solvency II Directive*]

2.3 Subject to 2.5, the *firm's ancillary own funds* consist of items (other than items of *basic own funds*) which can be called up to absorb losses, including the following (to the extent that they are not items of *basic own funds*):

- (1) unpaid share capital or initial fund that has not been called up;
- (2) letters of credit and guarantees;
- (3) any other legally binding commitments received by the *firm*; and
- (4) for a *mutual*, any future claims which it may have against its members by way of a call for supplementary contribution within the next 12 *months*.

[Note: Art. 89(1) of the *Solvency II Directive*]

2.4 Where an item of *ancillary own funds* becomes paid in or called up, the proceeds paid in or the amount due in respect of the call must be treated as an asset and the item must cease to be treated as an item of *ancillary own funds*.

[Note: Art. 89(2) of the *Solvency II Directive*]

2.5 When determining its *own funds*, a *firm* must not take into account any item of *ancillary own funds* unless, subject to 2.6, it has received the *PRA's* approval of either:

- (1) a monetary amount for the relevant item of *ancillary own funds*; or
- (2) the method by which to determine the amount of the relevant item of *ancillary own funds*, together with the amount determined in accordance with that method for a specified time period.

[Note: Art. 90(1) and (3) of the *Solvency II Directive*]

2.6 Where a *firm* has received approval:

- (1) under 2.5(1), it may only include in its *own funds* the item of *ancillary own funds* for an amount up to the amount approved; or
- (2) under 2.5(2), it may only include in its *own funds* the item of *ancillary own funds* up to the amount determined using the method approved, and only for the time period for which approval is granted.

[Note: Art. 90(3) of the Solvency II Directive]

2.7 A *firm* may only attribute an amount to an item of *ancillary own funds* to the extent that it:

- (1) reflects the loss-absorbency of the item; and
- (2) is based upon prudent and realistic assumptions.

[Note: Art. 90(2) of the Solvency II Directive]

3 CLASSIFICATION OF OWN FUNDS INTO TIERS

3.1 A *firm* may only include an *own funds* item in its *Tier 1 own funds* if:

- (1) it is an item of *basic own funds*; and
- (2) it substantially possesses the characteristics set out in 3.5(1) and 3.5(2), taking into consideration the features set out in 3.6.

[Note: Art. 94(1) of the Solvency II Directive]

3.2 A *firm* may only include an *own funds* item in its *Tier 2 own funds* if:

- (1) where it is an item of *basic own funds*, it substantially possesses the characteristics set out in 3.5(2), taking into consideration the features set out in 3.6; or
- (2) where it is an item of *ancillary own funds*, it substantially possesses the characteristics set out in 3.5(1) and 3.5(2), taking into consideration the features set out in 3.6.

[Note: Art. 94(2) of the Solvency II Directive]

3.3 A *firm* may only include in its *Tier 3 own funds* an item of:

- (1) *basic own funds* that does not fall within 3.1 or 3.2(1); and
- (2) *ancillary own funds* that does not fall within 3.2(2).

[Note: Art. 94(3) of the Solvency II Directive]

- 3.4 (1) In classifying its *own funds* items, a *firm* must refer to the lists of *own funds* items set out in the *Solvency II Regulations*.
- (2) A *firm* must not include an *own funds* item in its *Tier 1 own funds*, *Tier 2 own funds* or *Tier 3 own funds* if that *own funds* item is not covered by the lists referred to in (1), unless it has received the PRA's approval.

- (3) When seeking approval to classify an *own funds* item referred to in (2) in its *Tier 1 own funds*, *Tier 2 own funds* or *Tier 3 own funds*, a *firm* must demonstrate that the *own funds* item satisfies the criteria laid down in 3.1 to 3.3 for that classification.

[Note: Art. 95 of the Solvency II Directive]

3.5 The characteristics referred to in 3.1(2) and 3.2 are:

- (1) the item is available, or can be called up on demand, to fully absorb losses on a going-concern basis as well as in the case of winding up (permanent availability); and
- (2) in the case of winding up, the total amount of the item is available to absorb losses and the repayment of the item is refused to its holder until all other obligations, including insurance and *reinsurance* obligations to *policyholders*, have been met (subordination).

[Note: Art. 93(1) of the Solvency II Directive]

3.6 When assessing the extent to which *own funds* items possess the characteristics set out in 3.5, currently and in the future, a *firm* must consider:

- (1) the duration of the item, in particular whether the item is dated or not and, where an *own funds* item is dated, the relative duration of the item as compared to the duration of the insurance and *reinsurance* obligations of the *firm* (sufficient duration);
- (2) whether the item is free from requirements or incentives to redeem the nominal sum (absence of incentives to redeem);
- (3) whether the item is free from mandatory fixed charges (absence of mandatory servicing costs); and
- (4) whether the item is clear of encumbrances (absence of encumbrances).

[Note: Art. 93(2) of the Solvency II Directive]

3.7 (1) A *firm* must not classify as *Tier 1 own funds*:

- (a) paid-in ordinary share capital and related share premium account; or
- (b) paid-in initial fund, member's contribution or the equivalent *basic own funds* for a *mutual*

unless the *firm* has the right to cancel and withhold dividends or other distributions in respect of those items at any time prior to payment (and exercises that right) in the circumstances specified in the *Solvency II Regulations*.

(2) A *firm* must not classify as *Tier 2 basic own funds*:

- (a) ordinary share capital and related share premium account; or
- (b) initial fund, member's contribution or the equivalent *basic own funds* for a *mutual*

unless the *firm* has the right to defer dividends or other distributions in respect of those items at any time prior to payment (and exercises that right) in the circumstances specified in the *Solvency II Regulations*.

[Note: Art. 93 and Art. 94 of the Solvency II Directive]

4 ELIGIBILITY AND LIMITS APPLICABLE TO TIERS

4.1 As far as compliance with its *SCR* is concerned at least the following conditions must be met:

- (1) more than one-third of the total amount of the *firm's eligible own funds* is accounted for by *Tier 1 own funds*; and
- (2) less than one-third of the *firm's eligible own funds* is accounted for by *Tier 3 own funds*.

[Note: Art. 98(1) of the Solvency II Directive]

4.2 As far as compliance with its *MCR* is concerned, as a minimum more than 50% of the *firm's eligible own funds* must be accounted for by *Tier 1 own funds*.

[Note: Art. 98(2) of the Solvency II Directive]

5 NOTIFICATION OF ISSUANCE OF OWN FUNDS ITEMS

5.1 5.2 to 5.6 do not apply in respect of the following:

- (1) any item which a *firm* intends to include within its *basic own funds* that is not covered by the lists of *own funds* items set out in the *Solvency II Regulations*, but which may be included in its *basic own funds* only if the *firm* has received the *PRA's* approval; and
- (2) any item which a *firm* intends to include within its *ancillary own funds*.

5.2 (1) A *firm* must notify the *PRA* in writing of its intention to issue an item which it intends to include within its *basic own funds* at least one *month* before the intended date of issue, unless there are exceptional circumstances which make it impracticable to give such a period of notice, in which event the *firm* must give as much notice as is practicable in those circumstances.

- (2) When giving notice, a *firm* must:
 - (a) provide details of the amount of *basic own funds* the *firm* is seeking to raise through the intended issue and whether the *own funds* is intended to be issued to external investors or within its *group*;
 - (b) identify the classification of *basic own funds* the item is intended to fall within;
 - (c) include confirmation from the *governing body* of the *firm* that the item complies with the rules applicable to items of *basic own funds* included in the classification of the item identified in (b); and
 - (d) provide a copy of the term sheet and details of any features of the item it intends to include within its *basic own funds* which are novel, unusual or different from an item of *basic own funds* of a similar nature previously issued by the *firm* or widely available in the market or not specifically contemplated by the *Solvency II Firms Sector* of the *PRA Rulebook* or the *Solvency II Regulations*.

5.3 A *firm* must provide a further written notification to the *PRA* including all the information required in 5.2(2) as soon as it proposes any change to the intended date of issue, amount of

issue, type of investors, classification of a particular tier of *basic own funds* or any other feature of the item intended to be included as *basic own funds* to that previously notified to the *PRA*.

5.4 If a *firm* proposes to establish a debt securities program for the issue of an item for inclusion within its *basic own funds*, it must:

- (1) notify the *PRA* of the establishment of the program; and
- (2) provide the information required by 5.2(2)

at least one *month* before the first proposed drawdown. The *PRA* must be notified of any changes in accordance with 5.3.

5.5 The items of *basic own funds* to which 5.2 does not apply are:

- (1) ordinary *shares* which:
 - (a) meet the classification criteria for ordinary share capital in *Tier 1 own funds*; and
 - (b) are the same as ordinary *shares* previously issued by the *firm*;
- (2) debt instruments issued from a debt securities program, provided that program was notified to the *PRA* prior to its first drawdown, in accordance with 5.4; and
- (3) any item which is not materially different in terms of its characteristics and eligibility for inclusion in a particular tier of *basic own funds* to items previously issued by the *firm* and included in *basic own funds*.

5.6 A *firm* must notify the *PRA* in writing, no later than the date of issue, of its intention to issue an item listed in 5.5 which it intends to include within its *basic own funds*. When giving notice, a *firm* must:

- (1) provide the information set out at 5.2(2)(a), (b) and (c); and
- (2) confirm that the terms of the item have not changed since the previous issue by the *firm* of that type of item of *basic own funds*.

6 LLOYD'S

6.1 This Chapter applies to the *Society*.

6.2 For the purposes of complying with the *SCR Rules*, the *Society* must categorise *own funds* at Lloyd's as between:

- (1) *own funds* attributable to the *Society*; and
- (2) *own funds* attributable to *members* which are available to support *members'* *insurance business* at Lloyd's, including *funds at Lloyd's*.

6.3 The *Society* must notify the *PRA* in writing, within 14 days, in the event the *Council* makes a determination pursuant to paragraph 8(1A) or varies a determination pursuant to paragraph 8(1B)(a) of the New Central Fund Byelaw (No 23 of 1996) as amended, that the *Central Fund* or a part of the *Central Fund* is to constitute *own funds* attributable to the *Society* for the purposes of covering the *SCR* for Lloyd's.

- 6.4 In determining *own funds* at Lloyd's in accordance with 2, the *Society* shall have regard to:
- (1) the *Society's central assets* and *central liabilities*; and
 - (2) the assets and liabilities of *members*, including assets which are available to support *members' insurance business* at Lloyd's, such assets including a *member's funds at Lloyd's*.

PRA RULEBOOK: SOLVENCY II FIRMS: SOLVENCY CAPITAL REQUIREMENT - GENERAL PROVISIONS 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 with the Financial Conduct Authority), 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: Solvency Capital Requirement - General Provisions Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Solvency Capital Requirement - General Provisions Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

SOLVENCY CAPITAL REQUIREMENT – GENERAL PROVISIONS

Chapter content

1. APPLICATION
2. REQUIREMENT TO HOLD ELIGIBLE OWN FUNDS COVERING THE SCR
3. GENERAL PROVISIONS FOR THE CALCULATION OF THE SCR
4. FREQUENCY OF CALCULATION OF SCR
5. CAPITAL ADD-ON
6. REQUIREMENT TO HOLD ELIGIBLE OWN FUNDS: LLOYDS
7. GENERAL PROVISIONS FOR CALCULATION OF THE SCR: LLOYD'S
8. SYNDICATE NOTIONAL SCR AND MEMBER NOTIONAL SCR: LLOYD'S

Links

1 APPLICATION

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 6 to 8; and
- (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 8.

2 REQUIREMENT TO HOLD ELIGIBLE OWN FUNDS COVERING THE SCR

2.1 A *firm* must hold *eligible own funds* covering its *SCR*.

[Note: Art. 100 of the *Solvency II Directive*]

3 GENERAL PROVISIONS FOR THE CALCULATION OF THE SCR

3.1 A *firm* must calculate its *SCR* either in accordance with the *standard formula* or using an *internal model* for which *internal model approval* has been granted.

[Note: Art. 100 of the *Solvency II Directive*]

3.2 A *firm* must calculate its *SCR* on the presumption that it will pursue its business as a going concern.

[Note: Art. 101(2) of the *Solvency II Directive*]

3.3 A *firm's SCR*:

- (1) must be calibrated to ensure that all quantifiable risks to which the *firm* is exposed are taken into account, including at least the non-life *underwriting risk*, life *underwriting risk*, health *underwriting risk*, *market risk*, *credit risk*, and *operational risk*;
- (2) must cover existing business, as well as the new business expected to be written over the following 12 *months*; and
- (3) with respect to existing business, must cover only unexpected losses.

[Note: Art. 101(3)–(4) of the *Solvency II Directive*]

3.4 A *firm's SCR* must correspond to the value-at-risk of its *basic own funds* subject to a confidence level of 99.5% over a one-year period.

[Note: Art. 101(3) of the *Solvency II Directive*]

3.5 When calculating the *SCR*, *firms* must take account of the effect of *risk-mitigation techniques*, provided that *credit risk* and other risks arising from the use of *risk-mitigation techniques* are properly reflected in the *SCR*.

[Note: Art. 101(5) of the *Solvency II Directive*]

3.6 Notwithstanding 3.2 to 3.5, a *firm's SCR* shall not cover the risk of loss of *basic own funds* resulting from changes to the *volatility adjustment*.

[Note: Art. 77d(6) of the Solvency II Directive]

4 FREQUENCY OF CALCULATION OF THE SCR

4.1 A *firm* must calculate its *SCR* and report the result of that calculation to the *PRA* at least once a year.

[Note: Art. 102(1) of the Solvency II Directive]

4.2 For the purposes of 2.1, a *firm* must hold *eligible own funds* which cover its last reported *SCR*.

[Note: Art. 102(1) of the Solvency II Directive]

4.3 A *firm* must monitor the amount of its *eligible own funds* and its *SCR* on an ongoing basis.

[Note: Art. 102(1) of the Solvency II Directive]

4.4 If a *firm's* risk profile deviates significantly from the assumptions underlying its last reported *SCR*, the *firm* must recalculate its *SCR* without delay and report it to the *PRA*.

[Note: Art. 102(1) of the Solvency II Directive]

4.5 Where there is evidence to suggest that the risk profile of a *firm* has altered significantly since the date on which the *SCR* was last reported by it, if so requested by the *PRA*, the *firm* must recalculate its *SCR*.

[Note: Art. 102(2) of the Solvency II Directive]

5 CAPITAL ADD-ON

5.1 A *firm* must make every effort to remedy the deficiencies that led to the imposition of a *capital add-on* arising as a result of an *internal model significant risk profile deviation* or a *significant system of governance deviation*.

[Note: Art. 37(3) of the Solvency II Directive]

5.2 Except as provided in 5.3, the *SCR* prior to the imposition of the *capital add-on*, together with the amount of the *capital add-on* imposed by the *PRA*, will constitute the *firm's SCR*.

[Note: Art. 37(5) of the Solvency II Directive]

5.3 For the purposes of calculating the *risk margin*, the *SCR* of a *firm* must not include any *capital add-on* imposed as a result of a *significant system of governance deviation*.

[Note: Art. 37(5) of the Solvency II Directive]

6 REQUIREMENT TO HOLD ELIGIBLE OWN FUNDS: LLOYD'S

6.1 This Chapter applies to the *Society*.

6.2 The *Society* must ensure that *eligible own funds* are held at Lloyd's covering its *SCR*.

6.3 *Eligible own funds* covering the *central requirement* must be *eligible own funds* attributable to the *Society*.

6.4 Where the *standard formula* is used by the *Society* to calculate the *SCR* for Lloyd's, the *Society* must carry out the following process before it will be taken to have demonstrated that 6.2 is met:

- (1) *own funds* attributable to a *member* are to be compared with the *member's* notional SCR derived pursuant to 8.4;
- (2) where the *own funds* attributable to the *member* are less than or equal to that *member's* notional SCR, such *own funds* (but no additional *own funds* attributable to that *member*, including any *own funds* which are greater than the *member's* notional SCR) are to be taken into account for the purposes of establishing compliance with 6.2; and
- (3) to the extent the *own funds* attributable to the *member* are less than that *member's* notional SCR derived pursuant to 8.4, the *Society* must hold *own funds* in respect of the difference.

6.5 Where the *Society* uses an approved *internal model*, the *Society* must also ensure that *eligible own funds* are held at Lloyd's covering, for at least 99.5% of the scenarios taken into account in the *internal model* for the purposes of meeting Solvency Capital Requirement - Internal Models 12.2, any diminution in *own funds* at Lloyd's arising from the impact of those scenarios.

6.6 Where an approved *internal model* is used by the *Society* to calculate the SCR, for the purpose of meeting the requirement set out in 6.2, the *Society* may take account of *own funds* attributable to a *member* only to the extent of the diminution, if any, to those *own funds* resulting from the application of risk scenarios taken into account in the *internal model*.

7 GENERAL PROVISIONS FOR CALCULATION OF THE SCR: LLOYD'S

7.1 This Chapter applies to the *Society*.

7.2 In calculating the SCR for Lloyd's, the *Society* must ensure that the SCR is calibrated so as to include:

- (1) all quantifiable risks to which *members* are exposed as a consequence of those *members* carrying on *insurance business* at Lloyd's; and
- (2) all quantifiable risks to which the *Society* is exposed, including risks to the *central assets* and *central liabilities*;

in the manner required by 3 (and, where an *internal model* is used, in accordance with the Solvency Capital Requirement - Internal Models Part of the *PRA* Rulebook and where the *standard formula* is used, in accordance with the Solvency Capital Requirement - Standard Formula Part of the *PRA* Rulebook).

7.3 The *Society* must calculate a *central requirement* for Lloyd's which meets 7.2(2).

7.4 The *central requirement* must take account of the risk that the *central assets* may be used to meet deficiencies (as to amount or quality) in *own funds* attributable to *members*, such *own funds* supporting *members' insurance business* at Lloyd's.

8 SYNDICATE NOTIONAL SCR AND MEMBER NOTIONAL SCR: LLOYD'S

8.1 This Chapter applies to *managing agents* and, where specified, the *Society*.

8.2 A *managing agent* must calculate a notional SCR for each *syndicate* which it manages.

8.3 The notional SCR for each *syndicate* referred to in 8.2 must be calculated using a methodology which is consistent with the method used by the *Society* to derive the SCR for

Lloyd's for the purposes of enabling the *Society* to comply with the relevant provisions of this Chapter.

- 8.4 The *Society* must calculate a notional *SCR* for each *member* using the method of calculation chosen to calculate the *SCR* for Lloyd's for the purpose of 3.1.
- 8.5 Where a *managing agent* manages risks which are included in the Lloyd's *SCR* calculation, the *managing agent* must promptly assist and provide all relevant information to the *Society* for the purposes of the *Society* complying with relevant provisions of *SCR Rules*.

**PRA RULEBOOK: SOLVENCY II FIRMS: SOLVENCY CAPITAL REQUIREMENT STANDARD
FORMULA 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 with the Financial Conduct Authority), 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: Solvency Capital Requirement Standard Formula Instrument
2015**

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Solvency Capital Requirement Standard Formula Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

SOLVENCY CAPITAL REQUIREMENT – STANDARD FORMULA

Chapter content

1. APPLICATION AND DEFINITIONS
2. STRUCTURE OF THE SCR STANDARD FORMULA
3. THE BASIC SCR
4. CALCULATION OF THE EQUITY RISK SUB-MODULE AND APPLICATION OF THE SYMMETRIC ADJUSTMENT MECHANISM
5. CAPITAL REQUIREMENT FOR OPERATIONAL RISK
6. ADJUSTMENT FOR LOSS-ABSORBING CAPACITY OF TECHNICAL PROVISIONS AND DEFERRED TAXES
7. SIMPLIFICATION IN THE STANDARD FORMULA
8. LLOYD'S

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *UK Solvency II firm*; and
- (2) in accordance with Insurance General Application 3, the *Society*, as modified by 8.

1.2 In this Part, the following definitions shall apply:

standard equity capital charge

means the standard capital requirement for equity risk calculated in accordance with the *Solvency II Regulations* before any *symmetric adjustment* is applied.

symmetric adjustment

means the symmetric adjustment that may be applied to the *standard equity capital charge* in accordance with the *Solvency II Regulations*.

2 STRUCTURE OF THE SCR STANDARD FORMULA

2.1 For a *firm* calculating its *SCR* on the basis of the *standard formula*, its *SCR* is the sum of the following items:

- (1) the *basic SCR*;
- (2) the capital requirement for *operational risk*, as set out in 5; and
- (3) the adjustment for the loss-absorbing capacity of *technical provisions* and deferred taxes, as set out in 6.

[Note: Art. 103 of the *Solvency II Directive*]

3 THE BASIC SCR

3.1 For the purposes of calculating its *basic SCR*, a *firm* must:

- (1) calculate the capital requirements for:
 - (a) the non-life *underwriting risk* module;
 - (b) the life *underwriting risk* module;
 - (c) the health *underwriting risk* module;
 - (d) the *market risk* module; and
 - (e) the counterparty default risk module; and
- (2) aggregate the capital requirements referred to in (1) in accordance with the following formula:

$$\text{basic SCR} = \sqrt{\sum_{i,j} \text{Corr}_{i,j} \times \text{SCR}_i \times \text{SCR}_j}$$

where:

- (a) 'SCR_i' and 'SCR_j' denote the non-life *underwriting risk* module, the life *underwriting risk* module, the health *underwriting risk* module, the *market risk* module and the counterparty default risk module;
- (b) 'i,j' means that the sum of the different terms should cover all possible combinations of 'i' and 'j';
- (c) the factor 'Corr_{i,j}' denotes the item set out in row 'i' and column 'j' of the correlation matrix in (d); and

(d)

i \ j	Market	Default	Life	Health	Non-life
Market	1	0,25	0,25	0,25	0,25
Default	0,25	1	0,25	0,25	0,5
Life	0,25	0,25	1	0,25	0
Health	0,25	0,25	0,25	1	0
Non-life	0,25	0,5	0	0	1

[Note: Art. 104(1) and Annex IV point (1) of the Solvency II Directive]

- 3.2 For the purposes of calculating the capital requirements in 3.1(1) for non-life *underwriting risk*, life *underwriting risk* and health *underwriting risk*, a firm must allocate its insurance and *reinsurance* operations to the *underwriting risk* that best reflects the technical nature of the underlying risks.

[Note: Art. 104(2) of the Solvency II Directive]

- 3.3 Each of the risk modules referred to in 3.1(1) must be calibrated using a Value-at-Risk measure, with a 99.5% confidence level over a one-year period.
- 3.4. Where appropriate, *diversification effects* must be taken into account in the design of each risk module.

[Note: Art. 104(4) of the Solvency II Directive]

- 3.5 For the purposes of the *basic SCR*, a firm must calculate the capital requirement for the non-life *underwriting risk* module so that it:
- (1) reflects the risk arising from its non-life insurance obligations, in relation to the perils covered and the processes used in the conduct of business; and
 - (2) takes account of the uncertainty in its results related to existing insurance and *reinsurance* obligations, as well as to new business expected to be written within the following 12 months.

[Note: Art. 105(2) of the Solvency II Directive]

- 3.6 For the purposes of 3.1(1)(a), the capital requirement for the non-life *underwriting risk* module is a combination of the capital requirements for at least the following sub-modules:
- (1) a non-life premium and reserve risk sub-module covering the risk of loss, or of adverse change in the value of insurance liabilities, resulting from fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of *claim* settlements; and

- (2) a non-life catastrophe risk sub-module covering the risk of loss, or of adverse change in the value of insurance liabilities, resulting from significant uncertainty of pricing and provisioning assumptions related to extreme or exceptional events.

[Note: Art. 105(2) of the Solvency II Directive]

- 3.7 For the purposes of 3.1(1)(b) a *firm* must calculate the capital requirement for the life *underwriting risk* module so as to reflect the risk arising from its life insurance obligations, in relation to the perils covered and the processes used in the conduct of business.

[Note: Art. 105(3) of the Solvency II Directive]

- 3.8 The life *underwriting risk* module must be calculated as:

- (1) a combination of the capital requirements for the following sub-modules:
- (a) mortality risk;
 - (b) longevity risk;
 - (c) disability-morbidity risk;
 - (d) life expense risk;
 - (e) revision risk;
 - (f) lapse risk; and
 - (g) life catastrophe risk;
- (2) aggregated in accordance with the following formula:

$$SCR_{\text{life}} = \sqrt{\sum_{i,j} Corr_{i,j} \times SCR_i \times SCR_j}$$

where: 'SCR_i' and 'SCR_j' denote the mortality risk sub-module, the longevity risk sub-module, the disability-morbidity risk sub-module, the life expense risk sub-module, the revision risk sub-module, the lapse risk sub-module and the life catastrophe risk sub-module; and

'i,j' means that the sum of the different terms should cover all possible combinations of 'i' and 'j'.

[Note: Art. 105(3) and Annex IV point (3) Solvency II Directive]

- 3.9 For the purposes of 3.8:

- (1) the mortality risk sub-module covers the risk of loss, or of adverse change, in the value of insurance liabilities, resulting from changes in the level, trend or volatility of mortality rates, where an increase in the mortality rate leads to an increase in the value of insurance liabilities;
- (2) the longevity risk sub-module covers the risk of loss, or of adverse change, in the value of insurance liabilities, resulting from changes in the level, trend or volatility of mortality rates, where a decrease in the mortality rate leads to an increase in the value of insurance liabilities;

- (3) the disability-morbidity risk sub-module covers the risk of loss, or of adverse change, in the value of insurance liabilities, resulting from changes in the level, trend or volatility of disability, sickness and morbidity rates;
- (4) the life-expense risk sub-module covers the risk of loss, or of adverse change, in the value of insurance liabilities, resulting from changes in the level, trend or volatility of the expenses incurred in servicing *contracts of insurance* or *reinsurance contracts*;
- (5) the revision risk sub-module covers the risk of loss, or of adverse change, in the value of insurance liabilities, resulting from changes in the level, trend or volatility of the revision rates applied to annuities, due to changes in the legal environment or in the state of health of the person insured;
- (6) the lapse risk sub-module covers the risk of loss, or of adverse change, in the value of insurance liabilities, resulting from changes in the level or volatility of the rates of *policy* lapses, terminations, renewals and surrenders; and
- (7) the life-catastrophe risk sub-module covers the risk of loss, or of adverse change, in the value of insurance liabilities, resulting from the significant uncertainty of pricing and provisioning assumptions related to extreme or irregular events.

[Note: Art. 105(3) of the Solvency II Directive]

3.10 For the purposes of 3.1(1)(c):

- (1) a *firm* must calculate the capital requirement for the health *underwriting risk* module to reflect the risk arising from its underwriting of health insurance obligations, whether it is pursued on a similar technical basis to that of life insurance or not, following from both the perils covered and the processes used in the conduct of business; and
- (2) the health *underwriting risk* module must cover at least the risk of loss, or of adverse change, in the value of insurance liabilities resulting from:
 - (a) changes in the level, trend, or volatility of the expenses incurred in servicing *contracts of insurance* or *reinsurance contracts*;
 - (b) fluctuations in the timing, frequency and severity of insured events, and in the timing and amount of *claim* settlements at the time of provisioning; and
 - (c) the significant uncertainty of pricing and provisioning assumptions related to outbreaks of major epidemics, as well as the unusual accumulation of risks under such extreme circumstances.

[Note: Art. 105(4) of the Solvency II Directive]

3.11 For the purposes of 3.1(1)(d):

- (1) a *firm* must calculate the capital requirement for the *market risk* module so that it:
 - (a) reflects the risk arising from the level or volatility of market prices of financial instruments which have an impact upon the value of the assets and liabilities of the *firm*;
 - (b) properly reflects the structural mismatch between assets and liabilities, in particular with respect to the duration of assets and liabilities; and

- (2) the capital requirement for the *market risk* module is a combination of the capital requirements for at least the following sub-modules:
- (a) an interest-rate risk sub-module covering the sensitivity of the values of assets, liabilities and financial instruments to changes in the term structure of interest rates, or in the volatility of interest rates;
 - (b) an equity risk sub-module covering the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of equities;
 - (c) a property risk sub-module covering the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of market prices of real estate;
 - (d) a spread risk sub-module covering the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of credit spreads over the risk-free interest-rate term structure;
 - (e) a currency risk sub-module covering the sensitivity of the values of assets, liabilities and financial instruments to changes in the level or in the volatility of currency exchange rates; and
 - (f) a *market risk* concentrations sub-module covering additional risks to a *firm* stemming either from lack of diversification in the asset portfolio or from large exposure to default risk by a single issuer of securities or a *group* of related issuers.

[Note: Art. 105(5) of the *Solvency II Directive*]

3.12 For the purposes of 3.1(1)(e), the counterparty default risk module:

- (1) must reflect possible losses due to unexpected default, or deterioration in the credit standing, of the counterparties and debtors of the *firm* over the following 12 *months*;
- (2) must cover risk-mitigating contracts, such as *reinsurance* arrangements, securitisations and *derivatives*, and receivables from intermediaries, as well as any other credit exposures which are not covered in the spread risk sub-module;
- (3) must take appropriate account of collateral or other security held by, or for the account of, the *firm* and the associated risks;
- (4) for each counterparty, must take account of the overall counterparty risk exposure of the *firm* to that counterparty, irrespective of the legal form of the counterparty's contractual obligations to the *firm*.

[Note: Art. 105(6) of the *Solvency II Directive*]

4 CALCULATION OF THE EQUITY RISK SUB-MODULE AND APPLICATION OF THE SYMMETRIC ADJUSTMENT MECHANISM

4.1 For the purposes of calculating the equity risk sub-module referred to in 3.11(2)(b), a *firm* must apply a *symmetric adjustment* to the *standard equity capital charge* to cover the risk arising from changes in the level of equity prices.

[Note: Art. 106(1) of the *Solvency II Directive*]

5 CAPITAL REQUIREMENT FOR OPERATIONAL RISK

5.1 A firm's capital requirement for *operational risk* must:

- (1) reflect its operational risks to the extent that they are not already reflected in the risk modules used to calculate its *basic SCR*; and
- (2) be calibrated in accordance with Solvency Capital Requirement – General Provisions 3.3 to 3.4.

[Note: Art. 107(1) of the Solvency II Directive]

5.2 With respect to *linked long-term contracts of insurance*, the calculation of the capital requirement for *operational risk* must take into account the amount of annual expenses incurred in respect of those insurance obligations.

[Note: Art. 107(2) of the Solvency II Directive]

5.3 With respect to *insurance business* operations other than those referred to in 5.2, the capital requirement for *operational risk* must:

- (1) take into account the volume of those operations, in terms of earned *premiums* and *technical provisions* which are held in respect of that *insurance business*; and
- (2) not exceed 30% of the *basic SCR* relating to those operations.

[Note: Art. 107(3) of the Solvency II Directive]

6 ADJUSTMENT FOR LOSS-ABSORBING CAPACITY OF TECHNICAL PROVISIONS AND DEFERRED TAXES

6.1 The adjustment for the loss-absorbing capacity of *technical provisions* and deferred taxes as referred to in 2.1(3):

- (1) must reflect potential compensation of unexpected losses through a simultaneous decrease in *technical provisions* or deferred taxes, or a combination of the two; and
- (2) must take account of the risk-mitigating effect provided by future discretionary benefits of *contracts of insurance*.

[Note: Art. 108 of the Solvency II Directive]

6.2 For the purposes of 6.1(2):

- (1) a firm must take account of the risk-mitigating effect provided by future discretionary benefits to the extent that it can establish that a reduction in future discretionary benefits may be used to cover unexpected losses when they arise;
- (2) the risk-mitigating effect provided by future discretionary benefits must be no higher than the sum of *technical provisions* and deferred taxes relating to those future discretionary benefits; and
- (3) the value of future discretionary benefits under adverse circumstances must be compared to the value of those benefits under the underlying assumptions of the *best estimate* calculation.

[Note: Art. 108 of the Solvency II Directive]

7 SIMPLIFICATION IN THE STANDARD FORMULA

- 7.1 (1) A *firm* may use a simplified calculation for a specific sub-module or risk module where the nature, scale and complexity of the risks it faces justifies it.
- (2) A *firm* must calibrate its simplified calculation in accordance with Solvency Capital Requirement – General Provisions 3.3 to 3.4.

[Note: Art. 109 of the *Solvency II Directive*]

8 LLOYD'S

- 8.1 This Chapter applies to the *Society* in relation to the use of the *standard formula* for the purpose of Solvency Capital Requirement – General Provisions 3.1.
- 8.2 The *Society* must aggregate the results of each notional *SCR* referred to in Solvency Capital Requirement – General Provisions 8.4 together with the *central requirement*, in order to obtain the *SCR* for Lloyd's.

PRA RULEBOOK: SOLVENCY II FIRMS: SOLVENCY CAPITAL REQUIREMENT – INTERNAL MODELS 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 with the Financial Conduct Authority), 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: Solvency Capital Requirement - Internal Models Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Solvency Capital Requirement - Internal Models Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

SOLVENCY CAPITAL REQUIREMENT – INTERNAL MODELS

Chapter content

1. APPLICATION AND DEFINITIONS
2. APPROVAL OF FULL AND PARTIAL INTERNAL MODELS
3. APPLICATIONS FOR APPROVAL OF FULL AND PARTIAL INTERNAL MODELS
4. APPLICATIONS FOR APPROVAL OF PARTIAL INTERNAL MODELS
5. TRANSITIONAL PLAN TO EXTEND THE SCOPE OF THE MODEL
6. CHANGES TO AN INTERNAL MODEL OR INTERNAL MODEL CHANGE POLICY
7. RESPONSIBILITIES OF THE FIRM'S GOVERNING BODY
8. REVERSION TO THE STANDARD FORMULA
9. NON-COMPLIANCE OF THE INTERNAL MODEL
10. USE TEST
11. STATISTICAL QUALITY STANDARDS
12. CALIBRATION STANDARDS
13. PROFIT AND LOSS ATTRIBUTION
14. VALIDATION STANDARDS
15. DOCUMENTATION STANDARDS
16. EXTERNAL MODELS AND DATA
17. LLOYD'S

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

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

1.2 In this Part, the following definitions shall apply:

internal model approval application

means an application by a *firm* for *internal model approval*.

internal model change policy

means a *firm's* policy for making minor and major changes to its *internal model*.

internal model requirements

means the requirements set out in Solvency Capital Requirement – Internal Models 10 to 15.

2 APPROVAL OF FULL AND PARTIAL INTERNAL MODELS

2.1 A *firm* may calculate its *SCR* using an *internal model* that is either a full *internal model* or a *partial internal model* only:

- (1) if it has been granted *internal model approval* in respect of its *internal model*; and
- (2) to the extent of its *internal model approval*.

2.2 A *firm* that has been granted *internal model approval* must calculate its *SCR* using the *internal model* for which *internal model approval* has been granted.

[Note: Art. 112(1) and Art. 112(2) of the *Solvency II Directive*]

3 APPLICATIONS FOR APPROVAL OF FULL AND PARTIAL INTERNAL MODELS

3.1 A *firm* making an *internal model approval application* must submit, as a minimum, documentary evidence that demonstrates to the *PRA's* satisfaction that the *internal model* and, if the context requires, the *firm* satisfies the *internal model requirements*.

[Note: Art. 112(3) of the *Solvency II Directive*]

3.2 A *firm* making an *internal model approval application* must demonstrate to the *PRA's* satisfaction that its systems for identifying, measuring, monitoring, managing and reporting risk are adequate.

[Note: Art. 112(5) of the *Solvency II Directive*]

3.3 When making an *internal model approval application*, a *firm* must submit its *internal model change policy* to the *PRA* for approval.

[Note: Art. 115 of the *Solvency II Directive*]

- 3.4 Upon request by the PRA, a firm with an *internal model approval* must provide the PRA with an estimate of the SCR determined in accordance with the *standard formula*.

[Note: Art. 112(7) of the Solvency II Directive]

4 APPLICATIONS FOR APPROVAL OF PARTIAL INTERNAL MODELS

- 4.1 Where an *internal model approval application* relates to the use of a *partial internal model*, the *internal model requirements* apply with any changes that are necessary to take account of the limited scope of the application of the *internal model*.

[Note: Art. 112(3) of the Solvency II Directive]

- 4.2 A firm making an *internal model approval application* to use a *partial internal model* must:
- (1) explain, and properly justify, the reason for the limited scope of application of the *internal model*;
 - (2) explain how the resulting SCR reflects more appropriately the risk profile of the firm and complies with Solvency Capital Requirement - General Provisions 2 to 4; and
 - (3) demonstrate that the design of its *partial internal model* is consistent with the principles in Solvency Capital Requirement - General Provisions 2 to 4 so as to allow the *partial internal model* to be fully integrated into the *standard formula*.

[Note: Art. 113(1) of the Solvency II Directive]

5 TRANSITIONAL PLAN TO EXTEND THE SCOPE OF THE MODEL

- 5.1 Upon request by the PRA, a firm which has made an *internal model approval application* in respect of a *partial internal model* that only covers certain sub-modules of a specific risk module, or some of the business units of the firm with respect to a specific risk module, or parts of both, must submit a realistic transitional plan to extend the scope of the proposed *partial internal model*.

[Note: Art. 113(2) of the Solvency II Directive]

- 5.2 The realistic transitional plan referred to in 5.1 must set out the manner in which the firm plans to extend the scope of the proposed *partial internal model* to other sub-modules or business units of the firm, in order to ensure that the *internal model* covers a predominant part of the firm's insurance business with respect to that specific risk module.

[Note: Art. 113(2) of the Solvency II Directive]

6 CHANGES TO AN INTERNAL MODEL OR INTERNAL MODEL CHANGE POLICY

- 6.1 A firm with *internal model approval* must not change its *internal model* otherwise than in accordance with the firm's *internal model change policy* as approved by the PRA.

[Note: Art. 115 of the Solvency II Directive]

- 6.2 A firm's *internal model change policy* must include a specification of minor and major changes to the *internal model*.

[Note: Art. 115 of the Solvency II Directive]

- 6.3 A firm with *internal model approval* must not:

- (1) make any major change to its *internal model*; or
- (2) make any change to its *internal model change policy*;

without obtaining the prior approval of the *PRA* in accordance with the procedures set out in 3 to 5 for obtaining *internal model approval*.

[Note: Art. 115 of the *Solvency II Directive*]

7 RESPONSIBILITIES OF THE FIRM'S GOVERNING BODY

7.1 A *firm's*:

- (1) *internal model approval application*; and
- (2) application to the *PRA* for approval to make a major change to its *internal model* which is the subject of an *internal model approval*;

must be approved by the *firm's governing body*.

[Note: Art. 116 of the *Solvency II Directive*]

7.2 A *firm* must have in place systems which ensure that its *internal model* operates properly on a continuous basis.

[Note: Art. 116 of the *Solvency II Directive*]

8 REVERSION TO THE STANDARD FORMULA

8.1 A *firm* with an *internal model approval* must not, in respect of the *internal model* for which that *internal model approval* has been granted, revert to calculating the whole or any part of the *SCR* in accordance with the *standard formula*.

[Note: Art. 117 of the *Solvency II Directive*]

9 NON-COMPLIANCE OF THE INTERNAL MODEL

9.1 If a *firm* with *internal model approval* ceases to comply with the *internal model requirements*, the *firm* must, without delay, either present to the *PRA* a plan to restore compliance within a reasonable period of time, or demonstrate to the *PRA* that the effect of non-compliance is immaterial.

[Note: Art. 118(1) of the *Solvency II Directive*]

10 USE TEST

10.1 A *firm* must demonstrate to the *PRA* that its *internal model* is widely used, and plays an important role in its system of governance (referred to in Conditions Governing Business 2 – 7, Insurance - Fitness and Propriety 2.1 to 2.3, 4.1, 4.3 and 4.4 and Insurance – Allocation of Responsibilities 4) and particularly in its:

- (1) risk-management system, as set out in Conditions Governing Business 3.1 to 3.7, and decision-making processes; and
- (2) economic and solvency capital assessment and allocation processes, including its *ORSA*, as set out in Conditions Governing Business 3.8 to 3.11.

[Note: Art. 120 of the *Solvency II Directive*]

10.2 A *firm* must also demonstrate to the *PRA* that the frequency of calculation of its *SCR* using the *internal model* is consistent with the frequency with which it uses its *internal model* for the purposes set out in 10.1.

[Note: Art. 120 of the Solvency II Directive]

10.3 A *firm* must ensure the ongoing appropriateness of the design and operations of its *internal model*, and that the *internal model* continues to appropriately reflect the risk profile of the *firm*.

[Note: Art. 120 of the Solvency II Directive]

11 STATISTICAL QUALITY STANDARDS

11.1 A *firm* must ensure that its *internal model* and, in particular, the calculation of the *probability distribution forecast* underlying it, complies with 11.2 to 11.8.

[Note: Art. 121(1) of the Solvency II Directive]

11.2 The methods used to calculate the *probability distribution forecast* must be:

- (1) based on adequate, applicable and relevant actuarial and statistical techniques;
- (2) based upon current and credible information and realistic assumptions; and
- (3) consistent with the methods used to calculate *technical provisions*.

[Note: Art. 121(2) of the Solvency II Directive]

11.3 A *firm* must be able to justify the assumptions underlying its *internal model* to the *PRA*.

[Note: Art. 121(2) of the Solvency II Directive]

- 11.4 (1) Data used for the *internal model* must be accurate, complete and appropriate.
- (2) A *firm* must update the data sets used in the calculation of the *probability distribution forecast* at least annually.

[Note: Art. 121(3) of the Solvency II Directive]

11.5 Without limiting the operation of 11.2, irrespective of the method chosen to calculate the *probability distribution forecast*, the ability of the *internal model* to rank risk must be sufficient to ensure that it is widely used and plays an important role in the system of governance of the *firm*, in particular in its risk-management system and decision-making processes, and capital allocation in accordance with 10.1.

[Note: Art. 121(4) of the Solvency II Directive]

11.6 The *internal model* must cover all of the material risks to which the *firm* is exposed, including at least the risks set out in Solvency Capital Requirement – General Provisions 3.3(1).

[Note: Art. 121(4) of the Solvency II Directive]

11.7 In its *internal model*, a *firm* must:

- (1) accurately assess:
 - (a) the particular risks associated with financial guarantees and any contractual options, where material; and

- (b) the risks associated with both *policyholder* options and the *firm's* contractual options,

taking into account the impact that future changes in financial and non-financial conditions may have on the exercise of those options; and

- (2) take account of all payments to *policyholders* which it expects to make, whether or not those payments are contractually guaranteed.

[Note: Art. 121(7) and (9) of the Solvency II Directive]

11.8 A *firm's internal model* must only take into account:

- (1) as regards *diversification effects*, dependencies within and across risk categories, if the *PRA* is satisfied, as part of the *internal model approval*, that the *firm's* system for measuring those *diversification effects* is adequate;
- (2) the effect of *risk-mitigation techniques*, if and to the extent that *credit risk* and other risks arising from the use of *risk-mitigation techniques* are properly reflected in the *internal model*; and
- (3) future management actions, if and to the extent that:
 - (a) they are future management actions that the *firm* would reasonably expect to carry out in specific circumstances; and
 - (b) the *firm* makes allowance in its *internal model* for the time necessary to implement those actions.

[Note: Art. 121(5), (6) and (8) of the Solvency II Directive]

12 CALIBRATION STANDARDS

12.1 A *firm* may use, for internal modelling purposes, a different time period or *risk measure* than that set out in Solvency Capital Requirement – General Provisions 3.4 only where the outputs of the *internal model* can be used by the *firm* to calculate the *SCR* in a manner that provides *policyholders* with a level of protection equivalent to that set out in Solvency Capital Requirement – General Provisions 3.2 to 3.5.

[Note: Art. 122(1) of the Solvency II Directive]

12.2 A *firm* must derive the *SCR* directly from the *probability distribution forecast* generated by its *internal model*, using the Value-at-Risk *risk measure* set out in Solvency Capital Requirement – General Provisions 3.4.

[Note: Art. 122(2) of the Solvency II Directive]

12.3 When required to do so by the *PRA*, a *firm* must run its *internal model* on relevant benchmark portfolios, using assumptions based on external rather than internal data in order to verify the calibration of the *internal model* and to check that its specification is in line with generally accepted market practice.

[Note: Art. 122(4) of the Solvency II Directive]

13 PROFIT AND LOSS ATTRIBUTION

13.1 A *firm* with *internal model approval* must review, at least annually, the causes and sources of profits and losses for each *major business unit*.

[Note: Art. 123 of the *Solvency II Directive*]

13.2 A *firm* must demonstrate how the categorisation of risk chosen in its *internal model* explains the causes and sources of profits and losses.

[Note: Art. 123 of the *Solvency II Directive*]

13.3 A *firm* must ensure that its categorisation of risk and attribution of profits and losses reflects its risk profile.

[Note: Art. 123 of the *Solvency II Directive*]

14 VALIDATION STANDARDS

- 14.1 (1) A *firm* must have in place a regular cycle of *internal model* validation which includes:
- (a) monitoring the performance of the *internal model*, reviewing the ongoing appropriateness of its specification and testing its results against experience;
 - (b) an effective statistical process for validating the *internal model* which enables the *firm* to demonstrate to the *PRA* that the resulting capital requirements are appropriate;
 - (c) an analysis of the stability of the *internal model* and, in particular, the testing of the sensitivity of the results of the *internal model* to changes in key underlying assumptions; and
 - (d) an assessment of the accuracy, completeness and appropriateness of the data used by the *internal model*.
- (2) The statistical methods applied for the purposes of (1)(b) must test the appropriateness of the *probability distribution forecast* compared to loss experience, all material new data and information relating thereto.

[Note: Art. 124 of the *Solvency II Directive*]

15 DOCUMENTATION STANDARDS

15.1 A *firm* must document the design and operational details of its *internal model*.

[Note: Art. 125 of the *Solvency II Directive*]

- 15.2 The documentation referred to in 15.1 must:
- (1) demonstrate compliance with 10 to 14;
 - (2) provide a detailed outline of the theory, assumptions, and mathematical and empirical bases underlying the *internal model*;
 - (3) indicate any circumstances under which the *internal model* does not work effectively; and
 - (4) include all major changes to the *internal model*, as referred to in 6.

[Note: Art. 125 of the *Solvency II Directive*]

16 EXTERNAL MODELS AND DATA

- 16.1 The *internal model requirements* apply regardless whether a *firm* uses, in its *internal model*, a model or data obtained from a third party.

[Note: Art. 126 of the *Solvency II Directive*]

17 LLOYD'S

- 17.1 This Chapter applies to the *Society* in relation to the use of an *internal model* for the purpose of Solvency Capital Requirement – General Provisions 3.1.

17.2 The *internal model* must:

- (1) separately identify and aggregate any diminution in *basic own funds* arising as a result of the application of risk scenarios taken into account in the *internal model* to:
 - (a) the *insurance business of members*; and
 - (b) the *central assets* and *central liabilities*; and
- (2) where the risk scenarios taken into account in the *internal model* result in the *own funds* attributable to a particular *member* being exhausted, identify the consequent impact upon *own funds* attributable to the *Society*.

**PRA RULEBOOK: SOLVENCY II FIRMS: MINIMUM CAPITAL REQUIREMENT 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 with the Financial Conduct Authority), 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: Minimum Capital Requirement Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Minimum Capital Requirement Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

MINIMUM CAPITAL REQUIREMENT

Chapter content

1. APPLICATION AND DEFINITIONS
2. GENERAL PROVISIONS
3. CALCULATION OF THE MINIMUM CAPITAL REQUIREMENT
4. FREQUENCY AND REPORTING IN RELATION TO THE MINIMUM CAPITAL REQUIREMENT
5. LLOYD'S

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *UK Solvency II firm*; and
- (2) in accordance with Insurance General Application 3, the *Society*, as modified by 5.

1.2 In this Part, the following definitions shall apply;

captive insurer

means a *Solvency II undertaking* owned by:

- (1) a financial *undertaking* other than a *Solvency II undertaking*; or
- (2) a *group of Solvency II undertakings*; or
- (3) a non-financial *undertaking*;

the purpose of which is to provide insurance cover exclusively for the risks of the *undertaking* or *undertakings* to which it belongs, or of an *undertaking*, or *undertakings*, of the *group* of which that *Solvency II undertaking* is a member.

[Note: Art. 13(2) of the *Solvency II Directive*]

captive reinsurer

means a *Solvency II undertaking* that is a *pure reinsurer* owned by:

- (1) a financial *undertaking* other than a *Solvency II undertaking*; or
- (2) a *group of Solvency II undertakings*; or
- (3) a non-financial *undertaking*;

the purpose of which is to provide *reinsurance* cover exclusively for the risks of the *undertaking* or *undertakings* to which it belongs or of an *undertaking* or *undertakings* of the *group* of which that *pure reinsurer* is a member.

[Note: Art.13(5) of the *Solvency II Directive*]

2 GENERAL PROVISIONS

2.1 A *firm* must hold *eligible own funds* covering the *MCR*.

[Note: Art. 128 of the *Solvency II Directive*]

3 CALCULATION OF THE MINIMUM CAPITAL REQUIREMENT

3.1 The function used to calculate the *firm's MCR* must be calibrated to the value-at-risk of its *basic own funds* subject to a confidence level of 85% over a one-year period.

[Note: Art. 129(1)(c) of the *Solvency II Directive*]

3.2 The *MCR* must have an absolute floor of:

- (1) 2,500,000 euro for *firms*, including *captive insurers*, which have *Part 4A permission to effect contracts of insurance or carry out contracts of insurance* that are *contracts of general insurance*, except in the case where all or some of the *general insurance business classes 10 to 15* are covered, in which case it must be no less than 3,700,000 euro;
- (2) 3,700,000 euro for *firms*, including *captive insurers*, which have *Part 4A permission to effect contracts of insurance or carry out contracts of insurance* that are *contracts of long term insurance*;
- (3) 3,600,000 euro for *pure reinsurers*, except in the case of *captive reinsurers* that are *pure reinsurers*, in which case the *MCR* must be no less than 1,200,000 euro; or
- (4) the sum of the amounts set out in (1) and (2) for *firms* other than *pure reinsurers* which as of 15 March 1979 carried on both *long-term insurance business* and *general insurance business*.

[Note: Art. 129(1)(d) of the Solvency II Directive]

- 3.3 Without prejudice to the requirements on the absolute floor in 3.2, the *MCR* must neither fall below 25% nor exceed 45% of the *firm's SCR*, calculated in accordance with *SCR Rules*, and including any *capital add-on* which has been imposed.

[Note: Art. 129(3) of the Solvency II Directive]

4 FREQUENCY AND REPORTING IN RELATION TO THE MINIMUM CAPITAL REQUIREMENT

- 4.1 A *firm* must calculate the *MCR* and report the results of that calculation to the *PRA* at least quarterly.

[Note: Art. 129(4) of the Solvency II Directive]

- 4.2 Where either of the limits referred to in 3.3 determines a *firm's MCR* the *firm* must provide the *PRA* information allowing a proper understanding of the reasons therefor.

[Note: Art. 129(4) of the Solvency II Directive]

5 LLOYD'S

- 5.1 This Chapter applies to the *Society*.
- 5.2 In calculating the *MCR* for Lloyd's, in the manner required by 3, the *Society* must ensure that the *MCR* is calibrated so as to include all quantifiable risks to which:
- (1) *members* are exposed as a consequence of those *members* carrying on *insurance business* at Lloyd's; and
 - (2) the *Society* is exposed, including risks to the *central assets* and *central liabilities*.
- 5.3 The *Society* must determine, at least quarterly, the ratio of the Lloyd's *MCR* to the Lloyd's *SCR* and notify the *PRA* of the result at the same time it reports the quarterly *MCR* calculation required by 4.1.
- 5.4 The *Society* must calculate a reporting point for each *underwriting member*, in accordance with 5.5.

- 5.5 The reporting point for each *underwriting member* must be calculated using the ratio referred to in 5.3, expressed as a percentage of the *member's* notional SCR referred to in Solvency Capital Requirement – General Provisions 8.4.
- 5.6 The *Society* must notify the *PRA* if *own funds* attributable to a *member* fall below the reporting point determined in accordance with 5.5 as soon as it is observed by the *Society*.

PRA RULEBOOK: SOLVENCY II FIRMS: UNDERTAKINGS IN DIFFICULTY 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 with the Financial Conduct Authority), 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: Undertakings in Difficulty Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Undertakings in Difficulty Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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Part

UNDERTAKINGS IN DIFFICULTY

Chapter content

1. APPLICATION
2. IDENTIFICATION AND NOTIFICATION OF DETERIORATING FINANCIAL CONDITIONS
3. NON-COMPLIANCE WITH THE SCR
4. NON-COMPLIANCE WITH THE MCR
5. RECOVERY PLAN AND FINANCE SCHEME
6. LLOYD'S

Links

1 APPLICATION

1.1 Unless otherwise stated, this Part applies to:

- (1) a *UK Solvency II firm*; and
- (2) in accordance with Insurance General Application 3, the *Society*, as modified by 6.

2 IDENTIFICATION AND NOTIFICATION OF DETERIORATING FINANCIAL CONDITIONS

2.1 A *firm* must have procedures in place to identify deteriorating financial conditions and must immediately notify the *PRA* when such deterioration occurs.

[Note: Art. 136 of the *Solvency II Directive*]

3 NON-COMPLIANCE WITH THE SCR

3.1 A *firm* must:

- (1) immediately inform the *PRA* as soon as it observes that the *SCR* is no longer complied with, or where there is a risk of non-compliance within the next three *months*;
- (2) within two *months* from the observation of non-compliance with the *SCR*, submit a realistic *recovery plan* for approval by the *PRA*; and
- (3) take the measures necessary to achieve, within six *months* (or such longer period as the *PRA* may determine) from the observation of non-compliance with the *SCR*, the re-establishment of the level of *eligible own funds* covering the *SCR* or the reduction of its risk profile to ensure compliance with the *SCR*.

[Note: Art. 138(1)–(3) of the *Solvency II Directive*]

3.2 If the *PRA* has extended the period referred to in 3.1(3), by reason of the declaration by *EIOPA* of *exceptional adverse situations* affecting the *firm*, the *firm* must submit a progress report to the *PRA* every three *months* setting out the measures taken and the progress made to re-establish the level of *eligible own funds* covering the *SCR* or to reduce its risk profile to ensure compliance with the *SCR*.

[Note: Art. 138(4) of the *Solvency II Directive*]

4 NON-COMPLIANCE WITH THE MCR

4.1 A *firm* must:

- (1) inform the *PRA* immediately where it observes that the *MCR* is no longer complied with or where there is a risk of non-compliance within the next three *months*; and
- (2) within one *month* from the observation of non-compliance with the *MCR*, submit, for approval by the *PRA*, a short-term realistic *finance scheme* to restore, within three *months* of that observation, the reestablishment of *eligible own funds* at least to the level of the *MCR* or to reduce its risk profile to ensure compliance with the *MCR*.

[Note: Art. 139(1), (2) of the *Solvency II Directive*]

5 RECOVERY PLAN AND FINANCE SCHEME

- 5.1 Any *recovery plan* or *finance scheme* must at least include particulars or evidence concerning the following:
- (1) estimates of management expenses, in particular current general expenses and commissions;
 - (2) estimates of income and expenditure in respect of direct business, *reinsurance* acceptances and *reinsurance* cessations;
 - (3) a forecast balance sheet;
 - (4) estimates of the financial resources intended to cover the *technical provisions* and the *SCR* and the *MCR*; and
 - (5) the *firm's* overall *reinsurance* policy.

[Note: Art. 142(1) of the Solvency II Directive]

6 LLOYD'S

- 6.1 For the purposes of this Part, 3 and 5 shall apply to the *Society* such that a breach of the *central requirement* shall also be treated as a breach of the *SCR*.

PRA RULEBOOK: SOLVENCY II FIRMS: INVESTMENTS 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 with the Financial Conduct Authority), 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: Investments Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Investments Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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Part

INVESTMENTS

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. PRUDENT PERSON PRINCIPLE: GENERAL PRINCIPLES**
- 3. PRUDENT PERSON PRINCIPLE: ASSETS COVERING TECHNICAL PROVISIONS**
- 4. PRUDENT PERSON PRINCIPLE: ADDITIONAL REQUIREMENTS FOR ASSETS COVERING LINKED LONG-TERM LIABILITIES**
- 5. PRUDENT PERSON PRINCIPLE: ADDITIONAL REQUIREMENTS WHERE THE INVESTMENT RISK IS NOT BORNE BY THE POLICYHOLDER**
- 6. REPACKAGED LOANS**

Links

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*; and
- (3) in accordance with Insurance General Application 3, *managing agents*.

1.2 In this Part, the following definitions shall apply:

alternative investment fund

means (in accordance with Article 4(1)(a) of Directive 2011/61/EU) a collective investment undertaking, including investment compartments thereof, which:

- (1) raises capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors; and
- (2) does not require authorisation pursuant to Article 5 of the Directive 2009/65/EC.

authorised contractual scheme

means a *co-ownership scheme* or a *partnership scheme*.

ICVC

means a body incorporated under the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228).

linked benefit

means a benefit payable under a *linked long-term contract of insurance* or a *regulated collective investment scheme* the amount of which is determined by reference to:

- (1) the value of the property of any description (whether specified or not);
- (2) fluctuations in the value of any such property;
- (3) income from such property; or
- (4) fluctuations in an index of the value of such property.

linked long-term liabilities

means the insurance obligations in respect of *linked benefits* under a *linked long-term contract of insurance*.

recognised scheme

means a scheme recognised under:

- (1) section 264 of *FSMA* (Schemes constituted in other EEA States);
- (2) section 270 of *FSMA* (Schemes authorised in designated countries or territories); or
- (3) section 272 of *FSMA* (Individually recognised overseas schemes).

regulated collective investment scheme

means:

- (1) an *ICVC*;
- (2) an *authorised unit trust scheme*;
- (3) an *authorised contractual scheme*; or
- (4) a *recognised scheme*;

regulated market

means:

- (1) a regulated market as defined in point (14) of Article 4 of Directive 2004/39/EC; or
- (2) a market situated outside the *EEA States* which is characterised by the fact that:
 - (a) it meets comparable requirements to those set out in (1); and
 - (b) the financial instruments dealt in are of a quality comparable to those in a regulated market in the *UK*.

unit

means:

- (1) (in relation to a *collective investment scheme*) the investment, specified in article 81 of the *Regulated Activities Order* (Units in a collective investment scheme) and defined in section 237(2) of *FSMA* (Other definitions); and
- (2) (in relation to an *alternative investment fund*) the right or interest (however described) of an investor in an *alternative investment fund*.

2 PRUDENT PERSON PRINCIPLE: GENERAL PRINCIPLES

2.1 A *firm* must invest its assets in accordance with the following requirements:

- (1) the *firm* must only invest in assets and instruments the risks of which it can properly identify, measure, monitor, manage, control and report and appropriately take into account in the assessment of its overall solvency needs in accordance with Conditions Governing Business 3.8(2)(a);
- (2) all the assets of the *firm* must be:
 - (a) invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio of assets of the *firm* as a whole; and

- (b) localised such as to ensure their availability; and
- (3) in the case of a conflict of interest, the *firm* must, or must procure that any third party which manages its assets will ensure that the investment of assets is made in the best interest of *policyholders*.

[Note: Art. 132(1) – (2) of the *Solvency II Directive*]

3 PRUDENT PERSON PRINCIPLE: ASSETS COVERING TECHNICAL PROVISIONS

- 3.1 In addition to meeting the requirements set out in 2.1, a *firm* must ensure that assets held to cover its *technical provisions* are invested in a manner appropriate to the nature and duration of the *firm's* insurance and *reinsurance* liabilities and in the best interests of all *policyholders*, taking into account any disclosed *policy* objectives.

[Note: Art. 132(2) of the *Solvency II Directive*]

4 PRUDENT PERSON PRINCIPLE: ADDITIONAL REQUIREMENTS FOR ASSETS COVERING LINKED LONG-TERM LIABILITIES

- 4.1 This Chapter does not apply to a *pure reinsurer*.
- 4.2 In addition to the requirements set out in 2.1 and 3.1, where a *firm* carries out *linked long-term contracts of insurance*, it must also satisfy the requirements in 4.3.
- 4.3 Where 4.2 applies, the *firm* must cover its *technical provisions* in respect of its *linked long-term liabilities* as closely as possible with:
- (1) where the *linked benefits* are linked to the value of *units*, those *units*;
 - (2) where the *linked benefits* are linked to the value of assets contained in an internal fund of the *firm*:
 - (a) in a case where the internal fund is divided into notional units, the assets represented by those notional units; or
 - (b) in a case where notional units are not established, those assets; and
 - (3) where the *linked benefits* are linked to a *share* index or other reference value not mentioned in (1) or (2), assets of appropriate security and marketability which correspond as closely as possible to the assets on which the reference value is based.

[Note: Art. 132(3) of the *Solvency II Directive*]

5 PRUDENT PERSON PRINCIPLE: ADDITIONAL REQUIREMENTS WHERE THE INVESTMENT RISK IS NOT BORNE BY THE POLICYHOLDER

- 5.1 This Chapter does not apply in respect of assets covering *technical provisions* for *linked long-term contracts of insurance* unless, and to the extent that, the assets are held to cover the *technical provisions* in respect of any guarantee of investment performance or other guaranteed benefit provided under those *linked long-term contracts of insurance*.

[Note: Art. 132(3) – (4) of the *Solvency II Directive*]

- 5.2 Subject to 5.1, and without prejudice to 2, 3 and 4, a *firm* must invest its assets in accordance with the following requirements:
- (1) the *firm* must not invest in a *derivative* or *quasi-derivative* unless, and to the extent that, it contributes to a reduction of risks or facilitates efficient portfolio management;
 - (2) investments and assets which are not admitted to trading on a *regulated market* must be kept to prudent levels;
 - (3) assets must be properly diversified in such a way as to avoid:
 - (a) excessive reliance on any particular asset, issuer, *group* of *undertakings* or geographical area; and
 - (b) excessive accumulation of risk in the portfolio as a whole;
 - (4) investments in assets issued by the same issuer, or issuers belonging to the same *group*, must not expose the *firm* to excessive risk concentration.

[Note: Art. 132(4) of the *Solvency II Directive*]

6 REPACKAGED LOANS

- 6.1 A *firm* must ensure that the requirements set out in the *Solvency II Regulations*, that need to be met by *undertakings* that repackage loans into tradable securities and other financial instruments in order for a *firm* to be allowed to invest in such securities or instruments, are met in respect of securities or instruments held by the *firm* that were:
- (1) issued after 1 January 2011; or
 - (2) issued before 1 January 2011 where new underlying exposures were added or substituted after 31 December 2014.

[Note: Art. 135(2)(a) and Art. 308b (11) of the *Solvency II Directive*]

PRA RULEBOOK: SOLVENCY II FIRMS: COMPOSITES 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 with the Financial Conduct Authority), 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: Composites Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Composites Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex A

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

Part

COMPOSITES

Chapter content

1. APPLICATION
2. LONG-TERM AND GENERAL INSURANCE ACTIVITIES TO BE SEPARATELY MANAGED
3. MINIMUM FINANCIAL OBLIGATIONS: GENERAL PROVISIONS
4. MINIMUM FINANCIAL OBLIGATIONS: CALCULATION OF NOTIONAL MINIMUM CAPITAL REQUIREMENT
5. LINKS BETWEEN GENERAL INSURERS AND LONG-TERM INSURERS
6. LLOYDS

Links

1 APPLICATION

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*; and
- (3) in accordance with Insurance General Application 3, *managing agents*.

2 LONG-TERM AND GENERAL INSURANCE ACTIVITIES TO BE SEPARATELY MANAGED

2.1 This Chapter:

- (1) applies to a *composite firm* other than a *pure reinsurer*; and
- (2) does not apply to a *managing agent* which manages one or more *syndicates*, all of which carry on *reinsurance* exclusively.

2.2 A *composite firm* must separately manage the activities relating to its *general insurance business* and the activities relating to its *long-term insurance business* in such a way that:

- (1) its *long-term insurance business* and its *general insurance business* are distinct from one another;
- (2) the interests of *policyholders of contracts of long-term insurance* are not prejudiced by activities relating to the *firm's general insurance business* and the interests of *policyholders of contracts of general insurance* are not prejudiced by activities relating to the *firm's long-term insurance business*; and
- (3) profits from the activities relating to the *composite firm's long-term insurance business* benefit *policyholders of contracts of long-term insurance* as if the *composite firm* was engaged only in *long-term insurance business*.

[Note: Art. 74(1) of the *Solvency II Directive*]

3 MINIMUM FINANCIAL OBLIGATIONS: GENERAL PROVISIONS

3.1 This Chapter:

- (1) applies to a *composite firm*, other than a *pure reinsurer*; and
- (2) does not apply to a *managing agent* which manages one or more *syndicates*, all of which carry on *reinsurance* exclusively.

3.2 A *composite firm* must maintain separate accounts for each of its *long-term insurance business* and its *general insurance business* to show the sources of the results for each activity separately.

3.3 For the purposes of 3.2, the *firm* must:

- (1) break down, according to origin, all income (including *premiums*, recoverables from *reinsurance contracts* and investment income) and all expenditure (including insurance settlements, additions to *technical provisions*, *reinsurance premiums* and

operating expenses) in respect of its *general insurance business* and its *long-term insurance business*, respectively; and

- (2) if items are shared between the *firm's long-term insurance business* and its *general insurance business*, apportion those items appropriately between the two activities and enter them into the accounts on the basis of that apportionment.

[Note: Art. 74(6) of the Solvency II Directive]

- 3.4 The *firm* must record the methods on the basis of which the apportionment referred to in 3.3(2) has been made and be able to demonstrate to the *PRA* the appropriateness of those methods of apportionment.

4 MINIMUM FINANCIAL OBLIGATIONS: CALCULATION OF NOTIONAL MINIMUM CAPITAL REQUIREMENT

- 4.1 This Chapter:

- (1) applies to a *composite firm*, other than a *pure reinsurer*; and
- (2) does not apply to *managing agents*.

- 4.2 Without prejudice to the *SCR Rules* and the Minimum Capital Requirement Part of the *PRA Handbook*, the *firm* must calculate a notional minimum capital requirement on the basis of the accounts referred to in 3.2:

- (1) with respect to its *long-term insurance business*, calculated as if the *firm* carried on *long-term insurance business* only; and
- (2) with respect to its *general insurance business*, calculated as if the *firm* carried on *general insurance business* only.

[Note: Art. 74(2) of the Solvency II Directive]

- 4.3 The *firm* must cover:

- (1) its *notional life MCR* with *eligible own funds* attributable to its *long-term insurance business*, as identified on the basis of the accounts referred to in 3.2; and
- (2) its *notional non-life MCR* with *eligible own funds* attributable to its *general insurance business*, as identified on the basis of the accounts referred to in 3.2.

[Note: Art. 74(3) of the Solvency II Directive]

- 4.4 For the purposes of 4.3, the *firm* must not cover:

- (1) its *notional life MCR* with *eligible own funds* attributable to its *general insurance business*; and
- (2) its *notional non-life MCR* with *eligible own funds* attributable to its *long-term insurance business*.

[Note: Art. 74(3) of the Solvency II Directive]

- 4.5 The *firm* must prepare a statement on the basis of the accounts referred to in 3.2 identifying the *eligible own funds* covering the *notional life MCR* and the *notional non-life MCR*, respectively.

[Note: Art. 74(6) of the Solvency II Directive]

4.6 Provided the *firm* satisfies the requirements in 4.3 and 4.4, and subject to the requirement in 4.7, a *firm* may use:

- (1) *eligible own funds* attributable to its *general insurance business* that are in excess of its *notional non-life MCR*; and
- (2) *eligible own funds* attributable to its *long-term insurance business* that are in excess of its *notional life MCR*;

to cover part or all of the difference between the *firm's SCR* and the sum of its *notional non-life MCR* and *notional life MCR*.

[Note: Art. 74(4) of the Solvency II Directive]

4.7 For the purposes of 4.6, a *firm* must notify the *PRA* before using:

- (1) *eligible own funds* referred to in 4.6(1) to cover the portion of the difference referred to in 4.6 that relates to the difference between the *notional life SCR* and the *notional life MCR*; or
- (2) *eligible own funds* referred to in 4.6(2) to cover the portion of the difference referred to in 4.6 that relates to the difference between the *notional non-life SCR* and the *notional non-life MCR*.

[Note: Art. 74(4) of the Solvency II Directive]

4.8 If a *composite firm* is in breach of either 4.3(1) or 4.3(2), Undertakings In Difficulty 4.1 applies to the activity in respect of which the breach has occurred, as if the words "*MCR*" in Undertakings In Difficulty 4.1 were substituted with the words "*notional life MCR*" or "*notional non-life MCR*", as applicable, regardless of whether any breach has occurred in respect of the other activity.

[Note: Art. 74(7) of the Solvency II Directive]**5 LINKS BETWEEN GENERAL INSURERS AND LONG-TERM INSURERS**

5.1 If a *general insurer* and a *long-term insurer* have financial, commercial or administrative links with each other, each of those *firms* must ensure that its accounts are not distorted by an agreement between them or by any arrangement which could affect the apportionment of expenses and income.

[Note: Art. 73(4) of the Solvency II Directive]**6 LLOYD'S**

6.1 This Chapter applies to *managing agents*.

6.2 A *managing agent* must not permit both *general insurance business* and *long-term insurance business* to be carried on together through any *syndicate* managed by it, except where:

- (1) the *long-term insurance business* to be carried on by that *syndicate* is or is to be restricted to *reinsurance*; or

- (2) the *general insurance business* to be carried on by that *syndicate* is or is to be restricted to *effect contracts of insurance* or *carry out contracts of insurance* in *general insurance business class 1* (accident) or *class 2* (sickness).

[Note: Art. 73(2) of the Solvency II Directive]

**PRA RULEBOOK: SOLVENCY II FIRMS: CONDITIONS GOVERNING BUSINESS 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 with the Financial Conduct Authority), 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: Conditions Governing Business Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Conditions Governing Business Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

CONDITIONS GOVERNING BUSINESS

Chapter content

1. APPLICATION AND DEFINITIONS
2. GENERAL GOVERNANCE REQUIREMENTS
3. RISK MANAGEMENT
4. INTERNAL CONTROL
5. INTERNAL AUDIT
6. ACTUARIAL FUNCTION
7. OUTSOURCING
8. FINITE REINSURANCE
9. RESTRICTION OF BUSINESS
10. PREMIUMS FOR NEW BUSINESS
11. STATISTICAL DATA
12. LLOYD'S

Links

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 12; and
- (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 12.

1.2 In this Part, the following definitions shall apply:

closed year

means a *syndicate year* closed by *reinsurance to close*, either into another *syndicate year* or into an *insurer* approved by the *Council* for that purpose.

concentration risk

means all risk exposures with a loss potential which is large enough to threaten the solvency or the financial position of a *Solvency II undertaking*.

[Note: Art. 13(35) of the *Solvency II Directive*]

corporate member

means a *member* that is a *body corporate* or a Scottish Limited partnership.

explicit maximum loss potential

means the maximum economic risk transferred by the ceding undertaking to the *reinsurer* under a contract of *reinsurance*.

external credit assessment institution

means a credit rating agency that is registered or certified in accordance with Regulation (EC) No 1060/2009 or a central bank issuing credit ratings which are exempt from the application of Regulation (EC) No 1060/2009.

[Note: Art. 13(40) of the *Solvency II Directive*]

finite reinsurance

means *reinsurance*:

- (1) under which the *explicit maximum loss potential* arising from a significant transfer of both *underwriting risk* and timing risk exceeds the premium payable by the ceding *undertaking* over the duration of the contract by a limited but significant amount; and
- (2) which possesses at least one of the following characteristics:
 - (a) explicit and material consideration of the time value of money;

- (b) contractual provisions to moderate the balance of economic experience between the parties to the *reinsurance* over time to achieve the target risk transfer.

[Note: Art. 210(3) of the Solvency II Directive]

former member

means a *person* who has ceased to be a *member*, whether by resignation or otherwise, in accordance with the Lloyd's Act 1982 and any *byelaw* made under it.

individual member

means a *member*, or *former member*, who is a natural *person*.

liquidity risk

means the risk that a *firm* is unable to realise investments and other assets in order to settle its financial obligations when they fall due.

[Note: Art. 13(34) of the Solvency II Directive]

reinsurer

means an *insurance undertaking* whose business includes effecting or carrying out contracts of *reinsurance*; includes a retrocessionaire.

technical provisions transitional measure

means a *transitional deduction* from a *firm's technical provisions* applied in accordance with Transitional Measures 11.1.

2 GENERAL GOVERNANCE REQUIREMENTS

- 2.1 A *firm* must ensure its *governing body* is ultimately responsible for the *firm's* compliance with the rules and all applicable laws, regulations and administrative provisions adopted in accordance with the *Solvency II Directive*.

[Note: Art. 40 of the Solvency II Directive]

- 2.2 (1) A *firm* must have in place an effective system of governance which provides for sound and prudent management of its business.
- (2) The system of governance must include at least:
- (a) an adequate transparent organisational structure with a clear allocation and appropriate segregation of responsibilities; and
- (b) an effective system for ensuring the transmission of information.
- (3) The system of governance must include compliance with the requirements laid down in:
- (a) 2.5;
- (b) 3 to 7;
- (c) Insurance - Fitness and Propriety 2.1 to 2.3, 4.1, 4.3 and 4.4; and

(d) Insurance – Allocation of Responsibilities 4.

(4) The system of governance must be subject to regular internal review.

[Note: Art. 41(1) of the Solvency II Directive]

2.3 A *firm's* system of governance must be proportionate to the nature, scale and complexity of its operations.

[Note: Art. 41(2) of the Solvency II Directive]

2.4 A *firm* must:

- (1) have written policies in relation to at least risk management, internal control, internal audit and, where relevant, *outsourcing*;
- (2) make those policies subject to prior approval of its *governing body*;
- (3) ensure those policies are implemented;
- (4) review those policies at least annually; and
- (5) adapt those policies in view of any significant change in the system or area concerned.

[Note: Art. 41(3) of the Solvency II Directive]

2.5 The written policy on risk management referred to in 2.4(1) must comprise:

- (1) policies relating to points (i) to (vi) in 3.1(2)(c); and
- (2) where the *volatility adjustment* is applied, a policy on the criteria for the application of the *volatility adjustment*.

[Note: Art. 44(2) and (2a) of the Solvency II Directive]

2.6 A *firm* must take reasonable steps to ensure continuity and regularity in the performance of its activities, including the development of contingency plans. To that end, the *firm* must employ appropriate and proportionate systems, resources and procedures.

[Note: Art. 41(4) of the Solvency II Directive]

3 RISK MANAGEMENT

- 3.1
- (1) A *firm* must have in place an effective risk-management system comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report on a continuous basis the risks, at an individual and at an aggregated level, to which it is or could be exposed, and their interdependencies.
 - (2) That risk-management system must:
 - (a) be effective and well integrated into the organisational structure and decision-making processes of the *firm* with proper consideration of the *persons* who have *key functions*;

- (b) cover the risks to be included in the calculation of the *SCR* as set out in Solvency Capital Requirement - General Provisions 3.3(1), as well as the risks which are not, or not fully, included in the calculation thereof; and
- (c) cover at least the following areas:
 - (i) underwriting and reserving;
 - (ii) asset-liability management;
 - (iii) investment, in particular *derivatives*, *quasi-derivatives* and similar commitments;
 - (iv) *liquidity risk* and *concentration risk* management;
 - (v) *operational risk* management;
 - (vi) *reinsurance* and other *risk-mitigation techniques*.
- (3) Where a *firm* applies the *matching adjustment* or the *volatility adjustment* it must set up a liquidity plan projecting the incoming and outgoing cash-flows in relation to the assets and liabilities subject to those adjustments.

[Note: Art. 44(1)–(2) of the Solvency II Directive]

3.2 As regards asset-liability management, a *firm* must:

- (1) regularly assess the sensitivity of its *technical provisions* and *eligible own funds* to the assumptions underlying the extrapolation of the *relevant risk-free interest rate term structure* referred to in Technical Provisions 5;
- (2) where the *matching adjustment* is applied, regularly assess:
 - (a) the sensitivity of its *technical provisions* and *eligible own funds* to the assumptions underlying the calculation of the *matching adjustment*, including the calculation of the fundamental spread referred to in Technical Provisions 7.2(2), and the possible effect of a forced sale of assets on its *eligible own funds*;
 - (b) the sensitivity of its *technical provisions* and *eligible own funds* to changes in the composition of the assigned portfolio of assets;
 - (c) the impact of a reduction of the *matching adjustment* to zero;
- (3) where the *volatility adjustment* is applied, regularly assess:
 - (a) the sensitivity of its *technical provisions* and *eligible own funds* to the assumptions underlying the calculation of the *volatility adjustment* and the possible effect of a forced sale of assets on its *eligible own funds*;
 - (b) the impact of a reduction of the volatility to zero.

[Note: Art. 44(2a) of the Solvency II Directive]

3.3 A *firm* must submit the assessments referred to in 3.2 as part of the information reported annually in accordance with Reporting 2. Where the reduction of the *matching adjustment* or the *volatility adjustment* to zero would result in non-compliance with the *SCR*, the *firm* must

also submit an analysis of the measures it could apply in such a situation to re-establish the level of the *eligible own funds* covering the SCR or to reduce its risk profile to restore compliance with the SCR.

[Note: Art. 44(2a) of the Solvency II Directive]

- 3.4 As regards investment risk, a *firm* must demonstrate that it complies with the Investments Part of the PRA Rulebook.

[Note: Art. 44(3) of the Solvency II Directive]

- 3.5 A *firm* must provide for a risk-management *function* that is structured in such a way as to facilitate the implementation of the risk-management system.

[Note: Art. 44(4) of the Solvency II Directive]

- 3.6 In order to avoid overreliance on *external credit assessment institutions* when it uses external credit rating assessments in the calculation of *technical provisions* and the SCR, a *firm* must assess the appropriateness of those external credit rating assessments as part of its risk management by using additional assessments wherever practicably possible in order to avoid any automatic dependence on external assessments.

[Note: Art. 44(4a) of the Solvency II Directive]

- 3.7 A *firm* that has received *internal model approval* must ensure that its risk-management *function* covers the following additional tasks:

- (1) to design and implement the *internal model*;
- (2) to test and validate the *internal model*;
- (3) to document the *internal model* and any subsequent changes made to it;
- (4) to analyse the performance of the *internal model* and to produce summary reports thereof; and
- (5) to inform the *governing body* about the performance of the *internal model*, suggesting areas needing improvement, and updating that body on the status of efforts to improve previously identified weaknesses.

[Note: Art. 44(5) of the Solvency II Directive]

- 3.8 (1) A *firm* must conduct an ORSA as part of its risk-management system.
- (2) The ORSA must include at least the following:
- (a) the *firm's* overall solvency needs taking into account the specific risk profile, approved risk tolerance limits and the business strategy of the *firm*;
 - (b) the compliance, on a continuous basis, with:
 - (i) the SCR and MCR; and
 - (ii) the requirements regarding *technical provisions*, as set out in Technical Provisions; and
 - (c) the significance with which the risk profile of the *firm* deviates from the assumptions underlying the SCR.

- (3) For the purposes of 3.8(2)(a), the *firm* must:
- (a) have in place processes which are proportionate to the nature, scale and complexity of the risks inherent in its business and which enable it to properly identify and assess the risks it faces in the short and long term and to which it is, or could be, exposed; and
 - (b) demonstrate the methods used in that assessment.
- (4) Where a *firm* applies the *matching adjustment*, the *volatility adjustment*, the *risk-free interest rate transitional measure* or the *technical provisions transitional measure*, it must perform the assessment of compliance with the capital requirements referred to in 3.8(2)(b) with and without taking into account those adjustments and transitional measures.
- (5) In the case referred to in 3.8(2)(c), when an *internal model* is used, the assessment must be performed together with the recalibration that transforms the internal risk numbers into the *SCR risk measure* and calibration.

[Note: Arts. 45(1), (2), (2a), (3) of the Solvency II Directive]

- 3.9 A *firm* must make the *ORSA* an integral part of its business strategy and take the *ORSA* into account on an ongoing basis in its strategic decisions.

[Note: Art. 45(4) of the Solvency II Directive]

- 3.10 A *firm* must perform the *ORSA* regularly and without delay following any significant change in its risk profile.

[Note: Art. 45(5) of the Solvency II Directive]

- 3.11 A *firm* must inform the *PRA* of the results of each *ORSA* as part of the information reported under Reporting 2.

[Note: Art. 45(6) of the Solvency II Directive]

4 INTERNAL CONTROL

- 4.1 (1) A *firm* must have in place an effective internal control system.
- (2) That system must include administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels of the *firm* and a compliance *function*.

[Note: Art. 46(1) of the Solvency II Directive]

- 4.2 The compliance *function* referred to in 4.1(2) must include:
- (1) advising the *governing body* on compliance with the rules and other laws, regulations and administrative provisions adopted in accordance with the *Solvency II Directive*; and
 - (2) an assessment of the possible impact of any changes in the legal environment on the operations of the *firm* concerned and the identification and assessment of compliance risk.

[Note: Art. 46(2) of the Solvency II Directive]

- 4.3 A *firm* must have internal processes and procedures in place to ensure the appropriateness, completeness and accuracy of the data used in the calculation of its *technical provisions*.

[Note: Art. 82 of the Solvency II Directive]

- 4.4 A *firm* must have processes and procedures in place to ensure that the *best estimate* and the assumptions underlying the calculation of the *best estimate* are regularly compared against experience.

[Note: Art. 83 of the Solvency II Directive]

5 INTERNAL AUDIT

- 5.1 (1) A *firm* must provide for an effective internal audit *function*.
- (2) The internal audit *function* must:
- (a) include an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance; and
 - (b) be objective and independent from the operational *functions*.
- (3) A *firm* must ensure that any findings and recommendations of the internal audit *function* are reported to the *firm's governing body* which must:
- (a) determine what actions are to be taken with respect to each of the internal audit findings and recommendations; and
 - (b) ensure that those actions are carried out.

[Note: Art. 47 of the Solvency II Directive]

6 ACTUARIAL FUNCTION

- 6.1 (1) A *firm* must provide for an effective actuarial *function* to:
- (a) coordinate the calculation of *technical provisions*;
 - (b) ensure the appropriateness of the methodologies and underlying models used, as well as the assumptions made in the calculation of *technical provisions*;
 - (c) assess the sufficiency and quality of the data used in the calculation of *technical provisions*;
 - (d) compare the *best estimate* against experience;
 - (e) inform the *governing body* of the reliability and adequacy of the calculation of *technical provisions*;
 - (f) oversee the calculation of *technical provisions* in the cases set out in Technical Provisions 12;
 - (g) express an opinion on the overall underwriting policy;
 - (h) express an opinion on the adequacy of *reinsurance* arrangements; and

- (i) contribute to the effective implementation of the risk-management system referred to in 3, in particular with respect to the risk modelling underlying the calculation of the *SCR* and *MCR* and to the *firm's ORSA*.
- (2) The actuarial *function* must be carried out by *persons* who have knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the *firm's* business, and who are able to demonstrate their relevant experience with applicable professional and other standards.

[Note: Art. 48 of the Solvency II Directive]

7 OUTSOURCING

7.1 If a *firm outsources* a *function* or any insurance or *reinsurance* activity, it remains fully responsible for discharging all of its obligations under the rules and other laws, regulations and administrative provisions adopted in accordance with the *Solvency II Directive*.

[Note: Art. 49(1) of the Solvency II Directive]

7.2 A *firm* must not *outsource* a critical or important operational *function* or activity in such a way as to lead to any of the following:

- (1) materially impairing the quality of the *firm's* system of governance;
- (2) unduly increasing the *operational risk*;
- (3) impairing the ability of the *supervisory authorities* to monitor the *firm's* compliance with its obligations;
- (4) undermining continuous and satisfactory service to *policyholders*.

[Note: Art. 49(2) of the Solvency II Directive]

7.3 A *firm* must, in a timely manner, notify the *PRA* prior to the *outsourcing* of critical or important *functions* or activities as well as of any subsequent material developments with respect to those *functions* or activities.

[Note: Art. 49(3) of the Solvency II Directive]

7.4 Without prejudice to 7.1 to 7.3, a *firm outsourcing* a *function* or an insurance or *reinsurance* activity must take the necessary steps to ensure that the following conditions are satisfied:

- (1) the service provider must co-operate with the *PRA* and, where relevant, any other *supervisory authority* of the *firm* in connection with the *function* or activity that is the subject of the *outsourcing*;
- (2) the *firm*, its auditors, the *PRA* and, where relevant, any other *supervisory authority* of the *firm* must have effective access to data related to the *functions* or activities that are the subject of the *outsourcing*; and
- (3) the *PRA* and, where relevant, any other *supervisory authority* of the *firm* must have effective access to the business premises of the service provider and must be able to exercise those rights of access.

[Note: Art. 38(1) of the Solvency II Directive]

8 FINITE REINSURANCE

- 8.1 A *firm* must not enter into a contract of *finite reinsurance* (either as a cedant or a *reinsurer*) or pursue *finite reinsurance* activities unless it is able to properly identify, measure, monitor, manage, control and report the risks arising from that contract or those activities.

[Note: Art. 210 of the *Solvency II Directive*]

9 RESTRICTION OF BUSINESS

- 9.1 (1) A *firm*, other than a *pure reinsurer*, must not carry on any commercial business other than *insurance business* and activities directly arising from that business.
- (2) (1) does not prevent a *friendly society* that was on 15 March 1979 carrying on *long-term insurance business* and savings business from continuing to carry on savings business.

[Note: Arts. 18(1)(a) and 305(3) of the *Solvency II Directive*]

- 9.2 A *pure reinsurer* must not carry on any business other than the business of *reinsurance* and related operations.

[Note: Art. 18(1)(b) of the *Solvency II Directive*]

10 PREMIUMS FOR NEW BUSINESS

- 10.1 A *firm* must not enter into a *contract of long-term insurance* unless it is satisfied, on reasonable actuarial assumptions, that the *premiums* receivable shall be sufficient:
- (1) to enable the *firm* to meet all of its commitments; and
- (2) in particular, to establish adequate *technical provisions* as required in the Technical Provisions Part of the *PRA Rulebook*.

[Note: Art. 209 of the *Solvency II Directive*]

- 10.2 For the purposes of 10.1, all aspects of the financial situation of the *firm* may be taken into account, provided that input from resources other than *premiums* and investment income expected to be earned from *premiums* is not systematic and permanent in a way that may jeopardise the long-term solvency of the *firm*.

[Note: Art. 209 of the *Solvency II Directive*]

11 STATISTICAL DATA

- 11.1 A *leading insurer* and a *relevant insurer* must keep statistical data showing the extent of *Community co-insurance operations* in which they participate and the *EEA States* concerned.

[Note: Art. 193 of the *Solvency II Directive*]

12 LLOYD'S

- 12.1 This Chapter applies to the *Society* and *managing agents*.
- 12.2 For the purpose of;

- (1) 3.1(2)(b), 3.8(2)(c) and 6.1(1)(i), as applied to *managing agents*, the reference to “SCR” is to be interpreted as a reference to the notional *syndicate SCR* calculated by *managing agents* as required by Solvency Capital Requirement - General Provisions 8.2.
 - (2) 3.7 and 3.8(5), as applied to *managing agents*, the reference to “internal model” is to be interpreted as a reference to any *internal model* used by a *managing agent* to calculate the notional *syndicate SCR* as required by Solvency Capital Requirement – General Provisions 8.2; and
 - (3) 3.10, as applied to *managing agents*, the reference to “risk profile” is to be interpreted as a reference to the risk profile of any *syndicate* managed by the *managing agent*.
- 12.3 For the purpose of 3.8 to 3.11, as applied to *managing agents*, *managing agents* must conduct an *ORSA* for each *syndicate* which they manage.
- 12.4 Where a provision of this Part requires that a *function* be established, the *Society* and *managing agents* must each separately establish that *function*.
- 12.5 The actuarial *function* of a *managing agent* must, in respect of each *syndicate* managed by the *managing agent*, carrying out *general insurance business*;
- (1) review the *technical provisions* of each *syndicate year* (other than a *closed year*); and
 - (2) provide an opinion to the *managing agent* and the *Society* confirming that the *technical provisions* (before addition of the *risk margin*) for each *syndicate year* are no less prudent than the *best estimate* of the amounts required to be held (before addition of the *risk margin*) in accordance with Technical Provisions 2 to 12.
- 12.6 The *PRA* must be informed by the *managing agent* promptly if the *managing agent* becomes aware that the actuarial *function* of the *managing agent* will or may be unable to produce an unqualified opinion under 12.5(2).
- 12.7 For the purpose of 9.1, the *Society* and *managing agents* must take all reasonable steps to ensure that:
- (1) a *corporate member* does not carry on any commercial business other than *insurance business* and activities arising directly from that business; and
 - (2) *individual members* do not, in their capacity as *underwriting members*, carry on any commercial business other than *insurance business* and activities arising directly from that business.

PRA RULEBOOK: SOLVENCY II FIRMS: GROUP SUPERVISION 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);
 - (2) section 137T (general supplementary powers); and
 - (3) section 192J (rules requiring provision of information by parent undertakings).
- 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 with the Financial Conduct Authority), 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: Group Supervision Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Group Supervision Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

GROUP SUPERVISION

Chapter content

1. APPLICATION AND DEFINITIONS
2. CASES OF APPLICATION AND SCOPE OF GROUP SUPERVISION
3. LEVELS
4. GROUP SOLVENCY: GENERAL PROVISIONS
5. GROUP SOLVENCY: FREQUENCY OF CALCULATIONS
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7. GROUP SOLVENCY: BASIC PRINCIPLES
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10. GROUP SOLVENCY: APPLICATION OF THE CALCULATION METHODS
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15. GROUPS WITH CENTRALISED RISK MANAGEMENT
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17. RISK MANAGEMENT AND INTERNAL CONTROL
18. GROUP SFCR
19. GROUP STRUCTURE
20. THIRD COUNTRIES
21. MIXED-ACTIVITY INSURANCE HOLDING COMPANIES

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) every *UK Solvency II firm*:
 - (a) that is a member of a *group* for which the *PRA* is the *group supervisor*;
 - (b) that is a member of a *group* for which a *supervisory authority* (other than the *PRA*) is the *group supervisor*, subject to (c) and to the extent this Part gives effect to the *Solvency II EEA implementing measures* in the *EEA State* of its *group supervisor*; and
 - (c) where the *group supervisor* of a *group* of which a *firm* is a member is a *supervisory authority* in an *EEA State* other than the *UK*, the requirements of the *Solvency II EEA implementing measures* in that *EEA State* apply to the *firm* in relation to its capacity as a member of that *group*;
- (2) in accordance with Insurance General Application 3, the *Society* as a *mixed activity insurance holding company*, as modified by 21; and
- (3) a *UK holding company*.

1.2 In this Part, the following definitions shall apply:

close links

means a situation in which two or more *persons* are linked by *control* or *participation*, or a situation in which two or more *persons* are permanently linked to one and the same person by a *control* relationship.

[Note: Art. 13(17) of the *Solvency II Directive*]

financial institution

has the meaning given in point (26) of Article 4(1) of the *CRR*.

group supervisor

means (in relation to a *group*) the authority designated as group supervisor in relation to that *group*, in accordance with Article 247 of the *Solvency II Directive*.

intermediate holding company

means an *insurance holding company* or a *mixed financial holding company* through which a *Solvency II undertaking* in a *group* holds a *participation* in a *related Solvency II undertaking*, a *third country insurance undertaking* or a *third country reinsurance undertaking*.

method 1

means the method for calculating group solvency described in 11.1.

method 2

means the method for calculating group solvency described in 12.1.

mixed activity insurance holding company

means a *parent undertaking*, other than a *Solvency II undertaking*, a *third-country insurance undertaking*, a *third-country reinsurance undertaking*, an *insurance holding company* or a *mixed financial holding company*, the *subsidiary undertakings* of which include at least one *Solvency II undertaking*.

[Note: Art. 212(1)(g) of the Solvency II Directive]*own funds eligible for the group SCR*

means:

- (1) in relation to *method 1*, the *own funds eligible for the group SCR* in accordance with 11.1(3); and
- (2) in relation to *method 2*, the aggregate *eligible own funds* of the *group* referred to in 12.2.

own funds eligible for the SCR

means the aggregate of the *firm's*:

- (a) *Tier 1 own funds*; and
- (b) *eligible Tier 2 own funds*; and
- (c) *eligible Tier 3 own funds*.

related Solvency II undertaking

means a *Solvency II undertaking* that is a *related undertaking* of another *undertaking*.

related undertaking

means, in relation to an *undertaking* ("U"):

- (1) any *subsidiary undertaking* of U; or
- (2) any *undertaking* in which U or any of U's *subsidiary undertakings* holds a *participation*; or
- (3) any *undertaking* linked to U by an *Article 12(1) relationship*; or
- (4) any *undertaking* linked by an *Article 12(1) relationship* to an *undertaking* in (1), (2) or (3).

solvency deficit

means the amount (if any) by which the *related undertaking's eligible own funds* fall short of its solvency capital requirement under the *SCR Rules* or the relevant *Solvency II EEA implementing measures* as appropriate.

UK holding company

means an *insurance holding company* or *mixed financial holding company* that:

- (1) is incorporated in the *UK*; or

- (2) has a place of business in the *UK*.

2 CASES OF APPLICATION AND SCOPE OF GROUP SUPERVISION

2.1 This Part applies at the level of the *group* to types of *groups* where:

- (1) either:
- (a) a *UK Solvency II firm* is a *participating undertaking* in at least one other *Solvency II undertaking, third country insurance undertaking or third country reinsurance undertaking*; or
 - (b) a *Solvency II undertaking* (other than a *UK Solvency II firm*) is a *participating undertaking* in a *UK Solvency II firm*; or
- (2) the *parent undertaking* of a *UK Solvency II firm* is an *insurance holding company* or a *mixed financial holding company* which has its head office in an *EEA State*; or
- (3) the *parent undertaking* of a *UK Solvency II firm* is an *insurance holding company* or a *mixed financial holding company* which does not have its head office in an *EEA State* or is a *third country insurance undertaking* or a *third country reinsurance undertaking*; or
- (4) the *parent undertaking* of a *UK Solvency II firm* is a *mixed activity insurance holding company*.

[Note: Art. 213(2) of the *Solvency II Directive*]

2.2 Where, in accordance with 2.1, this Part applies at the level of a *group*, that *group* consists of all *undertakings* within the relevant *group*, subject to 2.3 and 3 and provided that:

- (1) where 2.1(1) applies, the definition of a *group* must be applied to the *participating Solvency II undertaking*, its *subsidiary undertakings*, the *undertakings* in which it holds a *participation* and *undertakings* to which it is linked by an *Article 12(1) relationship* or, where applicable, to the *undertakings* in a *mutual-type group*;
- (2) where 2.1(2) applies, the definition of a *group* must be applied to the *insurance holding company* or *mixed financial holding company*, its *subsidiary undertakings*, the *undertakings* in which it holds a *participation* and *undertakings* to which it is linked by an *Article 12(1) relationship* or, where applicable, to the *undertakings* in a *mutual-type group*;
- (3) where 2.1(3) applies, the definition of a *group* must be applied to the *insurance holding company* or *mixed financial holding company, third country insurance undertaking or third country reinsurance undertaking* (as applicable), its *subsidiary undertakings*, the *undertakings* in which it holds a *participation* and *undertakings* to which it is linked by an *Article 12(1) relationship* or, where applicable, to the *undertakings* in a *mutual-type group*; and
- (4) where 2.1(4) applies, the definition of a *group* must be applied to the *mixed activity insurance holding company*, its *subsidiary undertakings*, the *undertakings* in which it holds a *participation* and *undertakings* to which it is linked by an *Article 12(1) relationship* or, where applicable, to the *undertakings* in a *mutual-type group*.

[Note: Art. 213(2) of the *Solvency II Directive*]

2.3 Where the *PRA* as *group supervisor* has granted a *waiver* or where a *supervisory authority* which is the *group supervisor* has decided, in accordance with Article 214 of the *Solvency II Directive*, not to include an *undertaking* in the group supervision referred to in 2.1:

- (1) that *undertaking* must be excluded from the *group* for the purposes of 2.1; and
- (2) if that *undertaking* is a *firm* and is excluded because:
 - (a) it is of negligible interest with respect to the objectives of group supervision; or
 - (b) its inclusion would be inappropriate or misleading with respect to the objectives of group supervision,

the *firm* which is at the head of the *group* of which that *firm* would otherwise be a part, or any other *firm* which is a member of the *group* must provide any information in relation to the excluded *firm* that the *PRA* may require to facilitate the supervision of the excluded *firm*.

[Note: Art. 214(2) of the *Solvency II Directive*]

2.4 The provisions of the *Solvency II Firms Sector* of the *PRA Rulebook* concerning the supervision of *firms* (or the *Solvency II EEA implementing measures* in relation to *Solvency II undertakings* which are members of a *group* for which the *PRA* is the *group supervisor*) taken individually continue to apply to those *undertakings*, except where otherwise provided under this Part.

[Note: Art. 213(1) of the *Solvency II Directive*]

3 LEVELS

3.1 If the *participating Solvency II undertaking* or the *insurance holding company* or *mixed financial holding company* referred to in 2.1(1) or 2.1(2) is itself a *subsidiary undertaking* of another *Solvency II undertaking* or of another *insurance holding company* or *mixed financial holding company* which has its head office in an *EEA State*, then 4 to 19 apply only at the level of the ultimate *Solvency II undertaking*, *insurance holding company*, or *mixed financial holding company* in the *group* which has its head office in an *EEA State*.

[Note: Art. 215(1) of the *Solvency II Directive*]

3.2 If the *PRA* makes a decision referred to in Article 216(1) or 217(1) of the *Solvency II Directive* (group supervision at national level) then 4 to 19 apply with any necessary changes, subject to Articles 216(6) and 217 of the *Solvency II Directive* and the following:

- (1) group supervision of the ultimate *parent undertaking* at national level is restricted to those remaining rules of 4 to 19 if the *firm* is granted a *waiver* of such other sections as would otherwise apply to a *group*; and
- (2) no *firm* in the *group* may introduce, in accordance with 15.1(5), an application for permission to subject any *subsidiary undertakings* in the *group* to 15.3.

[Note: Art. 216(2) and (5) and Art. 217(2) of the *Solvency II Directive*]

4 GROUP SOLVENCY: GENERAL PROVISIONS

- 4.1 Where 2.1(1) applies, each *participating Solvency II undertaking* that is a *firm* in the *group* and each *relevant insurance group undertaking* must ensure that *eligible own funds* are available in the *group* which are always at least equal to the *group SCR* as calculated in accordance with 7 to 12.

[Note: Art. 218(2) of the Solvency II Directive]

- 4.2 Where 2.1(2) applies, each *relevant insurance group undertaking* must ensure that *eligible own funds* are available in the *group* which are always at least equal to the *group SCR* as calculated in accordance with 14.

[Note: Art. 218(3) of the Solvency II Directive]

- 4.3 *Relevant insurance group undertakings* must have procedures in place to identify deteriorating financial conditions within the *groups* of which they are members and must immediately notify the *group supervisor* when that deterioration occurs.

[Note: Art. 218(4) and Art. 136 of the Solvency II Directive]

- 4.4 *Relevant insurance group undertakings* must:
- (1) immediately inform the *PRA* as soon as they observe that the *group SCR* is no longer complied with, or where there is a risk of non-compliance within the next three *months*;
 - (2) within two *months* from the observation of non-compliance with the *group SCR*, submit a realistic *recovery plan* in accordance with Undertakings In Difficulty 5.1 for approval by the *PRA*;
 - (3) take the measures necessary to achieve, within six *months* (or such longer period as the *PRA* may determine) from the observation of non-compliance with the *group SCR*, the re-establishment of the level of *eligible own funds* covering the *group SCR* or the reduction of the risk profile to ensure compliance with the *group SCR*; and
 - (4) if the *PRA* has extended the period referred to (3) by reason of the declaration by *EIOPA* of an *exceptional adverse situation* affecting the *group*, submit a progress report to the *PRA* every three *months* setting out the measures taken and the progress made to re-establish the level of *own funds* covering the *group SCR* or to reduce the risk profile to ensure compliance with the *group SCR*.

[Note: Art. 218(4) and Art. 138(1)–(4) of the Solvency II Directive]

5 GROUP SOLVENCY: FREQUENCY OF CALCULATIONS

- 5.1 The calculations referred to in 4.1 and 4.2 must be carried out at least annually by the *relevant insurance group undertakings*.

[Note: Art. 219(1) of the Solvency II Directive]

- 5.2 The relevant data for, and the results of, the calculations referred to in 4.1 and 4.2 must be submitted to the *group supervisor* by:
- (1) the *participating Solvency II undertakings* referred to in 4.1, or by any one of them, in the case of the calculations referred to in 4.1; or

- (2) *the UK holding company* or such other *undertaking* in the *group* as may be determined by the *group supervisor* in accordance with Article 219(1) of the *Solvency II Directive*, in the case of the calculations referred to in 4.2.

[Note: Art. 219(1) of the *Solvency II Directive*]

- 5.3 (1) The *relevant insurance group undertakings* must monitor the *group SCR* on an ongoing basis.
- (2) Where the risk profile of the *group* deviates significantly from the assumptions underlying the last reported *group SCR*, the *group SCR* must be recalculated without delay and reported to the *group supervisor*.
- (3) Upon request by the *group supervisor*, in accordance with Article 219(2) of the *Solvency II Directive*, the *group SCR* must be recalculated without delay and reported to the *group supervisor*.

[Note: Art. 219(2) of the *Solvency II Directive*]

6 GROUP SOLVENCY: NOTIFICATION OF ISSUANCE OF OWN FUNDS ITEMS BY GROUP MEMBER

- 6.1 This section applies to a *firm* if another member of its *group* intends to issue an item for inclusion within the *basic own funds* forming the *own funds eligible for the group SCR* of the *firm's group*.
- 6.2 A *firm* must notify the *PRA* in writing of the intention of another member of its *group* which is not a *firm* to issue an item which it intends to include within the *basic own funds* forming the *own funds eligible for the group SCR*, as soon as it becomes aware of the intention of the issuing *undertaking*. When giving notice, a *firm* must:
- (1) provide details of the amount of *basic own funds* to be raised through the intended issue and whether the item is intended to be issued to external investors or within its *group*;
 - (2) identify the classification of *basic own funds* the item is intended to fall within;
 - (3) include confirmation from the *governing body* of the *firm* that the item complies with the rules applicable to items of *basic own funds* included in the classification of the item identified in (2); and
 - (4) provide a copy of the term sheet and details of any features of the item it intends to include within the *basic own funds* forming the *own funds eligible for the group SCR* which are novel, unusual or different from an item of *own funds* of a similar nature previously issued by the *firm* or widely available in the market or not specifically contemplated by the *Solvency II Firms Sector* of the *PRA Rulebook* or the *Solvency II Regulations*.
- 6.3 A *firm* must provide a further written notification to the *PRA* including all the information required in 6.2 as soon as it proposes any change to the intended date of issue, amount of issue, type of investors, classification of a particular tier of *basic own funds* or any other feature of the item intended to be included as *basic own funds* to that previously notified to the *PRA*.

6.4 If an *undertaking* proposes to establish a debt securities program for the issue of an item which the *firm* intends to include within the *basic own funds* forming the *own funds eligible for the group SCR*, the *firm* must:

- (1) notify the *PRA* of the establishment of the program; and
- (2) provide the information required by 6.2

as soon it becomes aware of the proposed establishment. The *PRA* must be notified of any changes in accordance with 6.3.

6.5 The items of *basic own funds* to which 6.2 does not apply are:

- (1) ordinary *shares* issued by an *undertaking* in the *group* which are:
 - (a) classified as *Tier 1 own funds* or *Tier 2 basic own funds*; and
 - (b) the same as ordinary *shares* previously issued by that *undertaking*;
- (2) debt instruments issued from a debt securities program established by an *undertaking* in the *group*, provided that program was notified to the *PRA* prior to its first drawdown in accordance with 6.4; and
- (3) any item which is not materially different in terms of its characteristics and eligibility for inclusion in a particular tier of *basic own funds* to items previously issued by the *undertaking* in the *group* and included in the *basic own funds* forming the *own funds eligible for the group SCR*.

6.6 A *firm* must notify the *PRA* in writing, no later than the date of issue, of the intention of the *undertaking* in the *group* to issue an item listed in 6.5 which it intends to include within the *basic own funds* forming the *own funds eligible for the group SCR*. When giving notice, a *firm* must:

- (1) provide the information set out at 6.2(1) to (3); and
- (2) confirm that the terms of the item have not changed since the previous issue of that type of item of *basic own funds* by that *undertaking*.

7 GROUP SOLVENCY: BASIC PRINCIPLES

7.1 The calculation of the solvency at the level of the *group* of the *Solvency II undertakings* referred to in 2.1(1) must be carried out:

- (1) in accordance with the technical principles in 8 to 10; and

[Note: Art. 220(1) of the *Solvency II Directive*]

- (2) in accordance with *method 1*, unless the *group supervisor* has determined under Article 220(2) of the *Solvency II Directive* that *method 2* or a combination of *method 1* and *method 2* must be applied.

[Note: Art. 220(2) of the *Solvency II Directive*]

8 GROUP SOLVENCY: PROPORTIONAL SHARES

8.1 The calculation of the solvency of a *group* must take account of the proportional share held by the *participating undertaking* in its *related undertakings*.

[Note: Art. 221(1) of the Solvency II Directive]

8.2 For the purposes of 8.1, the proportional share must comprise either of the following, subject to 8.3:

- (1) where *method 1* is used, the percentages used for the establishment of the consolidated accounts; or
- (2) where *method 2* is used, the proportion of the subscribed capital that is held, directly or indirectly, by the *participating undertaking*.

[Note: Art. 221(1) of the Solvency II Directive]

8.3 Notwithstanding 8.2:

- (1) where the *related undertaking* is a *subsidiary undertaking* and does not have sufficient *eligible own funds* to cover its *SCR*, the total *solvency deficit* of the *subsidiary undertaking* must be taken into account (or a proportional share of that *solvency deficit*, if the *group supervisor* so determines under Article 221(1) of the *Solvency II Directive*); and

[Note: Art. 221(1) of the Solvency II Directive]

- (2) the proportional share must be as determined by the *group supervisor* if such a determination is made under Article 221(2) of the *Solvency II Directive*.

[Note: Art. 221(2) of the Solvency II Directive]

9 GROUP SOLVENCY: ELIMINATION OF DOUBLE USE OF ELIGIBLE OWN FUNDS AND INTRA-GROUP CREATION OF CAPITAL AND VALUATION

9.1 *Own funds eligible for the SCR* must not be taken into account more than once among the different *Solvency II undertakings* taken into account in the calculation of the solvency of a *group*. For that purpose, when calculating the solvency of a *group* and where *method 1* and *method 2* do not provide for it, the following amounts must be excluded:

- (1) the value of any asset of the *participating Solvency II undertaking* which represents the financing of *own funds eligible for the SCR* of one of its *related Solvency II undertakings*;
- (2) the value of any asset of a *related Solvency II undertaking* of the *participating Solvency II undertaking* which represents the financing of *own funds eligible for the SCR* of that *participating Solvency II undertaking*; and
- (3) the value of any asset of a *related Solvency II undertaking* of the *participating Solvency II undertaking* which represents the financing of *own funds eligible for the SCR* of any other *related Solvency II undertaking* of that *participating Solvency II undertaking*.

[Note: Art. 222(1) of the Solvency II Directive]

9.2 Without prejudice to 9.1 or 9.3, the following must be excluded in the calculation of the solvency of a *group* unless they are, and only insofar as they are, eligible for covering the *SCR* of the *related undertaking* concerned:

- (1) surplus funds falling under Article 91(2) of the *Solvency II Directive* arising in a *related Solvency II undertaking* of the *participating Solvency II undertaking* for which the solvency of a *group* is calculated; and
- (2) any subscribed but not paid-up capital of a *related Solvency II undertaking* of the *participating Solvency II undertaking* for which the solvency of a *group* is calculated.

[Note: Art. 222(2) of the *Solvency II Directive*]

9.3 Without prejudice to 9.1, the following must, in any event, be excluded from the calculation:

- (1) subscribed but not paid-up capital which represents a potential obligation on the part of the *participating undertaking*;
- (2) subscribed but not paid-up capital of the *participating Solvency II undertaking* which represents a potential obligation on the part of a *related Solvency II undertaking*; and
- (3) subscribed but not paid-up capital of a *related Solvency II undertaking* which represents a potential obligation on the part of another *related Solvency II undertaking* of the same *participating Solvency II undertaking*.

[Note: Art. 222(2) of the *Solvency II Directive*]

9.4 Where the PRA considers that certain *own funds eligible for the SCR* of a *related Solvency II undertaking* (other than those referred to in 9.2 and 9.3) cannot effectively be made available to cover the *SCR* of the *participating Solvency II undertaking* for which the solvency of a *group* is calculated, those *own funds* must not be included in the calculation of the group solvency of the *group* unless they are, and only in so far as they are, eligible for covering the *SCR* of the *related undertaking*.

[Note: Art. 222(3) of the *Solvency II Directive*]

9.5 The sum of the *own funds* included under 9.2 and 9.4 must not exceed the *SCR* of the *related Solvency II undertaking*.

[Note: Art. 222(4) of the *Solvency II Directive*]

9.6 Any *eligible own funds* of a *related Solvency II undertaking* of the *participating Solvency II undertaking* for which the solvency of a *group* is calculated that are subject to prior authorisation from the *supervisory authority* of the *related Solvency II undertaking*, in accordance with Article 90 of the *Solvency II Directive*, must be included in the calculation of the group solvency only in so far as they have been duly authorised by that *supervisory authority*.

[Note: Art. 222(5) of the *Solvency II Directive*]

9.7 When calculating the solvency of a *group*, no account must be taken of any *own funds eligible for the SCR* arising out of reciprocal financing between the *participating Solvency II undertaking* and any of the following:

- (1) a *related undertaking*;
- (2) a *participating undertaking*; and
- (3) another *related undertaking* of any of its *participating undertakings*.

[Note: Art. 223(1) of the *Solvency II Directive*]

- 9.8 When calculating the solvency of a *group*, no account must be taken of any *own funds eligible for the SCR* of a *related Solvency II undertaking* of the *participating Solvency II undertaking* for which the group solvency of the *group* is calculated where the *own funds* concerned arise out of reciprocal financing with any other *related undertaking* of that *participating Solvency II undertaking*. Reciprocal financing exists at least where a *Solvency II undertaking*, or any of its *related undertakings*, holds shares in, or makes loans to, another *undertaking* which, directly or indirectly, holds *eligible own funds* of the first *undertaking*.

[Note: Art. 223(2), (3) of the Solvency II Directive]

- 9.9 The value of the assets and liabilities of a *group* must be assessed in accordance with Valuation 2.

[Note: Art. 224 of the Solvency II Directive]

10 GROUP SOLVENCY: APPLICATION OF THE CALCULATION METHODS

- 10.1 Where a *Solvency II undertaking* has more than one *related Solvency II undertaking*, the group solvency calculation of the *group* must be carried out by including each of those *related Solvency II undertakings*.

[Note: Art. 225 of the Solvency II Directive]

- 10.2 In respect of a *related Solvency II undertaking* with its head office in an *EEA State* other than that of the *Solvency II undertaking* for which the group solvency calculation of the *group* is carried out, the group solvency calculation must take account of the *SCR* and the *own funds eligible for the SCR* as laid down in the *Solvency II EEA implementing measures* of that other *EEA State*.

[Note: Art. 225 of the Solvency II Directive]

- 10.3 (1) When calculating the group solvency of a *Solvency II undertaking* in a *group*, the situation of each *intermediate holding company* must be taken into account.
- (2) For the sole purpose of that calculation, the *intermediate holding company* must be treated as if it were a *Solvency II undertaking* subject to the *SCR Rules* in respect of the *SCR* and were subject to the same conditions as are laid down in the *Own Funds Part* of the *PRA Rulebook* in respect of *own funds eligible for the SCR*.
- (3) In cases where an *intermediate holding company* holds subordinated debt or other *eligible own funds* subject to limitation in accordance with *Own Funds 4* or any applicable *Solvency II Regulations*, they must be recognised as *eligible own funds* up to the amounts calculated by application of the limits in *Own Funds 4* or any applicable *Solvency II Regulations* to the total *eligible own funds* outstanding at the level of the *group* as compared to the *group SCR*.
- (4) Any *eligible own funds* of an *intermediate holding company*, which would require prior authorisation from a *supervisory authority* in accordance with Article 90 of the *Solvency II Directive*, may be included in the calculation of the group solvency of the *group* only in so far as they have been duly authorised by the *group supervisor*.

[Note: Art. 226 of the Solvency II Directive]

- 10.4 (1) Subject to (2), when calculating, in accordance with *method 2*, the group solvency of a *Solvency II undertaking* in a *group* which is a *participating undertaking* in a *third country insurance undertaking* or *third country reinsurance undertaking*, that

third country insurance undertaking or third country reinsurance undertaking must, solely for the purposes of that calculation, be treated as a *related Solvency II undertaking*.

- (2) If the third country in which that *third country insurance undertaking or third country reinsurance undertaking* has its head office makes it subject to authorisation and imposes on it a solvency regime that is assessed to be equivalent under Article 227 of the *Solvency II Directive*, the calculation in (1) must take into account, as regards that *undertaking*, the requirement equivalent to the *SCR* and the capital items eligible to satisfy that requirement as laid down by that third country.

[Note: Art. 227 of the Solvency II Directive]

10.5 When calculating the group solvency of a *Solvency II undertaking* in a *group* which is a *participating undertaking* in a *credit institution, investment firm or financial institution*, the *participating Solvency II undertaking* must either:

- (1) apply *method 1* or *method 2* in Annex I to Directive 2002/87/EC with any necessary changes, provided that *method 1* in that Annex must be applied only where the *group supervisor* is satisfied as to the level of integrated management and internal control regarding the *undertakings* which would be included in the scope of consolidation and provided always that the method chosen must be applied in a consistent manner over time; or
- (2) if the *group supervisor* so determines (either at the request of the *participating undertaking* or on its own initiative), deduct any such *participation* from the *own funds eligible for the group SCR* of the *participating undertaking*.

[Note: Art. 228 of the Solvency II Directive]

10.6 Where the information necessary for calculating the group solvency of a *Solvency II undertaking* in a *group*, concerning a *related undertaking* with its head office in an *EEA State* or a third country, is not available to the *group supervisor* then:

- (1) the book value of that *related undertaking* in the *participating Solvency II undertaking* must be deducted from the *own funds eligible for the group SCR*; and
- (2) the unrealised gains connected with that *participation* must not be recognised as *own funds eligible for the group SCR*.

[Note: Art. 229 of the Solvency II Directive]

11 CALCULATION METHODS: METHOD 1

- 11.1 (1) The calculation of the group solvency of the *participating Solvency II undertaking* in a *group* must be carried out on the basis of the consolidated accounts.
- (2) The group solvency of the *participating Solvency II undertaking* in a *group* is the difference between the following:
- (a) the *own funds eligible for the group SCR*, calculated on the basis of consolidated data; and
- (b) the *group SCR* calculated on the basis of consolidated data.

- (3) Own Funds and the *SCR Rules* apply to the calculation of the *own funds eligible for the group SCR* and of the *group SCR* based on consolidated data.

[Note: Art. 230(1) of the Solvency II Directive]

- 11.2 The *group SCR* of a *group* based on consolidated data (*consolidated group SCR*) must be calculated on the basis of either the *standard formula* or an approved *internal model*, in a manner consistent with the general principles contained in the *SCR Rules*

[Note: Art. 230(2) of the Solvency II Directive]

- 11.3 (1) The consolidated *group SCR* of a *group* must have as a minimum the sum of the following:
- (a) the *MCR* of the *participating Solvency II undertaking*; and
 - (b) the proportional share of the *MCR* of the *related Solvency II undertakings*.
- (2) That minimum must be covered by *eligible own funds* within paragraph 2 of the definition of "*eligible own funds*".
- (3) For the purposes of determining whether those *eligible own funds* qualify to cover the minimum consolidated *group SCR* of a *group*, the principles in 8 to 10 apply with any necessary changes. Undertakings In Difficulty 3 also applies with any necessary changes.

[Note: Art. 230(2) of the Solvency II Directive]

- 11.4 Any application for permission to calculate the consolidated *group SCR*, as well as the *SCR* of *Solvency II undertakings* in the *group*, on the basis of an *internal model*, submitted by a *Solvency II undertaking* and its *related undertakings*, or jointly by the *related Solvency II undertakings* of an *insurance holding company* or a *mixed financial holding company*, must be submitted to the *group supervisor*.

[Note: Art. 231(1) of the Solvency II Directive]

12 CALCULATION METHODS: METHOD 2

- 12.1 The group solvency of the *participating Solvency II undertaking* in a *group* is the difference between the following:
- (1) the aggregated group *eligible own funds*, as provided for in 12.2; and
 - (2) the value in the *participating Solvency II undertaking* of the *related Solvency II undertakings* and the aggregated *group SCR*, as provided for in 12.3.

[Note: Art. 233(1) of the Solvency II Directive]

- 12.2 The aggregated group *eligible own funds* of a *group* is the sum of the following:
- (1) the *own funds eligible for the SCR* of the *participating Solvency II undertaking*; and
 - (2) the proportional share of the *participating Solvency II undertaking* in the *own funds eligible for the SCR* of the *related Solvency II undertakings*.

[Note: Art. 233(2) of the Solvency II Directive]

12.3 The aggregated *group SCR* of a *group* is the sum of the following:

- (1) the *SCR* of the *participating Solvency II undertakings*; and
- (2) the proportional share of the *SCR* of the *related Solvency II undertakings*.

[Note: Art. 233(3) of the Solvency II Directive]

12.4 Where, in a *group*, the *participation* in the *related Solvency II undertaking* consists, wholly or in part, of an indirect ownership, the value in the *participating Solvency II undertaking* of the *related Solvency II undertaking* must incorporate the value of that indirect ownership. The value of that indirect ownership must take into account the relevant successive interests, and the items referred to in 12.2(2) and 12.3(2) must include the corresponding proportional shares, respectively, of the *own funds eligible for the SCR* of the *related Solvency II undertaking* and of the *SCR* of the *related Solvency II undertakings*.

[Note: Art. 233(4) of the Solvency II Directive]

12.5 Any application for permission to calculate the *SCR* of *Solvency II undertakings* in the *group*, on the basis of an *internal model*, submitted by a *Solvency II undertaking* and its *related undertakings*, or jointly by the *related undertakings* of an *insurance holding company* or a *mixed financial holding company*, must be submitted to the *group supervisor*.

[Note: Art. 233(5) of the Solvency II Directive]

13 CALCULATION METHODS: CAPITAL ADD-ONS

13.1 The *relevant insurance group undertakings* must make every effort to remedy the deficiencies that led to the imposition of a *capital add-on* arising as a result of an *internal model significant risk profile deviation* or a *significant system of governance deviation* at the level of the *group*.

[Note: Art. 232, Art. 233(6) and Art. 37(3) of the Solvency II Directive]

13.2 The *group SCR* prior to the imposition of the *capital add-on*, together with the amount of the *capital add-on* imposed at the level of the *group*, will constitute the *group's group SCR*.

[Note: Art. 232, Art. 233(6) and Art. 37(5) of the Solvency II Directive]

14 SUPERVISION OF GROUP SOLVENCY FOR SOLVENCY II FIRMS THAT ARE SUBSIDIARIES OF AN INSURANCE HOLDING COMPANY OR A MIXED FINANCIAL HOLDING COMPANY

- 14.1
- (1) Where *Solvency II undertakings* in a *group* are *subsidiary undertakings* of an *insurance holding company* or a *mixed financial holding company*, the calculation of the solvency of the *group* must be carried out at the level of the *insurance holding company* or *mixed financial holding company* applying 7.1(2) to 12.
 - (2) For the purpose of that calculation, the *insurance holding company* or *mixed financial holding company* must be treated as if it were a *Solvency II undertaking* subject to the *SCR Rules* as regards the *SCR* and the Own Funds Part of the *PRA Rulebook* as regards the *own funds eligible for the SCR*, provided that the *relevant insurance group undertakings* remain responsible for discharging any obligations arising from the application of this sub-paragraph.

[Note: Art. 235 of the Solvency II Directive]

15 GROUPS WITH CENTRALISED RISK MANAGEMENT

- 15.1 15.3 applies to any *Solvency II undertaking* in a *group* which is a *subsidiary undertaking* of another *Solvency II undertaking* or of an *insurance holding company* or *mixed financial holding company* where all of the following conditions are satisfied:
- (1) the *subsidiary undertaking*, in relation to which the *group supervisor* has not made a decision under Article 214(2) of the *Solvency II Directive*, is included in the *group supervision* carried out by the *group supervisor* at the level of the *parent undertaking* in accordance with this Part;
 - (2) the risk-management processes and internal control mechanisms of the *parent undertaking* cover the *subsidiary undertaking* and the *parent undertaking* satisfies the *PRA* regarding the prudent management of the *subsidiary undertaking*;
 - (3)
 - (a) the *parent undertaking*; or
 - (b) one or more *relevant insurance group undertakings*,
 is permitted, under 17.2(3), to produce a single document covering all relevant *ORSAs*;
 - (4)
 - (a) the *parent undertaking*; or
 - (b) one or more *relevant insurance group undertaking*,
 is permitted, under 18.1(2), to produce a single *SFCR* covering all relevant *Solvency II undertakings* and *insurance holding companies* and *mixed financial holding companies*; and
 - (5) an application for permission to be subject to 15.3 has been submitted by the *parent undertaking* or one or more *relevant insurance group undertakings* and a favourable decision has been made on that application in accordance with the procedure in Article 237 of the *Solvency II Directive*.

[Note: Art. 236 of the *Solvency II Directive*]

- 15.2 An application for permission to be subject to 15.3 must be made to the *PRA* if the *subsidiary undertaking* is a *UK Solvency II firm*.

[Note: Art. 237(1) of the *Solvency II Directive*]

- 15.3 Without prejudice to 11.4 and subject to 15.4, if the conditions referred to in 15.1 are satisfied, the *SCR* of the *subsidiary undertaking* in the *group* must be calculated in accordance with any decisions taken in accordance with Article 238 of the *Solvency II Directive*.

[Note: Art. 238 of the *Solvency II Directive*]

- 15.4 (1) 15.3 ceases to apply where:
- (a) the condition referred to in 15.1(1) is no longer complied with;
 - (b) the condition referred to in 15.1(2) is no longer complied with and the *group* does not restore compliance with this condition in an appropriate period of time;
 - (c) the conditions referred to in 15.1(3) and 15.1(4) are no longer complied with.

- (2) The *parent undertaking* or *relevant insurance group undertakings* of a *group* to which 15.3 applies must ensure that the conditions referred to in 15.1(2) to (4) are complied with on an ongoing basis and in the event of non-compliance must:
- (a) inform the *group supervisor* and the *supervisory authority* of the *subsidiary undertaking* concerned without delay; and
 - (b) present a plan to the *supervisory authorities* to restore compliance within an appropriate period of time.

[Note: Art. 240 of the *Solvency II Directive*]

16 RISK CONCENTRATION AND INTRA-GROUP TRANSACTIONS

- 16.1 (1) Where 2.1(1) or 2.1(2) applies, the *relevant insurance group undertakings* or any *UK holding company* must report on a regular basis and at least annually to the *group supervisor* any significant risk concentration at the level of the *group*.
- (2) The necessary information must be submitted to the *group supervisor* by the *relevant insurance group undertaking* which is at the head of the *group* or, where the *group* is not headed by a *relevant insurance group undertaking*, by the *UK holding company* or such other *Solvency II undertaking* in the *group* as the *group supervisor* may specify.

[Note: Art. 244 of the *Solvency II Directive*]

- 16.2 (1) Where 2.1(1) or 2.1(2) applies, the *relevant insurance group undertakings* or any *UK holding company* must report on a regular basis, and at least annually, to the *group supervisor* all significant intra-group transactions by *Solvency II undertakings* within a *group*, including those performed with a natural person with *close links* to an *undertaking* in the *group*.
- (2) Where an intra-group transaction falling within (1) is very significant, it must be reported to the *group supervisor* as soon as practicable.
- (3) The necessary information must be submitted to the *group supervisor* by the *relevant insurance group undertaking* which is at the head of the *group* or, where the *group* is not headed by a *Solvency II undertaking*, by the *UK holding company* or such other *Solvency II undertaking* in the *group* as the *group supervisor* may specify.

[Note: Art. 245 of the *Solvency II Directive*]

17 RISK MANAGEMENT AND INTERNAL CONTROL

- 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;
- (2) Without prejudice to (1), the risk management and internal control systems and reporting procedures must be implemented consistently in all the *undertakings* included in the scope of *group* supervision under 2.2(1) and 2.2(2) so that those systems and reporting procedures can be controlled at the level of the *group*.
- (3) Without prejudice to (1), the internal control mechanisms must include at least the following:
- (a) adequate mechanisms as regards group solvency to identify and measure all material risks incurred and to appropriately relate *eligible own funds* to risks; and
 - (b) sound reporting and accounting procedures to monitor and manage the intra-group transactions and the risk concentration.
- 17.2 (1) Where 2.1(1) or 2.1(2) applies, a *participating Solvency II undertaking* that is a *firm*, or if there is none, the *UK holding company* or the *relevant insurance group undertakings*, must undertake at the level of the *group* the assessment required by Conditions Governing Business 3.8 to 3.11.
- (2) Where the calculation of the solvency at the level of the *group* is carried out in accordance with *method 1*, the *participating Solvency II undertaking*, the *UK holding company* or the *relevant insurance group undertakings* (as appropriate) must provide to the *group supervisor* a proper understanding of the difference between the sum of the *SCR* of all the *related Solvency II undertakings* in the *group* and the consolidated *SCR* of the *group*.
- (3) Where the *participating Solvency II undertaking*, the *UK holding company* or the *relevant insurance group undertakings* (as appropriate) so decide, and subject to the agreement of the *group supervisor*, they may undertake any assessments required by Conditions Governing Business 3.8 to 3.11 at the level of the *group* and at the level of any *subsidiary undertaking* in the *group* at the same time, and may produce a single document covering all the assessments.
- (4) Where the *group* exercises the option provided in (3), it must submit the document to all *supervisory authorities* concerned at the same time.
- (5) The exercise of the option provided in (3) does not exempt the *subsidiary undertakings* concerned from the obligation to ensure that the requirements of Conditions Governing Business 3.8 to 3.11 are met.

[Note: Art. 246(1) to (4) of the Solvency II Directive]

17.3 Reporting 2.1 to 2.4 apply with any necessary changes.

[Note: Art. 254(2) of the Solvency II Directive]

18 GROUP SFCR

- 18.1 (1) When 2.1(1) or 2.1(2) applies, *participating Solvency II undertakings* that are *firms* or, if there are none, the *relevant insurance group undertakings* must disclose publicly,

on an annual basis, a report on the solvency and financial condition at the level of the *group*. Reporting 3 to 6 apply with any necessary changes.

- (2) Where a *participating Solvency II undertaking* that is a *firm* or the *relevant insurance group undertakings* (as appropriate) so decide, and subject to the agreement of the *group supervisor*, they may provide a single *SFCR* which must comprise the following:
- (a) the information at the level of the *group* which must be disclosed in accordance with (1); and
 - (b) the information for any of the subsidiaries within the *group* which must be individually identifiable and disclosed in accordance with Reporting 3 to 6.

[Note: Art. 256 of the Solvency II Directive]

19 GROUP STRUCTURE

- 19.1 When 2.1(1) or 2.1(2) applies, *participating Solvency II undertakings* that are *firms* or, if there are none, the *relevant insurance group undertakings* must disclose publicly, at the level of the *group*, on an annual basis, the legal structure and the governance and organisational structure, including a description of all *subsidiaries*, material *related undertakings*, and significant branches belonging to the *group*.

[Note: Art. 256a of the Solvency II Directive]

20 THIRD COUNTRIES

- 20.1 When 2.1(3) applies, 4 to 14 and 16 to 19 apply with any necessary changes at the level of the *insurance holding company* or *mixed financial holding company* which does not have its head office in an *EEA State*, *third country insurance undertaking* or *third country reinsurance undertaking* unless:
- (1) subject to 20.2, the third country in which that *undertaking* has its head office is assessed to be equivalent under Article 260 of the *Solvency II Directive*; or
 - (2) in the absence of equivalent group supervision referred to in Article 260 of the *Solvency II Directive*, the *PRA* has specified other methods in accordance with Article 262 of the *Solvency II Directive*.

[Note: Art. 262 of the Solvency II Directive]

- 20.2 20.1(1) 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 *EEA*.

[Note: Art. 260(7) of the Solvency II Directive]

- 20.3 When calculating the solvency of a *group* falling within 2.1(3) for the purpose of 20.1, a *relevant insurance group undertaking* must treat the *parent undertaking* (being an *insurance holding company* which does not have its head office in an *EEA State* or a *third country insurance undertaking* or a *third country reinsurance undertaking*), solely for the purposes of that calculation, as a *UK Solvency II firm* to which 2.1(1)(a) applies.

[Note: Art. 262 of the Solvency II Directive]

- 20.4 Where the *parent undertaking* referred to in 2.1(3) is itself a *subsidiary undertaking* of an *insurance holding company* or *mixed financial holding company* which does not have its head office in an *EEA State* or a *third country insurance undertaking* or a *third country reinsurance undertaking*, 20.1 applies at the level of either:
- (1) the ultimate *parent undertaking* which is an *insurance holding company* or *mixed financial holding company* which does not have its head office in an *EEA State* or a *third country insurance undertaking* or a *third country reinsurance undertaking*; or
 - (2) such other *parent undertaking* as the *PRA* may determine in accordance with Article 263 of the *Solvency II Directive*.

[Note: Art. 263 of the *Solvency II Directive*]

21 MIXED-ACTIVITY INSURANCE HOLDING COMPANIES

- 21.1 16.2 and 17.3 apply, with any necessary changes, to *groups* falling within 2.1(4).

[Note: Art. 265 of the *Solvency II Directive*]

**PRA RULEBOOK: SOLVENCY II FIRMS: INSURANCE SPECIAL PURPOSE VEHICLES
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 with the Financial Conduct Authority), 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: Insurance Special Purpose Vehicles Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook Solvency II Firms: Insurance Special Purpose Vehicles Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

INSURANCE SPECIAL PURPOSE VEHICLES

Chapter content

- 1. APPLICATION**
- 2. GENERAL PROVISIONS**
- 3. UK ISPVS WITH PART 4A PERMISSION**

Links

1 APPLICATION

1.1 Unless otherwise stated, this Part applies to a *UK ISPV*.

2 GENERAL PROVISIONS

2.1 A *UK ISPV* must ensure that at all times it is fully funded.

3 UK ISPVs WITH PART 4A PERMISSION

3.1 Where a *UK ISPV* has a *Part 4A permission to effect contracts of insurance or carry out contracts of insurance* as an *ISPV* in force prior to 1 January 2016, that *Part 4A permission* shall continue to have effect thereafter provided that the *UK ISPV* satisfies the requirements of the *Solvency II Regulations* that are relevant to *ISPVs* on that date.

PRA RULEBOOK SOLVENCY II FIRMS: REPORTING 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 with the Financial Conduct Authority), 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: Reporting Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook Solvency II Firms: Reporting Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

REPORTING

Chapter content

1. APPLICATION AND DEFINITIONS
2. REPORTING TO THE PRA
3. PUBLIC DISCLOSURE: SOLVENCY AND FINANCIAL CONDITION REPORT
4. PERMITTED NON-DISCLOSURE: SOLVENCY AND FINANCIAL CONDITION REPORT
5. UPDATES AND ADDITIONAL VOLUNTARY INFORMATION: SOLVENCY AND FINANCIAL CONDITION REPORT
6. POLICY AND APPROVAL: SOLVENCY AND FINANCIAL CONDITION REPORT
7. LLOYD'S

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *UK Solvency II firm*; and
- (2) in accordance with General Application 3, the *Society*.
- (3) in accordance with General Application 3, *managing agents*, for the purposes of 7.

1.2 In this part, the following definitions shall apply:

aircraft

means the *class of contract of insurance*, specified in paragraph 5 of Part 1 of Schedule 1 to the *Regulated Activities Order*.

aircraft liability

means the *class of contract of insurance*, specified in paragraph 11 of Part 1 of Schedule 1 to the *Regulated Activities Order*.

assessable mutual

means a *mutual* whose articles of association, rules or bye-laws provide for the calling of additional contributions from members.

general liability

means the *class of contract of insurance*, specified in paragraph 13 of Part I of Schedule 1 to the *Regulated Activities Order*.

goods in transit

means the *class of contract of insurance*, specified in paragraph 7 of Part 1 of Schedule 1 to the *Regulated Activities Order*.

liability of ships

means the *class of contract of insurance*, specified in paragraph 12 of Part 1 of Schedule 1 to the *Regulated Activities Order*.

Lloyd's templates

means the:

- (1) annual solvency return;
- (2) quarterly solvency return;
- (3) annual asset data; and
- (4) quarterly asset data

reporting templates that the *Society* has made available to *managing agents* to enable the *Society* to collect information from *syndicates* in order to complete the *Society's* reporting under this Part.

material pooling agreement

means an arrangement in which:

- (1) insurance or *reinsurance undertakings* only are members;
- (2) the members have assumed joint liability between themselves for a portfolio of insurance or *reinsurance* obligations in defined proportions (which are adjustable should one of the members default to ensure that any claim is fully met);
- (3) the members have the capacity to accept pooled insurance risks with a gross exposure to any one loss exceeding USD 1 Billion.

mixed commercial package

means *contracts of insurance* (other than treaty *reinsurance* contracts) against more than one of:

- (1) loss or damage to property;
- (2) risks to the *person* insured incurring liabilities to third parties;
- (3) risks of loss to the *persons* insured arising from the failure of debtors of theirs to pay their debts when due;
- (4) risks of loss to the *persons* insured attributable to interruptions of business carried on by them;
- (5) risks of loss to the *persons* insured attributable to their incurring unforeseen expenses; or
- (6) any other risk of loss to a commercial operation;

where the risks and losses covered in the contract are rated on a single package basis and no separately identifiable *premium* is charged or recorded for internal management purposes for any one group of risks or losses specified in the contract.

motor vehicle liability

means the *class of contract of insurance*, specified in paragraph 10 of Part I of Schedule 1 to the *Regulated Activities Order*.

professional indemnity

means *contracts of insurance* (other than treaty *reinsurance contracts*), including directors' and officers' liability and error and omissions liability, against the risks of the *persons* insured incurring liabilities to third parties arising from wrongful acts (such as breach of duty, breach of trust, negligence, error or omissions) by professionals, named individuals or businesses occurring in the course of the insured's professional activities.

public and products liability

means *contracts of insurance* (other than treaty *reinsurance contracts*) against the risks of *persons* insured incurring liabilities to third parties for damage to property, injury, illness or death, arising in the course of the insured's business.

ships

means the *class of contract of insurance*, specified in paragraph 6 of Part 1 of Schedule 1 to the *Regulated Activities Order*.

suretyship

means the *class of contract of insurance*, specified in paragraph 15 of Part 1 of Schedule 1 to the *Regulated Activities Order*.

railway rolling stock

means the *class of contract of insurance*, specified in paragraph 4 of Part 1 of Schedule 1 to the *Regulated Activities Order*.

2 REPORTING TO THE PRA

2.1 A *firm* must submit to the *PRA* information which is necessary for the purposes of the *PRA's* supervision of the *firm*.

[Note: Art. 35(1) of the *Solvency II Directive*]

2.2 The information referred to in 2.1 must:

- (1) be submitted in the applicable format or template (if any) provided in the *Solvency II Regulations* or in the form of any *national specific template* where applicable; and
- (2) include at least the information necessary to enable the *PRA* to assess the matters set out below when performing the supervisory review process:
 - (a) the *firm's* system of governance;
 - (b) the business pursued by the *firm*;
 - (c) the valuation principles applied by the *firm* for solvency purposes;
 - (d) the risks faced by the *firm*;
 - (e) the risk management systems of the *firm*; and
 - (f) the capital structure, capital needs and capital management of the *firm*, and
- (3) enable the *PRA* to make any appropriate decisions resulting from the exercise of their supervisory rights and duties.

[Note: Art. 35(1) of the *Solvency II Directive*]

2.3 The information referred to in 2.1 and 2.2 must comprise the following:

- (1) qualitative or quantitative elements, or any appropriate combination thereof;
- (2) historic, current or prospective elements, or any appropriate combination thereof; and
- (3) data from internal or external sources, or any appropriate combination thereof.

[Note: Art. 35(3) of the Solvency II Directive]

- 2.4 The information which a *firm* submits to the *PRA* in accordance with 2.1 and 2.2 must comply with the following principles:
- (1) it must reflect the nature, scale and complexity of the business of the *firm*, and in particular the risks inherent in that business;
 - (2) it must be accessible, complete in all material respects, comparable and consistent over time; and
 - (3) it must be relevant, reliable and comprehensive.

[Note: Art. 35(4) of the Solvency II Directive]

- 2.5 A *firm* must have in place appropriate systems and structures to fulfil the requirements set out in 2.1 to 2.4, as well as a written policy approved by its *governing body* ensuring the ongoing appropriateness of the information submitted by the *firm* to the *PRA*.

[Note: Art. 35(5) of the Solvency II Directive]

- 2.6 Subject to 2.7, a *firm* falling within categories (1) to (7) must submit to the *PRA* the corresponding *national specific templates* on an annual basis:
- (1) A *firm* carrying on *with-profits insurance business* must submit template NS.01: With-Profits Value of Bonus and template NS.02: With-Profits Assets and Liabilities;
 - (2) A *firm* which manages a *material pooling agreement* must submit template NS.03: Material Pooling Arrangements;
 - (3) An *assessable mutual* which:
 - (a) has called for an additional contribution after 1 January 2006; or
 - (b) has received approval for *ancillary own funds* as contemplated in Own Funds 2.3(4)must submit template NS.04: Assessable Mutuals;
 - (4) A *firm* writing *suretyship* business the effect of which is to improve the credit rating of the underlying *security* must submit template NS.08: Business Model Analysis – Financial Guarantee Insurers;
 - (5) A *long-term insurer* must submit:
 - (a) NS.05: Revenue Account - Life;
 - (b) NS.09: Best Estimate Assumptions for Life Insurance Risks; and
 - (c) NS.06: Business Model Analysis - Life;
 - (6) A *general insurer* must submit template NS.07: Business Model Analysis - Non-life;
 - (7) A *general insurer* carrying on *insurance business* and proportional and non-proportional *reinsurance* obligations relating to:
 - (a) *railway rolling stock*;

- (b) *aircraft;*
- (c) *ships;*
- (d) *goods in transit;*
- (e) *motor vehicle liability;*
- (f) *aircraft liability;*
- (g) *liability of ships; or*
- (h) *general liability*

must submit template NS.10: Projection of Future Cash Flows (Best Estimate - Non Life: Liability Claim Types);

- (8) A *general insurer* carrying on *insurance business* relating to:
 - (a) *employers' liability* (including as part of a *mixed commercial package*);
 - (b) *public and products liability* (including as part of a *mixed commercial package*);
or
 - (c) *professional indemnity*

must submit template NS.11: Non-Life Insurance Claims Information (General Liability Sub-classes).

- 2.7 A *firm* falling within 2.6(2), 2.6(3)(a) or 2.6(6) that does not have a *Part 4A permission* to *effect contracts of insurance* is not subject to the obligation to complete the corresponding *national specific template*.
- 2.8 The *Society* must submit to the *PRA* the following *national specific templates*:
 - (1) template NS.12: The Society of Lloyd's Solvency Capital Requirement on an annual basis; and
 - (2) template NS.13: The Society of Lloyd's Minimum Capital Requirement on a quarterly basis.
- 2.9 For the purposes of 2.6 and 2.8, all amounts shown in units must be reported in *UK* sterling unless the *national specific template* expressly states otherwise.
- 2.10 A *firm* shall submit the annual *national specific templates* referred to in 2.6 and 2.8(1), after the end of the transitional period set out in Transitional Measures 3.1, no later than 14 weeks after the *firm's* financial year end.
- 2.11 The *Society* shall submit the quarterly *national specific templates* referred to in 2.8(2) after the end of the transitional period set out in Transitional Measures 3.3, no later than 5 weeks after any quarter ending.
- 2.12 If the due date for the *national specific template* falls on a day which is not a *business day*, the documents must be submitted no later than the next *business day* after the due date.
- 2.13 A *firm* shall submit to the *PRA*, the *national specific templates* referred to in 2.6 and 2.8 in electronic format.

- 2.14 Where a *firm* notifies the *PRA* that any of its submissions of *national specific template* submissions under 2.6 or 2.8 is incorrect, or where the *PRA* notifies a *firm* that any part of the *national specific template* appears to it to be inaccurate or incomplete, the *firm* must promptly make any appropriate corrections or adjustments and if necessary re-submit the *national specific template* (or relevant part of it).

3 PUBLIC DISCLOSURE: SOLVENCY AND FINANCIAL CONDITION REPORT

- 3.1 A *firm* must disclose publicly, on an annual basis, a *SFCR*.

[Note: Art. 51(1) of the *Solvency II Directive*]

- 3.2 The information which a *firm* discloses in its *SFCR* must include the information required in 2.3 and must comply with the principles in 2.4.

[Note: Art. 51(1) of the *Solvency II Directive* and the *Solvency II Regulations*]

- 3.3 A *firm's SFCR* must contain the following information, either in full or by way of reference to equivalent information, both in nature and scope, disclosed publicly under other legal or regulatory requirements:

- (1) a description of the business and performance of the *firm*;
- (2) a description of the system of governance of the *firm* and an assessment of its adequacy for the risk profile of the *firm*;
- (3) a description of the risk exposure, risk concentration, risk mitigation and risk sensitivity separately for each category of risk of the *firm*;
- (4) a description, separately for assets, *technical provisions* and other liabilities, of the bases and methods used for their valuation, together with an explanation of any major differences in the bases and methods used for the valuation of those assets, *technical provisions* and other liabilities in financial statements of the *firm*; and
- (5) a description of the capital management of the *firm*, including at least the following:
 - (a) the structure, amount and quality of *own funds* of the *firm*, together with the information specified in 3.5;
 - (b) the amount of the *MCR* and *SCR* of the *firm*, together with the information specified in 3.6;
 - (c) information showing and explaining the main differences between the underlying assumptions of the *standard formula* and the underlying assumptions of any *internal model* for which the *firm* has received *internal model approval*; and
 - (d) the amount of any non-compliance with the *MCR* or any significant non-compliance with the *SCR* during the reporting period, even if subsequently resolved, with an explanation of the origin of that non-compliance and its consequences, as well as any remedial measures taken in respect of that non-compliance.

[Note: Art. 51(1)(a)–(e) of the *Solvency II Directive*]

- 3.4 For the purposes of 3.3(4), where a *firm* applies:

- (1) a *matching adjustment* in accordance with Technical Provisions 6, the firm must include in the description:
 - (a) a description of the matching adjustment and of the portfolio of obligations and assigned assets to which the *matching adjustment* is applied; and
 - (b) a quantification of the impact of a change to zero of the *matching adjustment* on the *firm's* financial position;
- (2) a *volatility adjustment* in accordance with Technical Provisions 8, the firm must include in the description:
 - (a) a statement on whether the *volatility adjustment* referred to in Technical Provisions 8 is used by the *firm*;
 - (b) quantification of the impact of a change to zero of the *volatility adjustment* on the *firm's* financial position.

[Note: Art. 51(1a) of the Solvency II Directive and the Solvency II Regulations]

3.5 The disclosure required by 3.3(5)(a) must include the following:

- (1) an analysis of any significant change in the structure, amount and quality of *own funds* of the *firm* as compared to the previous reporting period of the *firm*;
- (2) an explanation of any major differences in relation to the value of elements of *own funds* items in the financial statements of the *firm*; and
- (3) a brief description of the capital transferability of the *own funds* of the *firm*.

[Note: Art. 51(2) of the Solvency II Directive]

3.6 The disclosure required by 3.3(5)(b) must include the following:

- (1) the amount of the *SCR* calculated by the *firm* using the *standard formula* or, where the *firm* has received *internal model approval*, the amount of the *SCR* calculated using its *internal model* and, where applicable in the case of a *partial internal model*, the *standard formula*;
- (2) the amount of any *capital add-on* imposed upon the *firm* in accordance with Article 37 of the *Solvency II Directive*, together with concise information on the justification given by the *PRA* for its imposition; and
- (3) the impact of any *undertaking specific parameters* the *firm* is required to use in calculating the *standard formula* in accordance with Article 110 of the *Solvency II Directive*, together with concise information on the justification given by the *PRA* for requiring the use of those *undertaking specific parameters*.

[Note: Art. 51(2) of the Solvency II Directive]

3.7 The disclosure of the *SCR* required by 3.3(5)(b) must be accompanied, where applicable, with a statement indicating that the final amount of the *SCR* is subject to supervisory assessment.

[Note: Art. 51(2) of the Solvency II Directive]

- 3.8 Where a *firm*, in its *SFCR*, makes use of, or refers to, public disclosures made by the *firm* under other legal or regulatory requirements, those disclosures must be equivalent to the information required to be disclosed under 3.3 to 3.7, in both their nature and scope.

[Note: Art. 53(3) of the Solvency II Directive]

4 PERMITTED NON-DISCLOSURE: SOLVENCY AND FINANCIAL CONDITION REPORT

- 4.1 Where a *firm* is granted a *waiver* by the *PRA* permitting the *firm* not to disclose information otherwise required to be disclosed pursuant to 3.3(1) to (4) and 3.4 in its *SFCR*, the *firm* must make a statement to this effect in its *SFCR* and state whether the non-disclosure is permitted because:

- (1) the disclosure of that information would enable competitors of the *firm* to gain a significant, undue advantage; or
- (2) the *firm* has obligations to *policyholders* or other counterparty relationships which bind the *firm* to secrecy or confidentiality.

[Note: Art. 53(1) and Art. 53(2) of the Solvency II Directive]

5 UPDATES AND ADDITIONAL VOLUNTARY INFORMATION: SOLVENCY AND FINANCIAL CONDITION REPORT

- 5.1 In the event of any major development affecting significantly the relevance of the information disclosed in accordance with:

- (1) 3.3 to 3.8; or
- (2) 4.1;

a *firm* must disclose publicly appropriate information on the nature and effects of that major development.

[Note: Art. 54(1) of the Solvency II Directive]

- 5.2 Without limiting the general application of 5.1, for the purposes of that rule the following will be regarded as a major development:

- (1) non-compliance with the *MCR* by the *firm* and either the *PRA* considers that the *firm* will not be able to submit, or the *PRA* does not receive within one *month* of the date of observation by the *firm* of non-compliance with the *MCR*, a *finance scheme* in accordance with Undertakings in Difficulty 4.1; and
- (2) significant non-compliance with the *SCR* by the *firm* and the *PRA* does not receive, within two *months* from the date when non-compliance with the *SCR* was first observed by the *firm*, a *recovery plan* as required by Undertakings in Difficulty 3.1(2).

[Note: Art. 54(1) of the Solvency II Directive]

- 5.3 Where the circumstances described in 5.2(1) or 5.2(2) arise, the *firm* must immediately publicly disclose the amount of non-compliance with the *MCR* or *SCR* as the case may be, together with an explanation of the origin and consequences of that non-compliance, and a description of any remedial measures taken.

[Note: Art. 54(1) of the Solvency II Directive]

- 5.4 Where compliance with the *MCR* has not been restored by a *firm* within three *months* after the first observation of non-compliance by the *firm*, then the *firm* must publicly disclose at the end of that three-*month* period the non-compliance with the *MCR*, together with an explanation of the origin and consequences of that non-compliance, a description of any remedial measures taken and of any further remedial measures planned.

[Note: Art. 54(1) of the *Solvency II Directive*]

- 5.5 Where compliance with the *SCR* has not been restored by a *firm* within six *months* after the first observation of non-compliance by the *firm*, then the *firm* must publicly disclose at the end of that six-*month* period the non-compliance with the *SCR*, together with an explanation of the origin and consequences of that non-compliance, a description of any remedial measures taken and of any further remedial measures planned.

[Note: Art. 54(1) of the *Solvency II Directive*]

6 POLICY AND APPROVAL: SOLVENCY AND FINANCIAL CONDITION REPORT

- 6.1 A *firm* must have in place:
- (1) appropriate systems and structures to fulfil the requirements of 3 to 5; and
 - (2) a written policy ensuring the ongoing appropriateness of any information disclosed:
 - (a) in accordance with the requirements referred to in (1); and
 - (b) on a voluntary basis as further information or explanation related to the *SFCR* which is not already required to be disclosed.

[Note: Art. 55(1) of the *Solvency II Directive*]

- 6.2 A *firm* must ensure that its *SFCR* is:
- (1) subject to approval by its *governing body*; and
 - (2) not publicly disclosed until the approval referred to in (1) is received.

[Note: Art. 55(2) of the *Solvency II Directive*]

7 LLOYD'S

- 7.1 A *managing agent* must, as promptly as possible, submit any information to the *Society* that is necessary for the *Society* to comply with its obligations in this Part or under the *Solvency II Regulations*.
- 7.2 The information in 7.1 must be submitted in the form that the *Society* requires.
- 7.3 The *Society* must provide to the *PRA* in electronic format the *Lloyd's templates* it receives from each *managing agent* on behalf of each respective *syndicate* that the *managing agent* manages at the same time it submits its *national specific templates* required by 2.8.

PRA RULEBOOK: SOLVENCY II FIRMS: LLOYD'S 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);
 - (2) section 137T (general supplementary powers); and
 - (3) 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 with the Financial Conduct Authority), 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: Lloyd's Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Lloyd's Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

LLOYD'S

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

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless 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.

compensation scheme

means the Financial Services Compensation Scheme established under section 213 of *FSMA*.

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 Lloyds*.

protected claim

means a *claim* which is covered by the *compensation scheme*, as defined in rule COMP 5.2.1 R of the *PRA Handbook*.

2 SPECIAL PROVISIONS FOR LLOYD'S

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;
- (4) transactions between *members* and itself.

3 APPROVED REINSURANCE TO CLOSE

- 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

- 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

- 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

- 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

- 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

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

9 FORMER UNDERWRITING MEMBERS

- 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

- 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*.

PRA RULEBOOK: SOLVENCY II FIRMS: THIRD COUNTRY BRANCHES 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: Third Country Branches Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Third Country Branches Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

THIRD COUNTRY BRANCHES

Chapter content

1. APPLICATION AND DEFINITIONS
2. ACCOUNTING RECORDS IN THE UK
3. LOCALISATION AND DEPOSIT OF ASSETS
4. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT
5. CONTENTS OF THE BRANCH SCHEME OF OPERATIONS
6. TECHNICAL PROVISIONS AND OWN FUNDS
7. CONDITIONS GOVERNING BUSINESS
8. INVESTMENTS
9. REPORTING
10. THIRD COUNTRY BRANCH UNDERTAKINGS IN DIFFICULTY
11. SEPARATION OF LONG-TERM BUSINESS AND GENERAL BUSINESS
12. RESTRICTION OF BUSINESS
13. WORLDWIDE FINANCIAL RESOURCES
14. TRANSITIONAL MEASURES

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to *third country branch undertakings*, except *Swiss general insurers*.

1.2 In this Part, the following definitions shall apply:

branch MCR

means a capital requirement calculated in accordance with the Minimum Capital Requirement Part of the *PRA Rulebook* but taking account only of the operations effected by the *third country branch*.

branch scheme of operations

means a scheme containing the information required in 5.1.

branch SCR

means a capital requirement calculated in accordance with the *SCR Rules* but taking account only of the operations effected by the *third country branch*.

branch technical provisions

means the technical provisions established in accordance with the Technical Provisions Part of the *PRA Rulebook* to cover the insurance and *reinsurance* obligations assumed by a *third country branch undertaking* in the *UK*.

composite third country branch

means a *third country branch* (except a *third country pure reinsurance branch*) that carries on both *long-term insurance business* and *general insurance business* in the *UK*.

EEA MCR

means a capital requirement calculated in accordance with the Minimum Capital Requirement Part of the *PRA Rulebook* but taking account only of the operations effected by the *third country branch* and all the *third country undertaking EEA branches*.

EEA SCR

means a capital requirement calculated in accordance with the *SCR Rules* but taking account only of the operations effected by the *third country branch* and all the *third country undertaking EEA branches*.

EEA technical provisions

means the technical provisions established in accordance with the Technical Provisions Part of the *PRA Rulebook* to cover the insurance and *reinsurance* obligations assumed by a *UK-deposit insurer* in the *EEA*.

EEA-deposit insurer

means a *third country branch undertaking* that has made a deposit in an *EEA State* (other than the *UK*) under Article 162(2)(e) of the *Solvency II Directive* in accordance with Article 167 of the *Solvency II Directive*.

pre-Solvency II branch MCR

means the minimum capital requirement referred to in INSPRU 1.5.42R of the *PRA Handbook* that applied to the *third country branch undertaking* as at 31 December 2015.

third country branch undertaking SCR

means

- (1) for a *UK-deposit insurer*, *EEA SCR*;
- (2) for an *EEA-deposit insurer*, its solvency capital requirement calculated according to the relevant *Solvency II EEA implementing measures* in the *EEA State* that supervises the solvency of the entire business of the branches within the *EEA* in accordance with Article 167 of the *Solvency II Directive*;
- (3) for all other *third country branch undertakings*, the *branch SCR*.

2 ACCOUNTING RECORDS IN THE UK

2.1 A *third country branch undertaking* must maintain at a place of business in the *UK* all records relating to:

- (1) the activities carried on from its *third country branch*; and
- (2) if it is a *UK-deposit insurer*, the activities carried out from all the *third country undertaking EEA branches*.

[Note: Art. 162 (2) of the *Solvency II Directive*]

3 LOCALISATION AND DEPOSIT OF ASSETS

3.1 A *third country branch undertaking* (except a *UK-deposit insurer*, an *EEA-deposit insurer* and a *third country branch undertaking* that has a *third country pure reinsurance branch*) must hold assets required to cover the *branch SCR* as follows:

- (1) in the *UK*, assets representing the *branch SCR* up to the amount of the *branch MCR*; and
- (2) in any *EEA State*, assets representing the amount of the *branch SCR* in excess of the amount of the *branch MCR*.

3.2 A *UK-deposit insurer* must hold assets required to cover the *EEA SCR* as follows:

- (1) in any of the *EEA States* where the *UK-deposit insurer* pursues its activities, assets representing the *EEA SCR* up to the amount of the *EEA MCR*; and
- (2) in any *EEA State*, assets representing the amount of the *EEA SCR* in excess of the amount of the *EEA MCR*.

3.3 A *third country branch undertaking* (except an *EEA-deposit insurer* and a *third country branch undertaking* that has a *third country pure reinsurance branch*) must hold on deposit as

security in the *UK* with a *CRD credit institution* assets of an amount equal to at least one quarter of the absolute floor of the *MCR* set out in Minimum Capital Requirement 3.2.

[Note: Art. 162(2), Art. 166(4), Art. 167(1) and (2) of the *Solvency II Directive*]

4 SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

- 4.1 A *third country branch undertaking* (except a *UK-deposit insurer* and an *EEA-deposit insurer*) must:
- (1) calculate a *branch SCR*; and
 - (2) cover the *branch SCR* with *eligible own funds*.
- 4.2 A *third country branch undertaking* (except a *UK-deposit insurer* and an *EEA-deposit insurer*) must:
- (1) calculate a *branch MCR*; and
 - (2) cover the *branch MCR* with *eligible own funds*.
- 4.3 For the purposes of the calculations referred to in 4.1(1) and 4.2(1), the *third country branch undertaking* must take account only of the operations effected by the *third country branch*.
- 4.4 A *UK-deposit insurer* must:
- (1) calculate an *EEA SCR*; and
 - (2) cover the *EEA SCR* with *eligible own funds*.
- 4.5 A *UK deposit insurer* must:
- (1) calculate an *EEA MCR*; and
 - (2) cover the *EEA MCR* with *eligible own funds*.
- 4.6 For the purposes of the calculations referred to in 4.4(1) and 4.5(1), the *UK-deposit insurer* must take account only of the operations effected by the *third country branch* and all the *third country undertaking EEA branches*.

[Note: Art. 166(1), (2) and (3) and Art. 167(1) of the *Solvency II Directive*]

5 CONTENTS OF THE BRANCH SCHEME OF OPERATIONS

- 5.1 The *branch scheme of operations* must set out the following:
- (1) the nature of the risks or commitments which the *third country branch undertaking* proposes to cover;
 - (2) the guiding principles as to *reinsurance*;
 - (3) estimates of the future *branch SCR* on the basis of a forecast balance sheet, as well as the calculation methods used to derive those estimates;
 - (4) estimates of the future *branch MCR*, on the basis of a forecast balance sheet, as well as the calculation method used to derive those estimates;
 - (5) the state of the *eligible own funds* with respect to the *branch SCR* and *branch MCR*;

- (6) estimates of the cost of setting up the administrative services and the organisation for securing business, the financial resources to meet those costs and, where the risks to be covered are classified under paragraph 18 of Part 1 of Schedule 1 to the *Regulated Activities Order*, the resources available for the provision of assistance;
- (7) information on the structure of the system of governance; and
- (8) for the first three financial years:
 - (a) a forecast balance sheet;
 - (b) estimates of the financial resources intended to cover *branch technical provisions*, *branch MCR* and *branch SCR*;
 - (c) for *general insurance business*:
 - (i) estimates of management expenses other than installation costs, in particular current general expenses and commissions;
 - (ii) estimates of *premiums* or contributions and claims under any *contract of insurance*; and
 - (d) for *long-term insurance business*:
 - a plan setting out detailed estimates of income and expenditure in respect of direct business, *reinsurance* acceptances and *reinsurance* cessions.

[Note: Art. 162(2) and Art. 163(1) and (2) of the Solvency II Directive]

6 TECHNICAL PROVISIONS AND OWN FUNDS

- 6.1 *A third country branch undertaking (except a UK-deposit insurer and an EEA-deposit insurer) must establish adequate branch technical provisions.*
- 6.2 *A UK-deposit insurer must establish adequate EEA technical provisions.*
- 6.3 *A third country branch undertaking (except an EEA-deposit insurer) must value assets and liabilities in accordance with the Valuation Part of the PRA Rulebook for the purposes of establishing the branch technical provisions (or, in the case of a UK-deposit insurer, the EEA technical provisions).*
- 6.4 *A third country branch undertaking (except an EEA-deposit insurer) must determine and classify its third country branch undertaking own funds for the purposes of complying with its branch SCR and branch MCR (or, in the case of a UK-deposit insurer, its EEA SCR and EEA MCR) in accordance with the Own Funds Part of the PRA Rulebook as if it were a UK Solvency II firm.*
- 6.5 *A third country branch undertaking (except an EEA-deposit insurer) must fulfil the requirements in Own Funds 5 for the purposes of complying with its branch SCR and branch MCR (or, in the case of a UK-deposit insurer, its EEA SCR and EEA MCR) as if it were a UK Solvency II firm.*

[Note: Art. 165, Art. 166(1), (2) and (3) and Art. 167(1) of the Solvency II Directive]

7 CONDITIONS GOVERNING BUSINESS

- 7.1 A *third country branch undertaking* must fulfil the following requirements laid down in Conditions Governing Business Part of the *PRA Rulebook*, as modified by 7.2, 7.3 and 7.4:
- (1) Conditions Governing Business 1; and
 - (2) Conditions Governing Business 2.2 to 7.
- 7.2
- (1) A reference to “*SCR*” is to be interpreted as a reference to “*third country branch undertaking SCR*”.
 - (2) A reference to “*MCR*” is to be interpreted as a reference to:
 - (a) for a *UK-deposit insurer*, the *EEA MCR*;
 - (b) for an *EEA-deposit insurer*, its minimum capital requirement calculated in accordance with the relevant *Solvency II EEA implementing measures* in the *EEA State* that supervises the solvency of the entire business of the branches within the *EEA* in accordance with Article 167 of the *Solvency II Directive*;
 - (c) for all other *third country branch undertakings*, the *branch MCR*.
 - (3) A reference to “*technical provisions*” is to be interpreted as a reference to:
 - (a) for a *UK-deposit insurer*, the *EEA technical provisions*;
 - (b) for an *EEA-deposit insurer*, its technical provisions calculated in accordance with the relevant *Solvency II EEA implementing measures* in the *EEA State* that supervises the solvency of the entire business of the branches within the *EEA* in accordance with Article 167 of the *Solvency II Directive*;
 - (c) for all other *third country branch undertakings*, the *branch technical provisions*.
 - (4) A reference to “*function*” is to be interpreted as a reference to the *functions* performed in relation to the operations effected by the *third country branch* and includes the *function* of *authorised UK representative*.
 - (5) A reference to “*internal model*” is to be interpreted as a reference to any *internal model* used by a *third country branch undertaking* to calculate the *third country branch undertaking SCR*.
- 7.3 A *third country branch undertaking* (except a *UK-deposit insurer*) must apply the requirements referred to in 7.1 taking account only of matters relevant to the operations effected by the *third country branch*.
- 7.4 A *UK-deposit insurer* must apply the requirements referred to in 7.1 taking account only of matters relevant to the operations effected by the *third country branch* and all the *third country undertaking EEA branches*.

[Note: Art. 162(2) of the *Solvency II Directive*]

8 INVESTMENTS

- 8.1 A *third country branch undertaking* must fulfil the requirements laid down in the Investments Part of the *PRA Rulebook*, as modified by 8.2 to 8.4.
- 8.2 A reference to “*technical provisions*” is to be interpreted as laid down in 7.2(3).
- 8.3 A *third country branch undertaking* (except a *UK-deposit insurer*) must fulfil the requirements in the Investments Part of the *PRA Rulebook* taking account only of the operations effected by the *third country branch*.
- 8.4 A *UK-deposit insurer* must fulfil the requirements in the Investments Part of the *PRA Rulebook* taking account only of the operations effected by the *third country branch* and all the *third country undertaking EEA branches*.

[Note: Art. 162(2) of the Solvency II Directive]

9 REPORTING

- 9.1 A *third country branch undertaking* must fulfil the requirements laid down in Reporting 2.1-5 as modified by 9.2 and 9.3.
- 9.2 A *third country branch undertaking* (except a *UK-deposit insurer*) must fulfil the requirements referred to in 9.1 taking account only of matters relevant to the operations effected by the *third country branch*.
- 9.3 A *UK-deposit insurer* must fulfil the requirements referred to in 9.1 taking account only of matters relevant to the operations effected by the *third country branch* and all the *third country undertaking EEA branches*.

[Note: Art. 168 of the Solvency II Directive]

10 THIRD COUNTRY BRANCH UNDERTAKINGS IN DIFFICULTY

- 10.1 A *third country branch undertaking* (except an *EEA-deposit insurer*) must fulfil the requirements laid down in Undertakings in Difficulty 2 to 5 as modified by 10.2.
- 10.2 (1) A reference to “*SCR*” is to be interpreted as a reference to the *branch SCR* or, for a *UK-deposit insurer*, to the *EEA SCR*.
- (2) A reference to “*MCR*” is to be interpreted as a reference to the *branch MCR* or, for a *UK-deposit insurer*, to the *EEA MCR*.
- (3) A reference to “*technical provisions*” is to be interpreted as a reference to the *branch technical provisions* or, for a *UK-deposit insurer*, to the *EEA technical provisions*.

[Note: Art. 168 of the Solvency II Directive]

11 SEPARATION OF LONG-TERM BUSINESS AND GENERAL BUSINESS

- 11.1 (1) A *third country insurance undertaking* that has a *composite third country branch* must fulfil the requirements laid down in Composites 2 to 4 as modified by 11.2.
- (2) Composites 3 and 4 do not apply to *EEA-deposit insurers*.
- 11.2 (1) The requirements referred to in 11.1 must be fulfilled taking account only of the operations effected by the *third country branch* and, in the case of a *UK-deposit*

insurer, the operations effected by the *third country branch* and all the *third country undertaking EEA branches*.

- (2) The reference to “SCR” in Composites 4.6 is to be interpreted as a reference to the *branch SCR* and, for a *UK-deposit insurer*, the *EEA SCR*.
- (3) The *notional life MCR*, *notional non-life MCR*, the *notional life SCR* and *notional non-life SCR* referred to in the Composites Part of the *PRA Rulebook* shall be calculated taking account only of the operations effected by the *third country branch* and, in the case of a *UK-deposit insurer*, the operations effected by the *third country branch* and all the *third country undertaking EEA branches*.

[Note: Art. 169 of the Solvency II Directive]

12 RESTRICTION OF BUSINESS

- 12.1 A *third country branch undertaking* except a *pure reinsurer* must not carry on any commercial business other than *insurance business* and activities directly arising from that business.
- 12.2 A *third country branch undertaking* that is a *pure reinsurer* must not carry on any business other than the business of *reinsurance* and related operations.

13 WORLDWIDE FINANCIAL RESOURCES

- 13.1 A *third country branch undertaking* must maintain adequate worldwide financial resources, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

14 TRANSITIONAL MEASURES

- 14.1 The following provisions in the Transitional Measures Part of the *PRA Rulebook* apply to *third country branch undertakings* with the modifications set out in 14.2:
 - (1) Transitional Measures 1.2
 - (2) Transitional Measures 3.1;
 - (3) Transitional Measures 3.3;
 - (4) Transitional Measures 4 to 7; and
 - (5) Transitional Measures 10 to 12.
- 14.2 The modifications referred to in 14.1 are:
 - (1) any modification set out in this Part to any Parts referred to in the Transitional Measures Part of the *PRA Rulebook*;
 - (2) the modifications set out in 10.2;
 - (3) any reference to “*pre-Solvency II MCR*” is to be interpreted as a reference to *pre-Solvency II branch MCR*; and
 - (4) any other necessary modification.

PRA RULEBOOK: SOLVENCY II FIRMS: TRANSITIONAL MEASURES 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: Transitional Measures Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency Firms: Transitional Measures Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

TRANSITIONAL MEASURES

Chapter content

1. APPLICATION AND DEFINITIONS
2. FIRMS IN RUN-OFF
3. REPORTING TO THE PRA AND PUBLIC DISCLOSURE
4. BASIC OWN FUNDS
5. STANDARD FORMULA: THE BASIC SCR
6. NON-COMPLIANCE WITH THE SCR
7. NON-COMPLIANCE WITH THE MCR
8. GROUPS – INTERNAL MODELS
9. GROUPS
10. RISK-FREE INTEREST RATES
11. TECHNICAL PROVISIONS
12. PHASING-IN PLAN
13. REPORT ON FINANCIAL AND SOLVENCY CONDITIONS

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

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

1.2 In this Part, the following definitions shall apply:

admissible insurance and reinsurance obligations

has the meaning set out in regulation 53(2) of the Solvency 2 Regulations 2015, where reference to rules implementing Article 20 of Directive 2002/83/EC until 1st January 2016 means INSPRU 1.1.16 R of the *PRA Handbook* as at 31 December 2015.

[Note: Art. 308c(3) of the Solvency II Directive]

capital resources gearing rules

has the meaning set out in in the *PRA Handbook* Glossary as at 31 December 2015.

core tier one capital

means an item of capital that is stated in stage A (Core tier one capital) of the capital resources table at GENPRU 2 Annex 1 of the *PRA Handbook* as at 31 December 2015 to be core tier one capital.

directive reorganisation measures

has the same meaning as in the Insurers (Reorganisation & Winding Up) Regulations 2004 (2004/353).

innovative tier one capital

means an item of capital that is stated in GENPRU 2.2 of the *PRA Handbook* as at 31 December 2015 to be innovative tier one capital.

lower tier two capital

means an item of capital that is stated in stage H (Lower tier two capital) of the capital resources table at GENPRU 2 Annex 1 of the *PRA Handbook* as at 31 December 2015 to be lower tier two capital.

perpetual non-cumulative preference share

means an item of capital that is stated in stage B (Perpetual non-cumulative preference shares) of the capital resources table at GENPRU 2 Annex 1 of the *PRA Handbook* as at 31 December 2015 to be perpetual non-cumulative preference shares.

phasing-in plan

means the phasing-in plan required to be submitted by the *firm* to the *PRA* under 12.1.

pre-Solvency II GCRR

means the requirement to maintain group capital resources that applied to a *UK Solvency II firm* under *PRA* rules as at 31 December 2015.

Solvency II rules

means the *PRA* rules in the Valuation, Technical Provisions, Own Funds, Solvency Capital Requirement – General Provisions, Solvency Capital Requirement – Standard Formula, Solvency Capital Requirement – Internal Models, Minimum Capital Requirement, Undertakings in Difficulty, Investments, Composites, Conditions Governing Business, Insurance Special Purpose Vehicles, Group Supervision, Reporting, Surplus Funds, Insurance – Conduct Standards, Insurance – Senior Insurance Management Functions, Insurance – Allocation of Responsibilities and Insurance – Fitness and Propriety Parts of the *PRA* Rulebook.

upper tier two capital

means an item of capital that is stated in stage G (Upper tier two capital) of the capital resources table at GENPRU 2 Annex 1 of the *PRA Handbook* as at 31 December 2015 to be upper tier two capital

2 FIRMS IN RUN-OFF

- 2.1 This Chapter does not apply to a *firm* referred to in Insurance General Application 2.1(2).
- 2.2 Without prejudice to the exclusion that applies to *pure reinsurers* referred to in Insurance General Application 2.2(7) and subject to 2.3, if a *firm* has on the *Solvency II implementation date* ceased to conduct new *insurance business* and does not have a *Part 4A permission to effect contracts of insurance* the *Solvency II rules* shall not apply to it until:
- (1) unless (2) applies, the earlier of:
- (a) 1 January 2019, where the *firm* has demonstrated to the *PRA* that it will terminate its activity before 1 January 2019; or
- (b) the date upon which the *PRA* notifies the *firm* that the *firm* has not demonstrated to the *PRA* that sufficient progress has been made towards terminating the *firm's* activity; or
- (2) where the *firm* is subject to *directive reorganisation measures* and an administrator has been appointed, the earlier of:
- (a) 1 January 2021; or
- (b) the date upon which the *PRA* notifies the *firm* that the *firm* has not demonstrated to the *PRA* that sufficient progress has been made towards terminating the *firm's* activity.

[Note: Art. 308b (1), (2) of the *Solvency II Directive*]

- 2.3 2.1 only applies:

- (1) if the *firm* is not part of a *group*, unless all *undertakings* that are part of the *group* have ceased to conduct new *insurance business*;
- (2) if the *firm* provides the *PRA* with an annual report setting out what progress has been made in terminating its activity; and
- (3) after the *firm* has notified the *PRA* that it satisfies the requirements set out in 2.1.

[Note: Art. 308b (3) of the Solvency II Directive]

3 REPORTING TO THE PRA AND PUBLIC DISCLOSURE

3.1 A *firm* must submit under Reporting 2.1 and 2.2 the regular supervisory report and annual quantitative templates required to be submitted in accordance with the *Solvency II Regulations* and the annual *national specific templates* under Reporting 2.6 and 2.8(1) by no later than:

- (1) 20 weeks after the *firm's* financial year end in relation to its financial year ending on or after 30 June 2016 before 1 January 2017;
- (2) 18 weeks after the *firm's* financial year end in relation to its financial year ending on or after 1 January 2017 but before 1 January 2018;
- (3) 16 weeks after the *firm's* financial year end in relation to its financial year ending on or after 1 January 2018 but before 1 January 2019;
- (4) 14 weeks after the *firm's* financial year end in relation to its financial year ending on or after 1 January 2019 but before 1 January 2020.

[Note: Art. 308b (5) of the Solvency II Directive]

3.2 A *firm* must disclose its *SFCR* under Reporting 3.1 by no later than:

- (1) 20 weeks after the *firm's* financial year end in relation to its financial year ending on or after 30 June 2016 but before 1 January 2017;
- (2) 18 weeks after the *firm's* financial year end in relation to its financial year ending on or after 1 January 2017 but before 1 January 2018;
- (3) 16 weeks after the *firm's* financial year end in relation to its financial year ending on or after 1 January 2018 but before 1 January 2019;
- (4) 14 weeks after the *firm's* financial year end in relation to its financial year ending on or after 1 January 2019 but before 1 January 2020.

[Note: Art. 308b (6) of the Solvency II Directive]

3.3 A *firm* must submit under Reporting 2.1 and 2.2 the quarterly quantitative templates required to be submitted in accordance with the *Solvency II Regulations* and the quarterly *national specific templates* under Reporting 2.8(2) by no later than:

- (1) 8 weeks related to any quarter ending on or after 1 January 2016 but before 1 January 2017;
- (2) 7 weeks related to any quarter ending on or after 1 January 2017 but before 1 January 2018;

- (3) 6 weeks related to any quarter ending on or after 1 January 2018 but before 1 January 2019;
- (4) 5 weeks related to any quarter ending on or after 1 January 2019 but before 1 January 2020.

[Note: Art. 308b (7) of the Solvency II Directive]

3.4 Where Group Supervision 2.1(1) or (2) applies, the submission under Group Supervision 17.3 of the group regular supervisory report and annual quantitative templates required to be submitted in accordance with the *Solvency II Regulations* must be made by no later than:

- (1) 26 weeks after the financial year end of the *participating Solvency II undertaking*, ultimate *insurance holding company* or ultimate *mixed financial holding company* in relation to its financial year ending on or after 30 June 2016 but before 1 January 2017;
- (2) 24 weeks after the financial year end of the *participating Solvency II undertaking*, ultimate *insurance holding company* or ultimate *mixed financial holding company* in relation to its financial year ending on or after 1 January 2017 but before 1 January 2018;
- (3) 22 weeks after the financial year end of the *participating Solvency II undertaking*, ultimate *insurance holding company* or ultimate *mixed financial holding company* in relation to its financial year ending on or after 1 January 2018 but before 1 January 2019;
- (4) 20 weeks after the financial year end of the *participating Solvency II undertaking*, ultimate *insurance holding company* or ultimate *mixed financial holding company* in relation to its financial year ending on or after 1 January 2019 but before 1 January 2020.

[Note: Art. 308b (8) of the Solvency II Directive]

3.5 A *participating Solvency II undertaking* that is a *firm* or, if there are none, the *relevant insurance group undertakings* must disclose the solvency and financial condition at the level of the *group* under Group Supervision 18.1 by no later than:

- (1) 26 weeks after the financial year end of the *participating Solvency II undertaking*, ultimate *insurance holding company* or ultimate *mixed financial holding company* in relation to its financial year ending on or after 30 June 2016 but before 1 January 2017;
- (2) 24 weeks after the financial year end of the *participating Solvency II undertaking*, ultimate *insurance holding company* or ultimate *mixed financial holding company* in relation to its financial year ending on or after 1 January 2017 but before 1 January 2018;
- (3) 22 weeks after the financial year end of the *participating Solvency II undertaking*, ultimate *insurance holding company* or ultimate *mixed financial holding company* in relation to its financial year ending on or after 1 January 2018 but before 1 January 2019;
- (4) 20 weeks after the financial year end of the *participating Solvency II undertaking*, ultimate *insurance holding company* or ultimate *mixed financial holding company* in

relation to its financial year ending on or after 1 January 2019 but before 1 January 2020.

[Note: Art. 308b (8) of the Solvency II Directive]

3.6 Where Group Supervision 2.1(1) or (2) applies, the submission under Group Supervision 17.3 of the quarterly quantitative templates required to be submitted in accordance with the *Solvency II Regulations* must be made by no later than:

- (1) 14 weeks related to any quarter ending on or after 1 January 2016 but before 1 January 2017;
- (2) 13 weeks related to any quarter ending on or after 1 January 2017 but before 1 January 2018;
- (3) 12 weeks related to any quarter ending on or after 1 January 2018 but before 1 January 2019;
- (4) 11 weeks related to any quarter ending on or after 1 January 2019 but before 1 January 2020.

[Note: Art. 308b (8) of the Solvency II Directive]

4 BASIC OWN FUNDS

4.1 Notwithstanding Own Funds 3.1 to 3.3, a *firm* with an item of *basic own-funds* that:

- (1) was issued prior to 18 January 2015;
- (2) could be used as:
 - (a) *core tier one capital*;
 - (b) *perpetual non-cumulative preference shares*;
 - (c) *innovative tier one capital*; or
 - (d) *upper tier two capital*,

on 31 December 2015; and

- (3) would not otherwise be included as *Tier 1 own funds* or *Tier 2 own funds* in accordance with Own Funds 3.1 to 3.2,

must include that item in *Tier 1 own funds* for up to 10 years after 1 January 2016.

[Note: Art. 308b (9) of the Solvency II Directive]

4.2 Notwithstanding Own Funds 3.1 to 3.3, a *firm* with a *basic own-fund* item that:

- (1) was issued prior to 18 January 2015;
- (2) could be used as *lower tier two capital* on 31 December 2015,

must include that item in *Tier 2 own funds* for up to 10 years after 1 January 2016.

[Note: Art. 308b (10) of the Solvency II Directive]

- 4.3 For the purposes of 4.1 and 4.2 items listed at 4.1(2)(a) to (d) and 4.2(2) must not include any item that could only be used as the item specified by virtue of rule GENPRU TP 4 of the *PRA Handbook*.

5 STANDARD FORMULA: THE BASIC SCR

- 5.1 Notwithstanding Solvency Capital Requirement – General Provisions 2, 3.1, 3.3, 3.4 and Solvency Capital Requirement – Standard Formula 3.1 to 3.3, the standard parameters to be used when calculating the *market risk* concentrations sub-module and the spread risk sub-module in accordance with the *standard formula* must be adjusted as follows:

- (1) until 31 December 2017, the standard parameters shall be the same in relation to exposures to *EEA States'* central governments or central banks denominated and funded in the domestic currency of any *EEA State* as the ones that would be applied to such exposures denominated and funded in their domestic currency;
- (2) from 1 January 2018 the standard parameters must be reduced by 80% in relation to exposures to *EEA States'* central governments or central banks denominated and funded in the domestic currency of any other *EEA State*;
- (3) from 1 January 2019 the standard parameters must be reduced by 50% in relation to exposures to *EEA States'* central governments or central banks denominated and funded in the domestic currency of any other *EEA State*;
- (4) from 1 January 2020 and onwards, the standard parameters must not be reduced in relation to exposures to *EEA States'* central governments or central banks denominated and funded in the domestic currency of any other *EEA State*.

[Note: Art. 308b (12) of the *Solvency II Directive*]

- 5.2 Notwithstanding Solvency Capital Requirement – General Provisions 2, 3.1, 3.3, 3.4 and Solvency Capital Requirement – Standard Formula 3.1 to 3.3, the standard parameters to be used for equities that a *firm* purchased on or before 1 January 2016, when calculating the equity risk sub-module in accordance with the *standard formula*, must be calculated as the weighted averages of:

- (1) the standard parameter to be used when calculating the equity risk sub-module in accordance with 5.4; and
- (2) the standard parameter to be used when calculating the equity risk sub-module in accordance with the *standard formula*.

[Note: Art. 308b (13) of the *Solvency II Directive*]

- 5.3 The weight for the parameter expressed in 5.2(2) must increase at least linearly at the end of each year from 0% during 2016 to 100% from 1 January 2023.

[Note: Art. 308b (13) of the *Solvency II Directive*]

- 5.4 The equity risk sub-module for the purpose of 5.2(1) must be calibrated using a Value-at-Risk measure, over a time period, which is consistent with the typical holding period of equity investments for the *firm* concerned, with a confidence level providing the *policyholders* with a level of protection equivalent to that set out in Solvency Capital Requirement – General Provisions 3.2 to 3.5.

[Note: Art. 308b (16) of the *Solvency II Directive*]

6 NON-COMPLIANCE WITH THE SCR

- 6.1 If a firm complies with the *pre-Solvency II MCR* but during 2016 does not comply with the SCR:
- (1) Undertakings in Difficulty 3.1(3) shall not apply;
 - (2) the *firm* must take the measures necessary to achieve the establishment of the level of *eligible own funds* covering the SCR or the reduction of its risk profile to ensure compliance with the SCR by 31 December 2017; and
 - (3) the *firm* must, every three *months* submit a progress report to the *PRA* setting out the measures taken and the progress made to establish the level of *eligible own funds* covering the SCR or to reduce the risk profile to ensure compliance with the SCR.

[Note: Art. 308b (14) of the Solvency II Directive]

- 6.2 6.1 shall cease to apply where a progress report submitted in accordance with 6.1(3) shows that there was no significant progress in achieving the establishment of the level of *eligible own funds* covering the SCR or the reduction of the risk profile to ensure compliance with the SCR between the date of the observation of non-compliance with the SCR and the date of the submission of the progress report.

[Note: Art. 308b (14) of the Solvency II Directive]

7 NON-COMPLIANCE WITH THE MCR

- 7.1 If on 31 December 2015 a *firm* complies with the *pre-Solvency II MCR* but does not hold sufficient *eligible own funds* to cover the MCR then:
- (1) the *firm* must comply with Minimum Capital Requirement 2.1 by 31 December 2016;
 - (2) Undertakings in Difficulty 4.1 will apply from 31 December 2016; and
- [Note: Art. 131 of the Solvency II Directive]**
- (3) until 31 December 2016 a *firm* must:
 - (a) inform the *PRA* immediately where it observes that the *pre-Solvency II MCR* is no longer complied with or where there is a risk of non-compliance within the next three *months*; and
 - (b) within one *month* from the observation of non-compliance with the *pre-Solvency II MCR*, submit, for approval by the *PRA*, a short-term realistic *finance scheme* to restore, within three *months* of that observation, its capital resources, at least to the level of the *pre-Solvency II MCR* or to reduce its risk profile to ensure compliance with the *pre-Solvency II MCR*.

- 7.2 Any *finance scheme* submitted under 7.1(3)(b) must at least include particulars or evidence concerning the following:
- (1) estimates of management expenses, in particular current general expenses and commissions;
 - (2) estimates of income and expenditure in respect of direct business, *reinsurance* acceptances and *reinsurance* cessions;

- (3) a forecast balance sheet;
- (4) estimates of the capital resources intended to cover the *pre-Solvency II MCR*; and
- (5) the *firm's* overall *reinsurance* policy.

8 GROUPS – INTERNAL MODELS

8.1 Notwithstanding Group Supervision 11.2, until 31 March 2022, the *group SCR* of a *group* based on consolidated data (consolidated *group SCR*) must be calculated on the basis of either:

- (1) the *standard formula*;
- (2) an approved *internal model*, in a manner consistent with the general principles contained in the *SCR Rules*; or
- (3) approved *internal models*, where each approved *internal model* is applicable to a part of a *group* where both the *Solvency II undertaking* and the ultimate *parent undertaking* are located in the same *EEA State* and that part of the *group* forms a distinct part having a significantly different risk profile from the rest of the *group*.

[Note: Art. 308b (16) of the *Solvency II Directive*]

9 GROUPS

9.1 Where Group Supervision 2.1(1) or 2.1(2) applies, the following provisions apply (notwithstanding Group Supervision 4.1 to 4.2) with any necessary changes at the level of the *group*:

- (1) 4.1 to 4.2;
- (2) 5.1;
- (3) 8.1; and
- (3) 11 to 13.

[Note: Art. 308b (17) of the *Solvency II Directive*]

9.2 Where Group Supervision 2.1(1) or (2) applies, if a *participating Solvency II undertaking* that is a *firm* or any *relevant insurance group undertaking* complies with the *pre-Solvency II GCRR* but during 2016 does not comply with the *group SCR*:

- (1) Group Supervision 4.4 shall not apply;
- (2) the *relevant insurance group undertakings* must take the measures necessary to achieve the establishment of the level of *eligible own funds* covering the *group SCR* or the reduction of the risk profile to ensure compliance with the *group SCR* by 31 December 2017; and
- (3) the *relevant insurance group undertakings* must, every three *months* submit a progress report to the *PRA* setting out the measures taken and the progress made to establish the level of *eligible own funds* covering the *group SCR* or to reduce the risk profile to ensure compliance with the *group SCR*.

- 9.3 9.2 shall cease to apply where a progress report submitted in accordance with 9.2(3) shows that there was no significant progress in achieving the establishment of the level of *eligible own funds* covering the *group SCR* or the reduction of the risk profile to ensure compliance with the *group SCR* between the date of the observation of non-compliance with the *group SCR* and the date of the submission of the progress report.

[Note: Art. 308b (17) of the Solvency II Directive]

10 RISK-FREE INTEREST RATES

- 10.1 A *firm* may only apply the *risk-free interest rate transitional measure*:
- (1) in respect of *admissible insurance and reinsurance obligations*; and
 - (2) if it has received approval to do so from the *PRA*.
- 10.2 Where a *firm* applies the *risk-free interest rate transitional measure*, it must calculate the adjustment for each currency as a portion of the difference between:
- (1) the interest rate as determined by the *firm* in accordance with INSPRU 3.1.28R to INSPRU 3.1.47R of the *PRA Handbook* as at 31 December 2015; and
 - (2) the annual effective rate, calculated as the single discount rate that, where applied to the cash-flows of the portfolio of *admissible insurance and reinsurance obligations*, results in a value that is equal to the value of the *best estimate* of the portfolio of *admissible insurance and reinsurance obligations* where the time value is taken into account using the *relevant risk-free interest rate term structure*.

[Note: Art. 308c(2) of the Solvency II Directive]

- 10.3 The portion referred to in 10.1 shall decrease linearly at the end of each year from 100% during 2016 to 0% during 2032.

[Note: Art. 308c(2) of the Solvency II Directive]

- 10.4 Where a *firm* applies the *volatility adjustment* in accordance with Technical Provisions 8, the *relevant risk-free interest rate term structure* referred to in 10.2(2) shall be based on the risk-free interest rates adjusted with the *volatility adjustment*.

[Note: Art. 308c(2) of the Solvency II Directive]

- 10.5 A *firm* that applies the *risk-free interest rate transitional measure* must:
- (1) not include the *admissible insurance and reinsurance obligations* in the calculation of the *volatility adjustment*;
 - (2) not apply the *technical provisions transitional measure*; and
 - (3) as part of its *SFCR* publicly disclose that it applies the *risk-free interest rate transitional measure* and the quantification of the impact of not applying the *risk-free interest rate transitional measure* on its financial position.

[Note: Art. 308c(4) of the Solvency II Directive]

11 TECHNICAL PROVISIONS

- 11.1 A *firm* may only:

- (1) apply a *transitional deduction* from its *technical provisions*; or
 - (2) recalculate the amount of any *transitional deduction*
- if it has received approval to do so by the *PRA*.

[Note: Art. 308d(1) and (3) of the Solvency II Directive]

11.2 A *firm* with approval to apply the *technical provisions transitional measure* must:

- (1) not apply the *risk-free interest rate transitional measure*; and
- (2) as part of its *SFCR* publically disclose that it applies the *transitional deduction* and the quantification of the impact of not applying the *transitional deduction* on its financial position.

[Note: Art. 308d(5) of the Solvency II Directive]

12 PHASING-IN PLAN

12.1 A *firm* with approval to use the *risk-free interest rate transitional measure* or the *technical provisions transitional measure* must:

- (1) immediately inform the *PRA* as soon as it observes that the *SCR* is no longer complied with without application of the *risk-free interest rate transitional measure* or the *technical provisions transitional measure*
- (2) take the measures necessary to achieve compliance with the *SCR* by 1 January 2032
- (3) within two *months* from the observation of non-compliance with the *SCR* without application of the *risk-free interest rate transitional measure* or the *technical provisions transitional measure*, submit a *phasing-in plan* to the *PRA*.

[Note: Art. 308e(1) and (2) of the Solvency II Directive]

12.2 A *firm's phasing-in plan* must set out the planned measures to establish the level of *eligible own funds* covering the *SCR* or reduce its risk profile to ensure compliance with the *SCR* by 1 January 2032.

[Note: Art. 308e(2) of the Solvency II Directive]

12.3 A *firm* that updates its *phasing-in plan* must submit the updated *phasing-in plan* to the *PRA*.

[Note: Art. 308e(2) of the Solvency II Directive]

12.4 A *firm* with approval to use the *risk-free interest rate transitional measure* or the *technical provisions transitional measure* and that is subject to the requirement in 12.1(3) must submit annually a report to the *PRA* setting out the measures taken and progress made to ensure compliance with the *SCR* by 1 January 2032.

[Note: Art. 308d(5) and 308e(3) of the Solvency II Directive]

13 REPORT ON FINANCIAL AND SOLVENCY CONDITIONS

13.1 This Chapter applies to a disclosure of the *SFCR* by a *firm* or, as may be applicable, the report on solvency and financial condition at the level of the *group* by *participating Solvency II*

undertakings or the *relevant insurance group undertakings* within the *group*, made in relation to the relevant financial years ending on or before 31 December 2017.

13.2 In the disclosure required by Reporting 3.1, a *firm* may, unless required under other legal or regulatory requirements (including any *Solvency II EEA implementing measure*), opt not to disclose the following separately when disclosing the amount of the *MCR* and *SCR* under Reporting 3.7:

- (1) the information referred to in Reporting 3.7(2) on any *capital add-on* imposed on the *firm*; and
- (2) the information referred to in Reporting 3.7(3) on any *undertaking specific parameters*.

[Note: Art. 51(2) of the Solvency II Directive]

13.3 In the disclosure required by Reporting 3.1 as applied to a *group* by Group Supervision 18.1, the *participating Solvency II undertakings* that are *firms* or, if there are none, the *relevant insurance group undertakings* may, unless required under other legal or regulatory requirements (including any *Solvency II EEA implementing measure*), opt not to disclose the following separately when disclosing the amount of the *group SCR* under Reporting 3.7:

- (1) the information referred to in Reporting 3.7(2) on any *capital add-on* imposed on the *group*; and
- (2) the information referred to in Reporting 3.7(3) on any parameters specific to the *group*.

[Note: Art. 256(1) and 51(2) of the Solvency II Directive]

PRA RULEBOOK: SOLVENCY II FIRMS: SURPLUS FUNDS 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 with the Financial Conduct Authority), 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: Surplus Funds Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Surplus Funds Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

SURPLUS FUNDS

Chapter content

1. APPLICATION AND DEFINITIONS
2. SURPLUS FUNDS AND TECHNICAL PROVISIONS
3. CALCULATION OF SURPLUS FUNDS
4. CONSISTENCY OF CALCULATION

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *UK Solvency II firm* carrying on *with-profits insurance business*.

1.2 In this Part, the following definitions shall apply:

surplus funds

means, in relation to a *with-profits fund*, accumulated profits which have not been made available for distribution to policyholders or other *beneficiaries* and which:

- (1) satisfy the criteria for classification as *Tier 1 own funds* set out in Own Funds 3.1; and
- (2) are represented by the output of the calculations set out in 3.

with-profits assets

means the assets in a *with-profits fund* except those meeting liabilities in respect of non-profit insurance.

2 SURPLUS FUNDS AND TECHNICAL PROVISIONS

2.1 A *firm* shall not treat *surplus funds* as insurance and *reinsurance* obligations when valuing payments to *policyholders* and *beneficiaries* in the calculation of *technical provisions* in accordance with Technical Provisions 2.

[Note: Art. 78(3) and Art. 91(2) of the Solvency II Directive]

2.2 In order to comply with 2.1, a *firm* must calculate the amount, if any, of its *surplus funds* in accordance with 3.

3 CALCULATION OF SURPLUS FUNDS

3.1 A *firm* must calculate the amount (if any) of its *surplus funds* in relation to each of its *with-profits funds* as follows:

(1) the value of *with-profits assets*;

less

(2) the value of *with-profits policy liabilities*;

less

(3) the amount of any tax or other costs which will arise on the recognition of future shareholder transfers properly attributable to that *with-profits fund* in accordance with any relevant provisions of the *FCA Handbook*, to the extent that such amounts are not included in (2);

less

- (4) the value of any other liabilities (not being liabilities attributable to *with-profits policies* or any other policies in the *with-profits fund*) properly attributable to that *with-profits fund* in accordance with any relevant provisions of the *FCA Handbook*; and

less

- (5) the value attributable to any future shareholder transfers (calculated by reference to the benefits referred to in 3.5(3) and in a manner consistent with the method of calculation specified in 3.4) relating to *with-profits policies* in that *with-profits fund* which may properly be made out of that *with-profits fund* in accordance with any relevant provisions of the *FCA Handbook*.

3.2 A *firm* must value its *with-profits policy liabilities* (other than *future policy-related liabilities*) in accordance with 3.3 unless:

- (1) valuation under 3.3 does not adequately reflect the value of some or all of such liabilities; or
- (2) the *firm* can demonstrate that valuation under 3.3 is impracticable in respect of some or all of such liabilities;

in which case the *firm* must value such liabilities in accordance with 3.4.

3.3 Unless the circumstances set out in 3.2 apply, a *firm* must calculate the value of its *with-profits policy liabilities* (other than *future policy-related liabilities*) as the aggregate of the retrospective value, in respect of each *with-profits policy*, of the following (treating items that increase the future liability to *policyholders* as positive values and treating items that reduce the future liability to *policyholders* as negative values):

- (1) *premiums* received;
- (2) any investment income on, and any increases (or decreases) in, asset values;
- (3) any amounts representing permanent enhancements which the *firm* will take into account when determining the benefits ultimately payable;
- (4) any past miscellaneous surplus (or deficit) which has been allocated;
- (5) any expenses incurred (or deductions made in respect of expenses);
- (6) any past deductions for the cost of guarantees and smoothing, options and provision of life cover and any other benefits provided;
- (7) any partial benefits paid or due (other than benefits in respect of which deductions have been made under (6));
- (8) any tax paid or payable which is properly attributable to that *with-profits policy* in accordance with any relevant provisions of the *FCA Handbook*;
- (9) any amounts received (or paid) under contracts of *reinsurance* or arrangements which have a similar financial effect, which relate to that *with-profits policy* (other than in respect of benefits for which deductions have been made under (6)); and
- (10) any past shareholder transfers which are properly attributable to that *with-profits policy* in accordance with any relevant provisions of the *FCA Handbook*,

but deducting from that aggregate value any implicit allowance for the value of future shareholder transfers.

3.4 Where the circumstances set out in 3.2 apply, a *firm* must calculate the value of its *with-profits policy liabilities* (other than *future policy-related liabilities*) on a prospective basis as the aggregate of the net present values of the following expected future cash-flows in respect of each *with-profits policy*:

- (1) future *premiums*;
- (2) expenses expected to be incurred (or deductions expected to be made in respect of expenses);
- (3) planned deductions for the cost of guarantees and smoothing, options and provision of life cover and any other benefits;
- (4) any benefits payable of the type (or substantially similar to the type) specified in 3.5;
- (5) any amounts receivable (or payable) under contracts of *reinsurance* or arrangements which have a similar financial effect which relate to that *with-profits policy* but excluding amounts in respect of benefits:
 - (a) which have been allowed for under (3); or
 - (b) for which deductions have previously been made with the result that they do not fall under (3); and
- (6) tax payable which is properly attributable to that *with-profits policy* in accordance with any relevant provisions of the *FCA Handbook*.

3.5 The benefits referred to in 3.4(4) are:

- (1) all guaranteed benefits, including amounts guaranteed to be payable on death and maturity (or on other events), guaranteed surrender values and paid-up values;
- (2) declared bonuses to which the *policyholder* is contractually entitled; and
- (3) future discretionary additions to guaranteed benefits and discretionary payments, in addition to the guaranteed benefits, which are expected to be made when the benefits under the *with-profits policy* becomes payable but only if and to the extent they are additions to benefits or payments which, if the *firm* had been able to effect the calculation required by 3.3, are consistent with those for which allowance would have been made in accordance with that calculation.

3.6 A *firm* must not attribute any charges to a *with-profits policy* for the purposes of this Part unless permitted to do so by any relevant provisions of the *FCA Handbook*.

4 CONSISTENCY OF CALCULATION

4.1 A *firm* must ensure that the valuations included in the calculations required to be carried out in accordance with 3.1 are consistent with the valuation methodologies adopted for the calculation of its *technical provisions* in accordance with Technical Provisions 2.

**PRA RULEBOOK: SOLVENCY II FIRMS: NON-SOLVENCY II FIRMS: WITH-PROFITS
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 with the Financial Conduct Authority), 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: With-Profits Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Deletions

- F. The following Parts of the PRA Handbook are deleted:

COBS 20.1: Application
COBS 20.2: Treating with-profits policyholders fairly

Citation

- G. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Non-Solvency II Firms: With-Profits Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

WITH-PROFITS

Chapter content

1. APPLICATION AND DEFINITIONS
2. ASSETS IN THE WITH-PROFITS FUND
3. DISTRIBUTION STRATEGIES
4. SUPPORT ARRANGEMENTS

Links

1 APPLICATION AND DEFINITIONS

- 1.1 Subject to 1.2, this Part applies to a *firm* carrying on *with-profits insurance business*.
- 1.2 This Part does not apply to *with-profits insurance business* that consists of *effecting contracts of insurance* or *carrying out contracts of insurance* that are *Holloway sickness policies*.
- 1.3 In this Part, the following definitions shall apply:

Holloway sickness policies

means a *contract of long-term insurance* offered or effected by a *friendly society* under the Holloway system, providing *permanent health* benefits and, in addition, investment benefits, where the investment benefits:

- (1) are derived from surpluses accrued by the *friendly society* and apportioned to *policyholders*; and
- (2) are payable to *policyholders* at maturity, on retirement, on death, or as otherwise specified by contractual provisions or individual society rules.

permanent health

means the *class of contract of insurance*, specified in paragraph 4 of Part 2 of Schedule 1 to the *Regulated Activities Order*.

support arrangements

means arrangements under which the financial resources available to a *with-profits fund* include (or are intended in particular circumstances to include) financial resources from outside that *with-profits fund*.

2 ASSETS IN THE WITH-PROFITS FUND

- 2.1 A *firm* must ensure that it holds assets in each of its *with-profits funds* of a value sufficient to cover the *with-profits policy liabilities* in respect of all of the business written in, or transferred into, that *with-profits fund*.

3 DISTRIBUTION STRATEGIES

- 3.1 A *firm* must ensure at all times that its strategy for distribution of discretionary benefits in respect of each of its *with-profits funds*:
- (1) is affordable and sustainable; and
 - (2) cannot reasonably be expected to have an adverse effect on the safety and soundness of the firm as a whole, or on the benefit security of all *policyholders* of the *firm*.

4 SUPPORT ARRANGEMENTS

- 4.1 If a *firm* is using, or intends to use, *support arrangements* to contribute to benefit security for the *policyholders* of a *with-profits fund*, it must ensure that:

- (1) all the terms and conditions governing those *support arrangements*, including the circumstances in which they take effect and the terms on which they are or may be repayable, are adequately documented in the *firm's* records; and
- (2) the extent of any restrictions on the *firm's* use of those *support arrangements* is clearly identified.

PRA RULEBOOK: SOLVENCY II FIRMS: ACTUARIES 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);
 - (2) section 137T (general supplementary powers);
 - (3) section 340(1) and (4) (Appointment: requirements on firms);
 - (4) section 340(3A) (Appointment: requirements as to co-operation); and
 - (5) section 340(6) and (7) (Appointment: qualifications of actuaries).
- 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: Actuaries Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Actuaries Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex

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

Part

ACTUARIES

Chapter content

1. APPLICATION AND DEFINITIONS
2. APPOINTMENT OF ACTUARIES
3. ACTUARIES' QUALIFICATIONS
4. CONFLICTS OF INTEREST
5. WITH-PROFITS ACTUARY FUNCTION
6. DUTIES OF ACTUARIES
7. LLOYD'S

Links

1 APPLICATION AND DEFINITIONS

- 1.1 This Part applies to:
- (1) a *UK Solvency II firm*;
 - (2) in accordance with Insurance General Application 3, the *Society*, as modified by 7;
 - (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 7; and
 - (4) *third country branch undertakings* excluding *Swiss general insurers*.

- 1.2 This Part applies to an *actuary* appointed under 2 or appointed under or as a result of a statutory provision other than in *FSMA*.

- 1.3 In this Part, the following definition shall apply:

Chief Executive function

means the *PRA controlled function* CF3 in the table of *PRA controlled functions* in SUP 10B.4.3 R of the *PRA Handbook*, described more fully in SUP 10B.6.7 R of the *PRA Handbook*.

With-Profits Actuary function

means the *PRA controlled function* CF12A in the table of *PRA controlled functions*, described more fully in SUP 10B.8.2 R of the *PRA Handbook* and Actuaries 5.1.

2 APPOINTMENT OF ACTUARIES

- 2.1 A *firm* must appoint an external *actuary* if it does not have the capability within the *firm* or the *firm's group* to comply with Conditions Governing Business 6.1 or the relevant requirements of the *Solvency II Regulations*.
- 2.2 A *firm* carrying on *with-profits insurance business* must appoint one or more *actuaries* to perform the *With-Profits Actuary function* in respect of all classes of its *with-profits insurance business*.
- 2.3 A *firm* must:
- (1) when it becomes aware that a vacancy of an *actuary* required under 2.1 or 2.2 will arise or has arisen:
 - (a) notify the *PRA*; and
 - (b) give reasons for the vacancy,
 without delay, using the form referred to in Notifications 10.3;
 - (2) appoint an *actuary* to fill any vacancy of an *actuary* required under 2.1 or 2.2;
 - (3) ensure that the replacement *actuary* can take up the vacant post at the time the vacancy arises or as soon as reasonably practicable after that; and
 - (4) when a new *actuary* is appointed:
 - (a) notify the *PRA* of that appointment; and

- (b) advise the *PRA* of the name and business address of the *actuary* appointed and the date from which the appointment has effect,

using the form referred to in Notifications 10.3.

- 2.4 Where a *firm* fails to appoint an *actuary* under 2.1 or 2.2 within 28 days of a vacancy arising the *PRA* may appoint an *actuary* to perform either of the functions in 2.1 or 2.2 for that *firm* on the following terms:
- (1) the *actuary* to be remunerated by the *firm* on the basis agreed between the *actuary* and *firm* or, in the absence of agreement, on a reasonable basis; and
 - (2) the *actuary* to perform the function required under 2.1 or 2.2 until he resigns or the *firm* appoints another *actuary*.
- 2.5 A *firm* must comply with and is bound by the terms on which an *actuary* has been appointed by the *PRA*.
- 2.6 Where the *PRA* appoints an *actuary* to perform either of the functions in 2.1 or 2.2 for a *firm*, the requirements under 2.1 and 2.2 to make appointments under those rules still apply to that *firm*.

3 ACTUARIES' QUALIFICATIONS

- 3.1 Before a *firm* appoints an *actuary* under 2.1 or 2.2, it must take reasonable steps to ensure that the *actuary* has the required skill and experience to perform his functions under the *regulatory system* commensurate with the nature, scale and complexity of the *firm's* business and the requirements and standards under the *regulatory system* to which it is subject.
- 3.2 A *firm* must not appoint as *actuary* a *person* who is disqualified under Part XXII of *FSMA* (Auditors and Actuaries) from acting as an *actuary* either for that *firm* or for a relevant class of *firm*.
- 3.3 A *firm* must take reasonable steps to ensure that an *actuary*, which it is planning to appoint or has appointed, provides information to the *PRA* about the *actuary's* qualifications, skills, experience and any other relevant matters in accordance with the reasonable requests of the *PRA*.

4 CONFLICTS OF INTEREST

- 4.1 A *firm* must take reasonable steps to ensure that an *actuary* that it appoints:
- (1) does not perform the function of *Chief Executive function*;
 - (2) does not, if he is to perform the *With-Profits Actuary function*, become a member of the *firm's governing body*; and
 - (3) does not perform any other function on behalf of the *firm* which could give rise to a significant conflict of interest.

5 WITH-PROFITS ACTUARY FUNCTION

- 5.1 An *actuary* appointed to perform the *With-Profits Actuary function* must:
- (1) advise the *firm's* management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting those classes of the *with-profits insurance business* of the *firm* in respect of which he has been appointed;

- (2) advise the *firm's governing body* as to whether the assumptions used to calculate the future discretionary benefits within the *technical provisions* under Technical Provisions 9.1 are consistent with the *firm's PPFM* in respect of those classes of the *firm's with-profits insurance business*;
- (3) at least once a year, report to the *firm's governing body* on key aspects (including those aspects of the *firm's* application of its *PPFM* on which the advice described in (1) has been given) of the discretion exercised in respect of the period covered by his report affecting those classes of *with-profits insurance business* of the *firm*;
- (4) request from the *firm* such information and explanations as he reasonably considers necessary to enable him properly to perform the duties in (1) to (3);
- (5) advise the *firm* as to the data and systems that he reasonably considers necessary to be kept and maintained to provide the duties in (4); and
- (6) in the case of a *friendly society* to which this section applies, perform the function of appropriate actuary under section 12 (Reinsurance) of the Friendly Societies Act 1992 or section 23A (Reinsurance) of the Friendly Societies Act 1974 as applicable, in respect of those classes of its *with-profits insurance business* covered by his appointment.

6 DUTIES OF ACTUARIES

- 6.1 An *actuary* appointed under this Part must be objective in performing his duties.
- 6.2 An *actuary* appointed under this Part must take reasonable steps to satisfy himself that he is free from bias, or from any conflict of interest from which bias may reasonably be inferred. He must take appropriate action where this is not the case.
- 6.3 When carrying out his duties, an *actuary* appointed under this chapter must pay due regard to generally accepted actuarial practice.
- 6.4 An *actuary* must notify the *PRA* without delay if the *actuary*:
 - (1) is removed from office by a *firm*;
 - (2) is formally notified of such removal from office;
 - (3) resigns before the term of office expires;
 - (4) is not re-appointed by a *firm*; or
 - (5) is disqualified from being the *actuary* of:
 - (a) any *undertaking* or particular class of *undertaking*; or
 - (b) any *firm* or particular class of *firm*.
- 6.5 In the circumstances set out in 6.4, the *actuary* must notify the *PRA* without delay:
 - (1) of any matter connected with the removal or ceasing of the office of *actuary* that the *actuary* thinks ought to be drawn to the *PRA's* attention; or
 - (2) that there is no such matter.

7 LLOYD'S

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

PRA RULEBOOK: SOLVENCY II GLOSSARY AMENDMENTS 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 instruments) of the Act.

Pre-conditions to making

- C. In accordance with section 138J of the Act (Consultation by the PRA) and section 319 of the Act (Consultation), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and the proposed direction and had regard to representations made.

PRA Rulebook: Solvency II Glossary Amendments Instrument 2015

- D. The PRA makes the amendments in Annex A and Annex B to this instrument.

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Glossary Amendments Instrument 2015.

By order of the Board of the Prudential Regulation Authority

17 March 2015

Annex A

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

Insert the following new definitions (in the appropriate alphabetical position) into the Glossary Part of the *PRA* Rulebook:

ancillary own funds

- (1) (in relation to a *UK Solvency II firm* and Lloyd's) has the meaning given in Own Funds 2.3 and are determined in accordance with Own Funds 2.3 to 2.7; or
- (2) (in relation to a *Solvency II undertaking* other than a *UK Solvency II firm*) means an *own funds* item referred to in Article 89 of the *Solvency II Directive*, determined in accordance with the applicable *Solvency II EEA implementing measures*; or
- (3) (in relation to an *insurance holding company*) means an *own funds* item referred to in Article 89 of the *Solvency II Directive*, determined in accordance with (1) as if it were a *UK Solvency II firm*; or
- (4) (in relation to a *third country branch undertaking*) means an *own funds* item referred to in Article 89 of the *Solvency II Directive*, determined in accordance with (1) as if it were a *UK Solvency II firm*.

[Note: Art. 89 of the *Solvency II Directive*]

approved reinsurance to close

means;

- (1) a *reinsurance to close* effected before 1 January 2005; or
- (2) an agreement under which *members* of a *syndicate* in one *syndicate year* ("the reinsured *members*") agree with the *members* of that *syndicate* in a later *syndicate year* or the *members* of one other *syndicate* ("the reinsuring *members*") that the reinsuring *members* will discharge, or procure the discharge of, or indemnify the reinsured *members* against, all known and unknown *insurance business* liabilities of the reinsured *members* arising out of the *insurance business* carried on by the reinsured *members* in that *syndicate year* that is:
 - (a) effected after 1 January 2005; and
 - (b) not a balance transfer between two *syndicate years* where the *syndicate* has only one *member* and the *member* is the same in each of those years; or
- (3) an agreement under which *members* of a *syndicate* in one *syndicate year* ("the reinsured *members*") agree with a *subsidiary* of the *Society* that that *subsidiary* will discharge, or procure the discharge of, or indemnify the reinsured *members* against, all known and unknown *insurance business* liabilities of the reinsured *members* arising out of the *insurance business*

carried on by the reinsured *members* in that *syndicate year* ("the reinsured liabilities") and where:

- (a) that *subsidiary* is wholly owned by the *Society* and if from time to time the *subsidiary* has an asset or cash flow deficiency such that the *subsidiary* is unable to meet any of the liabilities which it has reinsured, the *Society* is legally obliged to pay to the *subsidiary* a sum equal to that deficiency; and
- (b) at the effective date of the agreement, the relevant *syndicate year* has been open for at least two years after the date at which it would normally have been closed in accordance with the policies and practices in relation to the *syndicate* concerned.

Article 12(1) relationship

means a relationship where *undertakings* are linked by a relationship within the meaning of Article 12(1) of Council Directive of 13 June 1983 on consolidated accounts (No 83/349/EEC).

authorised UK representative

means (in relation to a *firm*) a *person* resident in the *UK* who is authorised to act generally, and to accept service of any document, on behalf of the *firm*.

basic own funds

(in the Solvency II Firms Sector of the *PRA* Rulebook):

- (1) (in relation to a *UK Solvency II firm* and Lloyd's), has the meaning given in Own Funds 2.2; or
- (2) (in relation to a *Solvency II undertaking* other than a *UK Solvency II firm*) means an *own funds* item referred to in Article 88 of the *Solvency II Directive*, determined in accordance with the applicable *Solvency II EEA implementing measures*; or
- (3) (in relation to an *insurance holding company*) means an *own funds* item referred to in Article 88 of the *Solvency II Directive*, determined in accordance with (1) as if it were a *UK Solvency II firm*; or
- (4) (in relation to a *third country branch undertaking*) means an *own funds* item referred to in article 88 of the *Solvency II Directive*, determined in accordance with (1) as if it were a *UK Solvency II firm*.

[Note: Art. 88 of the *Solvency II Directive*]

basic SCR

means the minimum basic *SCR*, as set out in Solvency Capital Requirement to Standard Formula 3 and as supplemented by the *Solvency II Regulations*.

beneficiary

means any *person* who is entitled to a right under a *contract of insurance*.

[Note: Recital 16 of the *Solvency II Directive*]

best estimate

means the best estimate of future cash-flows, calculated in accordance with Technical Provisions 3.

byelaw

means any Byelaw, direction, regulation, or other instrument made using the powers of the *Council* under section 6 of Lloyd's Act 1982 (including any regulation ratified by the *Council* by special resolution) and any condition or requirement made under any such Byelaw, direction, regulation or other instrument.

capital add-on

means the amount by which the *SCR* of a *UK Solvency II firm*, or the *group SCR* of a *group* (as appropriate), is increased by the *PRA* as a result of a *standard formula significant risk profile deviation, internal model significant risk profile deviation, significant system of governance deviation, significant deviation from relevant assumptions* or (if appropriate) a specific risk existing at *group level*.

central assets

means the *Society's* own assets that are available at its discretion to meet a *member's* liabilities in respect of *insurance business*.

Central Fund

means the Central Fund established under Lloyd's Central Fund Byelaw (No 4 of 1986) and the New Central Fund established under Lloyd's New Central Fund Byelaw (No 23 of 1996).

central liabilities

means the liabilities of the *Society*, excluding any liabilities of *members* (unless the *Society* has exercised its discretion to meet such liabilities) or any other participant at Lloyd's other than the *Society*.

central requirement

means the calculation made by the *Society* pursuant to the requirements of Solvency Capital Requirement – General Provisions 7.3.

class

means (in relation to a *contract of insurance*) any class of *contract of insurance* listed in Schedule 1 to the *Regulated Activities Order*.

close links

(in the Solvency II Firms Sector of the *PRA* Rulebook) means a situation in which two or more *persons* are linked by *control* or *participation*, or a situation in which two or more *persons* are permanently linked to one and the same *person* by a *control* relationship.

[Note: Art. 13(17) of the Solvency II Directive]

Community co-insurance operation

means a co-insurance operation which relates to one or more risks classified under *general insurance business classes 3 to 16* and which fulfils the conditions set out in Article 190(1)(a) to (f) of the *Solvency II Directive*.

composite firm

means a *firm* that carries on both *long-term insurance business* and *general insurance business*.

contract for differences

means the investment specified in article 85 of the *Regulated Activities Order*.

contract of insurance

has the meaning given in article 3(1) of the *Regulated Activities Order*.

control

(in the Solvency II Firms Sector of the *PRA Rulebook*) means the relationship between a *parent undertaking* and a *subsidiary undertaking* where that relationship falls within (a) to (g) of the definition of *parent undertaking*, or a similar relationship between any *person* and an *undertaking*.

[Note: Art. 13(18) of the *Solvency II Directive*]

credit risk

means the risk of loss, or of adverse change, in the financial situation, resulting from fluctuations in the credit standing of issuers of securities, counterparties and any debtors to which a *Solvency II undertaking* is exposed, in the form of counterparty default risk, or *spread risk*, or *market risk* concentrations.

[Note: Art. 13(32) of the *Solvency II Directive*]

cross border services

means:

- (1) (in relation to a *UK firm*) services provided within an *EEA State* other than the *UK* under the freedom to provide services; and
- (2) (in relation to an *incoming EEA firm* or an *incoming Treaty firm*) services provided within the *UK* under the freedom to provide services.

deposit back arrangement

(in relation to any *reinsurance contract*) means an arrangement whereby an amount is deposited by the *reinsurer* with the cedant.

derivative

means a *contract for differences*, a *future* or an *option*.

diversification effects

means the reduction in the risk exposure of *UK Solvency II firms* related to the diversification of their business, resulting from the fact that the adverse outcome from

one risk can be offset by a more favourable outcome from another risk, where those risks are not fully correlated.

[Note: Art. 13(37) of the Solvency II Directive]

EEA

means the area established by the agreement on the European Economic Area signed at Oporto on 2 May 1992, as it has effect for the time being and which consists of the *EEA States*.

EEA State

(in the Solvency II Firms Sector of the *PRA Rulebook*) has the meaning given in the Interpretation Act 1978 and, where the context requires, includes references to Gibraltar as appropriate.

EIOPA

means the European Insurance and Occupational Pensions Authority established in accordance with Regulation (EU) No. 1094/2010 of the European Parliament and of the Council of 24 November 2010.

eligible own funds

means:

- (1) as to compliance with a *UK Solvency II firm's SCR*, the aggregate of the *firm's*:
 - (a) *Tier 1 own funds*; and
 - (b) *eligible Tier 2 own funds*; and
 - (c) *eligible Tier 3 own funds*; and
- (2) as to compliance with a *UK Solvency II firm's MCR*, the aggregate of the *firm's*:
 - (a) *Tier 1 own funds*; and
 - (b) *eligible Tier 2 own funds*; and
- (3) as to compliance by a *composite firm* with the *notional life MCR*, the aggregate of the *firm's*:
 - (a) *Tier 1 own funds*; and
 - (b) *Tier 2 basic own funds*

that satisfy the limits in Own Funds 4 as if references to the "*MCR*" in those provisions were references to the *notional life MCR*; and the limits in the *Solvency II Regulations*; and

- (4) as to compliance by a *composite firm* with the *notional non-life MCR*, the aggregate of the *firm's*:
 - (a) *Tier 1 own funds*; and

- (b) *Tier 2 basic own funds*

that satisfy the limits in Own Funds 4.2 as if references to the “MCR” in those provisions were references to the *notional non-life MCR*; and the limits in the *Solvency II Regulations*.

- (5) as to compliance with the *branch SCR*, means the aggregate of the *third country branch undertaking’s*:

- (a) *Tier 1 own funds*; and
 (b) (i) *Tier 2 own funds*; and
 (ii) *Tier 3 own funds*

that satisfy the limits in Own Funds 4.1, as if references to the “SCR” in those provisions were references to the *branch SCR*; and the limits in the *Solvency II Regulations*.

- (6) as to compliance with the *branch MCR*, means the aggregate of the *third country branch undertaking’s*:

- (a) *Tier 1 own funds*; and
 (b) *Tier 2 basic own funds* that satisfy the limits in Own Funds 4.2 as if references to the “MCR” in those provisions were references to the *branch MCR*; and the limits in the *Solvency II Regulations*.

- (7) as to compliance with the *EEA SCR*, means the aggregate of the *third country branch undertaking’s*:

- (a) *Tier 1 own funds*; and
 (b) (i) *Tier 2 own funds*; and
 (ii) *Tier 3 own funds*

that satisfy the limits in Own Funds 4.1, as if references to the “SCR” in those provisions were references to the *EEA SCR*; and the limits in the *Solvency II Regulations*.

- (8) as to compliance with the *EEA MCR*, means the aggregate of the *third country branch undertaking’s*:

- (a) *Tier 1 own funds*; and
 (b) *Tier 2 basic own funds* that satisfy the limits in Own Funds 4.2, as if references to the “MCR” in those provisions were references to the *EEA MCR*; and the limits in the *Solvency II Regulations*.

eligible Tier 2 own funds

means;

- (1) as to compliance with a *UK Solvency II firm’s SCR*, the *UK Solvency II firm’s Tier 2 own funds* that satisfy the limits set out in Own Funds 4.1(1) and the *Solvency II Regulations*; and

- (2) as to compliance with a *UK Solvency II firm's MCR*, the *firm's Tier 2 basic own funds* that satisfy the limits in Own Funds 4.2 and the *Solvency II Regulations*.

eligible Tier 3 own funds

means, as to compliance with a *UK Solvency II firm's SCR*, the *firm's Tier 3 own funds* that satisfy the limits set out in Own Funds 4.1(2).

employers' liability

means a *contract of insurance* against risks of the *persons* insured incurring liabilities to their employees.

exceptional adverse situation

means situations where the financial situation of a firm representing a significant share of the market or the affected lines of business is seriously or adversely affected by one or more of the following:

- (1) a fall in financial markets which is unforeseen, sharp and steep;
- (2) a persistent low interest rate environment;
- (3) a high impact catastrophic event.

excluded assets

means, in relation to a *with-profits fund*, those assets which the *firm* has clearly identified in its policy documentation, *PPFM*, other *policyholder* communication or otherwise in accordance with any relevant provision of the *FCA Handbook* as:

- (1) available to cover the *firm's* liabilities arising from *with-profits policies* only in particular circumstances; and
- (2) not forming part of that *with-profits fund*.

FCA Handbook

means the *FCA's Handbook* of rules and guidance.

finance scheme

means the finance scheme required to be provided by a *UK Solvency II firm* to the *PRA* under Undertakings in Difficulty 4.1(2).

function

means, within a system of governance, an internal capacity to undertake practical tasks.

[Note: Art. 13(29) of the *Solvency II Directive*]

funds at Lloyd's

means the assets (not being *syndicate assets*) provided by or on behalf of a *member* to meet the liabilities arising from the *member's insurance business* at Lloyd's which are held in a *Lloyd's trust fund* and managed by the *Society* as trustee.

future

means the investment specified in article 84 of the *Regulated Activities Order*.

future policy-related liabilities

means, in relation to a *with-profits fund*, the aggregate of the following amounts (to the extent each constitutes a liability) less the aggregate of such amounts (to the extent each constitutes an asset):

- (1) planned deductions for the costs of guarantees, options, smoothing and provision of life cover and other benefits from the amount calculated in accordance with Surplus Funds 3.3 or, where a *firm* is required under Surplus Funds 3.2 to use the calculation method in Surplus Funds 3.4, in accordance with Surplus Funds 3.4;
- (2) planned deductions for other costs deemed chargeable to the amount calculated in accordance with Surplus Funds 3.3 or, where a *firm* is required under Surplus Funds 3.2 to use the calculation method in Surplus Funds 3.4, in accordance with Surplus Funds 3.4;
- (3) future costs of contractual guarantees (other than financial options);
- (4) future costs of financial options, including guaranteed annuity and cash options;
- (5) future costs or proceeds of smoothing;
- (6) future liabilities to repay financing costs of a *with-profits fund* where the *firm* expects to have to meet such liabilities; and
- (7) other future costs related to the provision of the benefits referred to in Surplus Funds 3.4(4) (regardless of whether the *firm* is required to effect the calculation in Surplus Funds 3.4),

but only to the extent that they are not already included in the amount calculated in accordance with Surplus Funds 3.3 or, if applicable, Surplus Funds 3.4.

general insurer

means an *insurer* with *permission* to effect contracts of insurance or carry out contracts of insurance that are contracts of general insurance.

group

(in the Solvency II Firms Sector of the *PRA Rulebook*) means a group of *undertakings* that:

- (1) consists of a *participating undertaking*, its *subsidiary undertakings* and the *undertakings* in which it holds a participation, as well as *undertakings* linked to each other by an *Article 12(1) relationship*; or
- (2) consists of a *mutual-type group*.

[Note: Art. 212(1)(c) of the Solvency II Directive]

group SCR

means the solvency capital requirement calculated at the level of the *group*, in accordance with Group Supervision 4 to 15.

insurance holding company

means a *parent undertaking*, other than a *Solvency II undertaking* and a *mixed financial holding company*, the main business of which is to acquire and hold *participations* in *subsidiary undertakings* and which fulfils the following conditions:

- (1) its *subsidiary undertakings* are either exclusively or mainly *Solvency II undertakings*, *third country insurance undertakings* or *third country reinsurance undertakings*; and
- (2) at least one of those *subsidiary undertakings* is a *Solvency II undertaking*.

[Note: Art. 212(1)(f) of the Solvency II Directive]

internal model

means the methodology used by a *firm* to calculate part or all of its *SCR*, or by a *group* to calculate part or all of its *group SCR*, in place of the *standard formula*.

internal model approval

means:

- (1) the approval granted to a *firm* by the *PRA* to use an *internal model* to calculate part (*partial internal model*) or all of its *SCR*;
- (2) in relation to a *UK Solvency II firm* that is a member of a *group*, the approval granted to that *firm* by the *PRA* to use an *internal model* to calculate part (*partial internal model*) or all of its *group SCR*.

internal model significant risk profile deviation

means the determination by the *PRA* of a significant deviation in the risk profile of a *UK Solvency II firm*, or a *group* (as appropriate), from the assumptions underlying the *SCR* (or *group SCR*, as appropriate) in circumstances where the *firm's SCR* (or the *group's group SCR*, as appropriate) is calculated using an *internal model*.

ISPV

means an *undertaking*, whether incorporated or not, other than a *Solvency II undertaking*, which has received authorisation in accordance with Article 211(1) or (3) of the *Solvency II Directive* and which:

- (1) assumes risks from *Solvency II undertakings*; and
- (2) fully funds its exposures to such risks through the proceeds of a debt issuance or some other financing mechanism where the repayment rights of the providers of such debt or other financing mechanism are subordinated to the *undertaking's* obligations to the *Solvency II undertaking* in respect of the risks referred to in (1).

[Note: Art. 13(26) of the Solvency II Directive]

key function

- (1) in relation to a *firm* (other than a *third country branch undertaking*), means each of the following in relation to the carrying on of a *regulated activity* by a *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*.

key function holder

means any *person* who is responsible for discharging a *key function*.

leading insurer

means (in relation to a *Community co-insurance operation*) a co-insurer that assumes the leader's role in co-insurance practice and in particular determines the terms and conditions of insurance and rating.

linked long-term

means (in relation to a *contract of insurance*) a *contract of long-term insurance* where the benefits are wholly or partly to be determined by reference to the value of, or the income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or in an index of, the value of property of any description (whether or not so specified).

Lloyd's trust deed

means a trust deed in the form prescribed by the *Society* and notified to the *PRA*, for execution by a *member* in respect of his *insurance business*.

Lloyd's trust fund

means a fund held on the terms of a *Lloyd's trust deed*.

long-term insurer

means an *insurer* with *permission* to effect *contracts of insurance* or carry out *contracts of insurance* that are *contracts of long-term insurance*.

major business unit

has the meaning given in Article 1(41) or (42) of the *Solvency II Regulations*, as appropriate.

matching adjustment

means the adjustment to the *relevant risk-free interest rate term structure* to calculate the *best estimate* of a *relevant portfolio of insurance or reinsurance obligations* in accordance with:

- (1) Technical Provisions 6 and 7;
- (2) the *Solvency II Regulations* adopted under Article 86(1)(h) - (i) of the *Solvency II Directive*; and
- (3) any technical information made by *EIOPA* under Article 77e(1)(b) of the *Solvency II Directive* and adopted in the *Solvency II Regulations* under Article 77e(2) of the *Solvency II Directive*.

matching adjustment approval

means the approval granted to a *firm* by the *PRA* to permit it to apply a *matching adjustment* for the purposes of calculating the *best estimate* in relation to a *relevant portfolio of insurance and reinsurance obligations*.

mathematical reserves

the provision made by an *insurer* to cover liabilities (excluding liabilities which have fallen due and liabilities arising from *deposit back arrangements*) arising under or in connection with *contracts of long-term insurance*.

MCR

means the minimum capital requirement calculated in accordance with the Minimum Capital Requirement Part of the *PRA* Rulebook.

mixed financial holding company

(in the Solvency II Firms Sector of the *PRA Rulebook*) means a mixed financial holding company as defined in Article 2(15) of Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate.

[Note: Art. 212(1)(h) of the Solvency II Directive]*mutual*

means an *insurer* which:

- (1) if it is a *body corporate*, has no *share capital* (except a wholly owned *subsidiary undertaking* with no *share capital* but limited by guarantee); or
- (2) is a *registered friendly society* or *incorporated friendly society*; or
- (3) is a society registered or deemed to be registered under the Industrial and Provident Societies Act 1965 or the Industrial and Provident Societies (Northern Ireland) Act 1969.

mutual-type group

means a group of *undertakings* that is based on the establishment, contractually or otherwise, of strong and sustainable financial relationships among those *undertakings*, and that may include mutual or mutual-type associations, provided that:

- (1) one of those *undertakings* effectively exercises, through centralised coordination, a dominant influence over the decisions, including financial decisions, of the other *undertakings* that are part of the group of *undertakings*; and
- (2) the establishment and dissolution of such relationships for the purposes of Title III of the *Solvency II Directive* are subject to prior approval by the *group supervisor*,

where the *undertaking* exercising the centralised coordination shall be considered as the *parent undertaking*, and the other *undertakings* shall be considered as *subsidiary undertakings*.

[Note: Art. 212(1)(c)(ii) of the Solvency II Directive]*national specific template*

means a template which a *firm* is required to complete pursuant to Reporting 2.6 and 2.8.

non-profit insurance business

means the business of *effecting contracts of insurance* or *carrying out contracts of insurance* that are *non-profit policies*.

non-profit policy

means a *contract of long-term insurance* which is not a *with-profits policy*.

notional life MCR

means the notional minimum capital requirement calculated under Composites 4.2(1).

notional life SCR

means the notional solvency capital requirement for *long-term insurance business*, calculated in accordance with the *Solvency II Regulations*.

notional non-life MCR

means the notional minimum capital requirement calculated under Composites 4.2(2).

notional non-life SCR

means the notional solvency capital requirement for *general insurance business*, calculated in accordance with the *Solvency II Regulations*.

operational risk

(in the Solvency II Firms Sector of the *PRA Rulebook*) means the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events, including legal risks which, for the purposes of Solvency Capital Requirement – General Provisions 3.3(1), includes legal risks but excludes risks arising from strategic decisions and reputational risks.

[Note: Art. 13(33) and Art. 101(4) of the *Solvency II Directive*]

option

means the investment specified in article 83 of the *Regulated Activities Order*.

ORSA

means the own risk and solvency assessment carried out from time to time, as detailed in Conditions Governing Business 3.8 to 3.11.

outsourcing

means an arrangement of any form between a *Solvency II undertaking* and a service provider, whether a supervised entity or not, by which that service provider performs a process, a service or an activity, whether directly or by sub-outsourcing, which would otherwise be performed by the *Solvency II undertaking* itself.

[Note: Art. 13(28) of the *Solvency II Directive*]

own funds

(in the Solvency II Firms Sector of the *PRA Rulebook*) means:

- (1) (in relation to a *UK Solvency II firm* and Lloyd's) the *firm's* aggregate *basic own funds* and *ancillary own funds* as determined in accordance with the Own Funds Part of the *PRA Rulebook*; or
- (2) (in relation to a *Solvency II undertaking* other than a *UK Solvency II firm*) *own funds* determined in accordance with *Solvency II EEA implementing measures*; or

- (3) (in relation to an *insurance holding company*) own funds determined in accordance with (1) as if it were a *UK Solvency II firm*; or
- (4) (in relation to a *third country branch undertaking*) the *firm's* aggregate *basic own funds* and *ancillary own funds* as determined in accordance with (1) as if it were a *UK Solvency II firm*.

[Note: Art. 87 of the Solvency II Directive]

parent undertaking

(in the Solvency II Firms Sector of the *PRA Rulebook*) means, in accordance with section 420 of *FSMA* (Parent and subsidiary undertaking) and section 1162 of the Companies Act 2006 (Parent and subsidiary undertakings), an *undertaking* which has the following relationship to another *undertaking* ("S"):

- (1) it holds a majority of the voting rights in S; or
- (2) it is a member of S and has the right to appoint or remove a majority of its board of *directors*; or
- (3) it has the right to exercise a dominant influence over S through:
 - (a) provisions contained in S's memorandum or articles; or
 - (b) a control contract; or
- (4) it is a member of S and controls alone, under an agreement with other shareholders or members, a majority of the voting rights in S; or
- (5) (a) it has the power to exercise, or actually exercises, dominant influence or control over S; or
 - (b) it and S are managed on a unified basis; or
- (6) it is a *parent undertaking* of a *parent undertaking* of S; or
- (7) (except as the Group Supervision Part of the *PRA Rulebook* applies to *members* of the *Society* or to the *Society* or *managing agents* in respect of *members*) it is incorporated in or formed under the law of another *EEA State* and is a parent undertaking within the meaning of any rule of law in that *EEA State* for purposes connected with implementation of the Council Directive of 13 June 1983 on consolidated accounts (No 83/349/EEC); or
- (8) where, in accordance with Article 212(2) of the *Solvency II Directive*, it effectively exercises a dominant influence over S;

and:

- (9) in relation to (2) and (4), the *undertaking* will be treated as a member of S if any of its *subsidiary undertakings* is a member of S, or if any *shares* in S are held by a person acting on behalf of the *undertaking* or any of its *subsidiary undertakings*;
- (10) the provisions of Schedule 7 to the Companies Act 2006 (Parent and subsidiary undertakings: supplementary provisions) explain the expressions used in and supplement paragraphs (1) to (6).

[Note: Art. 212(2) of the Solvency II Directive]*partial internal model*

means an *internal model* that is:

- (1) used to calculate one or more of the following:
 - (a) one or more risk modules, or sub-modules, of the *basic SCR*;
 - (b) the capital requirement for *operational risk* set out in Solvency Capital Requirement – Standard Formula 5;
 - (c) the adjustment for the loss-absorbing capacity of *technical provisions* and deferred taxes set out in Solvency Capital Requirement – Standard Formula 6; or
- (2) applied to the whole of a *firm's insurance business*, or only to one or more of its *major business units*.

[Note: Art. 112(2) of the Solvency II Directive]*participating Solvency II undertaking*

means a *Solvency II undertaking* that holds a *participation* in another *undertaking*.

participating undertaking

means an *undertaking* that holds a *participation* in another *undertaking*, or an *undertaking* linked with another *undertaking* by an *Article 12(1) relationship*.

[Note: Art. 212(1)(a) of the Solvency II Directive]*participation*

(in the Solvency II Firms Sector of the *PRA Rulebook*) means:

- (1) the ownership, direct or by way of *control*, of 20% or more of the voting rights or capital of an *undertaking*; or
- (2) where, in accordance with Article 212(2) of the *Solvency II Directive*, an *undertaking* effectively exercises a significant influence over another *undertaking*.

[Note: Art. 13(20) and 212(2) of the Solvency II Directive]*policy*

has the meaning given in article 2 of the Financial Services and Markets Act 2000 (Meaning of "Policy" and "Policyholder") Order 2001 (SI 2001/2361).

policyholder

means, in respect of a *contract of insurance* where the *insurance undertaking* is a *Solvency II undertaking*, a policyholder, which includes a *beneficiary*.

PPFM

means the Principles and Practices of Financial Management which a firm carrying on *with-profits insurance business* must establish, maintain and record under COBS 20.3 of the *FCA Handbook*.

premium

means the consideration payable under a *contract of insurance* by the *policyholder* to the *insurer*.

pre-Solvency II MCR

means the minimum capital requirement that applied to the *UK Solvency II firm* under *PRA* rules as at 31 December 2015.

probability distribution forecast

means a mathematical function that assigns a probability of realisation to an exhaustive set of mutually exclusive future events.

[Note: Art. 13(38) of the Solvency II Directive]

pure reinsurer

means an *insurer* whose *insurance business* is restricted to *reinsurance*.

quasi-derivative

a contract or asset having the effect of a *derivative* contract.

recovery plan

means:

- (1) (except in the Group Supervision Part of the *PRA* Rulebook), the recovery plan required to be provided by a firm to the *PRA* under Undertakings in Difficulty 3.1(2); and
- (2) (in the Group Supervision Part of the *PRA* Rulebook), the recovery plan required to be provided by a *relevant insurance group undertaking* to the *PRA* under Group Supervision 4.4(2).

reinsurance contract

means a *contract of insurance* covering all or part of a risk to which a *person* is exposed under a *contract of insurance*.

reinsurance to close

means:

- (1) an agreement under which *members* of a *syndicate* in one *syndicate year* ("the reinsured *members*") agree with the *members* of that *syndicate* in a later *syndicate year* or the *members* of another *syndicate* ("the reinsuring *members*") that the reinsuring *members* will discharge, or procure the discharge of, or indemnify the reinsured *members* against, all known and unknown *insurance business* liabilities of the reinsured *members* arising out

of the *insurance business* carried on by the reinsured *members* in that *syndicate year*; or

- (2) a similar *reinsurance* agreement or arrangement that has been approved by the *Council* as a reinsurance to close.

relevant insurance group undertaking

means, in relation to a *group* falling within Group Supervision 2.1(1)(a) or 2.1(1)(b), each *UK Solvency II undertaking* within that *group*.

relevant insurer

means, in relation to a *Community co-insurance operation*, an *insurer* which is concerned in the operation but is not the *leading insurer*.

relevant portfolio of insurance or reinsurance obligations

means a portfolio of insurance or *reinsurance* obligations falling within any *long-term insurance business class*, including annuities stemming from a *contract of general insurance*, in respect of which a *firm* has been granted a *matching adjustment approval*.

relevant risk-free interest rate term structure

means the relevant risk-free interest rate term structure, in accordance with:

- (1) Technical Provisions 5 and 8.3 to 8.4;
- (2) the *Solvency II Regulations* adopted under Article 86 of the *Solvency II Directive*; and
- (3) any technical information made by *EIOPA* under Article 77e(1)(a) of the *Solvency II Directive* and adopted in *Solvency II Regulations* under Article 77e(2) of the *Solvency II Directive*.

risk-free interest rate transitional measure

means a transitional adjustment to the *relevant risk-free interest rate term structure*, referred to in Transitional Measures 10.1.

risk margin

means the portion of *technical provisions* calculated in accordance with Technical Provisions 4.1 to 4.2.

risk measure

means a mathematical function which assigns a monetary amount to a given *probability distribution forecast* and increases monotonically with the level of risk exposure underlying that *probability distribution forecast*.

[Note: Art. 13(39) of the *Solvency II Directive*]

risk-mitigation techniques

means all techniques which enable a *Solvency II undertaking* to transfer part or all of its risks to another party.

[Note: Art. 13(36) of the Solvency II Directive]

SCR

means the solvency capital requirement calculated in accordance with the *SCR Rules*.

[Note: Art. 100 of the Solvency II Directive]

SCR Rules

means the *PRA* rules contained in the Solvency Capital Requirement – General Provisions Part of the *PRA* Rulebook, the Solvency Capital Requirement – Standard Formula Part of the *PRA* Rulebook and the Solvency Capital Requirement – Internal Models Part of the *PRA* Rulebook.

security

(in the Solvency II Firms Sector of the *PRA* Rulebook) has the meaning specified in article 3(1) of the *Regulated Activities Order*.

SFCR

means the solvency and financial condition report, as detailed in Reporting 3 to 6.

share

means the investment specified in article 76 of the *Regulated Activities Order*.

significant deviation from relevant assumptions

means a significant deviation from the assumptions underlying the *matching adjustment* or the *volatility adjustment* or the transitional measures referred to in Articles 308c and 308d of the *Solvency II Directive*.

significant system of governance deviation

means the determination by the *PRA* of a significant deviation by a *UK Solvency II firm*, or a *group* (as appropriate), from the system of governance requirements set out in Conditions Governing Business 2.2 to 7 (including pursuant to Group Supervision 17.1(1) where appropriate).

Solvency II Directive

means the Directive of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (No 2009/138/EC).

Solvency II implementation date

means 1 January 2016.

Solvency II EEA implementing measures

means any measures implementing the *Solvency II Directive* in an *EEA State* other than the *UK*.

Solvency II Regulations

means the directly applicable EU Regulations adopted in accordance with the *Solvency II Directive*.

Solvency II undertaking

means:

- (1) an *undertaking* authorised in accordance with *Solvency II EEA implementing measures* transposing Article 14 of the *Solvency II Directive*; or
- (2) a *UK Solvency II firm*.

spread risk

means the risk that a spread (that is, the difference in price or yield) between two variables will change.

standard formula

means a methodology used by a *firm* to calculate its *SCR* according to the rules in the Solvency Capital Requirement – Standard Formula Part of the *PRA Rulebook*.

standard formula significant risk profile deviation

means the determination by the *PRA* of a significant deviation in the risk profile of a *UK Solvency II firm*, or a *group* (as appropriate), from the assumptions underlying the *SCR* (or *group SCR*, as appropriate) in circumstances where the *firm's SCR* (or the *group's group SCR*, as appropriate) is calculated using the *standard formula*.

subsidiary undertaking

(in the Solvency II Firms Sector of the *PRA Rulebook*) means an *undertaking* of which another *undertaking* is its *parent undertaking*.

supervisory authority

means a national authority or the national authorities empowered by law or regulation of an *EEA State* to supervise *Solvency II undertakings* for the purposes of the *Solvency II Directive*, including the *PRA* and *FCA*.

[Note: Art. 13(10) of the *Solvency II Directive*]

Swiss general insurance company

has the meaning given in article 1(2) of the Financial Services and Markets Act 2000 (Variation of Threshold Conditions) Order 2001 (SI 2001/2507).

Swiss general insurer

means a *Swiss general insurance company* which has a *Part 4A permission* to effect contracts of insurance or carry out contracts of insurance of a kind which is subject to the *Swiss Treaty Agreement*.

Swiss Treaty Agreement

means the agreement of 10 October 1989 between the European Economic Community and the Swiss Confederation on direct insurance other than life

insurance, approved on behalf of the European Economic Community by the Council Decision of 20 June 1991 (No 91/370/EEC).

syndicate assets

means the assets managed by or at the direction of a *managing agent* in respect of *insurance business* carried on through a *syndicate* and overseas business regulatory deposits funded from those assets.

syndicate year

means a year of account of a *syndicate*.

technical provisions

means the technical provisions established in accordance with Technical Provisions 2.1.

third country branch

means a *third country insurance branch* or a *third country pure reinsurance branch*.

third country branch undertaking

means:

- (1) a *third country insurance undertaking* that has a *third country insurance branch*; or
- (2) a *third country insurance undertaking* or *third country reinsurance undertaking* that has a *third country pure reinsurance branch*.

third country insurance branch

means a permanent presence in the *UK* of a *third country insurance undertaking* that has a *permission to effect contracts of insurance* and *carry out contracts of insurance* (except an *undertaking* which pursues only the business of *reinsurance* in the *UK*).

[Note: Art. 162(3) of the Solvency II Directive]

third country insurance undertaking

(in the Solvency II Firms Sector of the *PRA Rulebook*) means an *undertaking* that has its head office outside the *EEA* and that would require authorisation as an insurance undertaking in accordance with Article 14 of the *Solvency II Directive* if its head office was situated in the *EEA*.

[Note: Art. 13(3) of the Solvency II Directive]

third country pure reinsurance branch

means a permanent presence in the *UK* of a *third country insurance undertaking* or *third country reinsurance undertaking*, that has a *permission to effect contracts of insurance* and *carry out contracts of insurance* and which pursues only the business of *reinsurance* in the *UK*.

[Note: Art. 162(3) of the Solvency II Directive]

third country reinsurance undertaking

(in the Solvency II Firms Sector of the *PRA Rulebook*) means an *undertaking* that has its head office outside the *EEA* and that would require authorisation as a *reinsurance undertaking* in accordance with Article 14 of the *Solvency II Directive* if its head office were situated in the *EEA*.

[Note: Art. 13(6) of the Solvency II Directive]

third country undertaking EEA branch

means a permanent presence of a *third country insurance undertaking* in an *EEA State* except the *UK*, which has received authorisation in accordance with Article 162 of the *Solvency II Directive*.

[Note: Art. 162(3) of the Solvency II Directive]

Tier 1 own funds

means an item of *basic own funds* that satisfies the conditions in Own Funds 3.1.

Tier 2 basic own funds

means an item of *Tier 2 own funds* that is an item of *basic own funds*.

Tier 2 own funds

means an item of *own funds* that satisfies the conditions in Own Funds 3.2.

Tier 3 own funds

means an item of *own funds* referred to in Own Funds 3.3.

transitional deduction

means the deduction from *technical provisions* applied in accordance with Transitional Measures 11.1.

UK-deposit insurer

means a *third country branch undertaking* that has made a deposit in the *UK* under Article 162(2)(e) of the *Solvency II Directive* in accordance with Article 167 of the *Solvency II Directive*.

UK Solvency II firm

has the meaning given in Insurance General Application 2.

undertaking specific parameters

means, for the purposes of determining the *SCR* using the *standard formula*, the replacement of a subset of parameters used in the life *underwriting risk* module, non-life *underwriting risk* module or health *underwriting risk* module with parameters specific to a *firm*.

underwriting member

means a *person* admitted to the *Society* as an underwriting member.

underwriting risk

means the risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions.

[Note: Art. 13(30) of the Solvency II Directive]

volatility adjustment

means the adjustment to the *relevant risk-free interest rate term structure* to calculate the *best estimate* in accordance with:

- (1) the *Solvency II Regulations* adopted under Article 86(1)(j) of the *Solvency II Directive*; and
- (2) any technical information made by *EIOPA* under Article 77e(1)(c) of the *Solvency II Directive* and adopted in *Solvency II Regulations* under Article 77e(2) of the *Solvency II Directive*.

waiver

means a direction waiving or modifying a rule, given by the *PRA* under section 138A of *FSMA*.

with-profits fund

means the business of the *firm*, or a particular part of the business of the *firm*, in the profits of which certain *with-profits policies* are eligible to participate through discretionary distributions under such policies and the assets of which comprise the items set out in (1) to (6) less the outgoings in (7) and (8) (including the items and outgoings relating to both current and past business):

- (1) *premiums* and other receivables in respect of *with-profits policies*;
- (2) other receipts of the *firm's with-profits insurance business*, including tax receipts;
- (3) amounts which have been provided by the *firm* to facilitate the carrying on of its *with-profits insurance business* (other than *excluded assets*);
- (4) all income and capital receipts in respect of the items in (1) to (3);
- (5) assets into which the items in (1) to (4) have been converted, including assets representing investment in *non-profit insurance business*; and
- (6) *premiums*, receivables, other receipts, income and capital receipts from *non-profit insurance business* falling within (5) or otherwise written for the benefit, in whole or in part, of the *firm's with-profits insurance business*;

outgoings:

- (7) outgoings in respect of the *firm's with-profits insurance business* permitted in accordance with any relevant provision of the *FCA Handbook* or any other applicable regulatory requirement and, to the extent that incoming items have been included in (6), *non-profit insurance business*; and

- (8) transfers permitted in accordance with any relevant provision of the *FCA Handbook* or any other applicable regulatory requirement;

and, where so required by COBS 20.1A.2R of the *FCA Handbook*, each distinct part of a *firm's with-profits fund* identified in accordance with that rule shall constitute a separate *with-profits fund*.

with-profits insurance business

means the business of *effecting contracts of insurance* or *carrying out contracts of insurance* that are *with-profits policies*.

with-profits policy

means a *contract of long-term insurance* which provides benefits through eligibility to participate in discretionary distributions based on profits arising from the *firm's* business or from a particular part of the *firm's* business.

with-profits policy liabilities

- (1) (for a *UK Solvency II firm*) means, in relation to a *with-profits fund*, the value of liabilities attributable to *with-profits policies* (excluding any liabilities relating to non-profit insurance associated with such *policies*) set out in, and calculated on the basis prescribed by Surplus Funds 3.3 or, if applicable, Surplus Funds 3.4 and (in either case) having also made adequate provisions for amounts representing *future policy-related liabilities*;
- (2) (for a *firm* other than a *UK Solvency II firm*) means, in relation to a *with-profits fund*, the value of *mathematical reserves* attributable to *with-profits policies* (excluding any liabilities relating to non-profit insurance associated with such *policies*) determined in accordance with the rules in INSPRU 1.2 of the *PRA Handbook*.

Annex B

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

Amend the following definitions of the Glossary Part of the *PRA* Rulebook as shown:

insurance undertaking

means an ~~undertaking, whether or not an insurer, which carries on insurance business.~~ (except for an *ISPV*) or a member, that carries on insurance business, whether or not an insurer.

insurance special purpose vehicle

means an *ISPV*. ~~undertaking, other than an insurance undertaking or reinsurance undertaking which has received an official authorisation in accordance with Article 6 of the First Non-Life Directive, Article 4 of the Consolidated Life Directive or Article 3 of the Reinsurance Directive:~~

- (1) ~~which assumes risks from such insurance undertakings or reinsurance undertakings; and~~
- (2) ~~which fully funds its exposures to such risks through the proceeds of a debt issuance or some other financing mechanism where the repayment rights of the providers of such debt or other financing mechanism are subordinated to the undertaking's reinsurance obligations.~~

insurer

means a firm with permission to effect contracts of insurance or carry out contracts of insurance (other than an *UK ISPV* *ISPV*).

market risk

- (1) (except in the Solvency II Firms Sector of the *PRA* Rulebook) means the risk that arises from fluctuations in values of, or income from assets, or in interest or exchange rates.
- (2) (in the Solvency II Firms Sector of the *PRA* Rulebook) means the risk of loss or of adverse change in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

[Note: Art. 13(31) of the Solvency II Directive]

UK ISPV

means an ~~insurance special purpose vehicle~~ *ISPV* with a Part 4A permission to effect contracts of insurance or carry out contracts of insurance.

PRA RULEBOOK: ADMINISTRATION INSTRUMENT (No. 1) 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: Administration Instrument (No. 1) 2015

- D. The rules in the Parts of the PRA Rulebook listed in column (1) below are amended in accordance with the Annexes to this instrument listed column (2).

(1)	(2)
Internal Capital Adequacy Assessment	A
Definition of Capital	B
Capital Buffers	C

Commencement

- E. This instrument comes into force on 31 March 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: Administration Instrument (No. 1) 2015.

By order of the Board of the Prudential Regulation Authority

30 March 2015

Annex A

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

Part

INTERNAL CAPITAL ADEQUACY ASSESSMENT

...

1 APPLICATION AND DEFINITIONS

...

parent financial holding company in a Member State

means (in accordance with point (26) of Article ~~43~~(1) of the CRD) a *financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

parent institution in a Member State

means (in accordance with point (24) of Article ~~43~~(1) of the CRD) an *institution* authorised in an *EEA State* which has an *institution* or *financial institution* as *subsidiary* or which holds a *participation* in such an *institution* or *financial institution*, and which is not itself a *subsidiary* of another *institution* authorised in the same *EEA State* or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

parent mixed financial holding company in a Member State

means (in accordance with point (28) of Article ~~43~~(1) of the CRD) a *mixed financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

Annex B

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

Part

DEFINITION OF CAPITAL

...

- 2.1 For the purposes of calculating *own funds* on an individual basis and a *sub-consolidated basis*, *firms* subject to supervision on a *consolidated basis* must deduct at least the relevant percentage of holdings of *own funds instruments* issued by *financial sector entities* included in the scope of consolidated supervision in accordance with Part Two of the *CRR*, except where the exception in 2.3 or 2.67 applies.

...

- 4.9 For the purposes of this Chapter and in relation to a *firm*, a connected party means another person (“P”) in respect of whom the *firm* has not been permitted to apply the individual consolidation method under Article 89 of the *CRR* and one of the following applies:
- (1) P is closely related to the *firm*;
 - (2) P is an associate of the *firm*; or
 - (3) the same persons significantly influence the *management body* of P and the *firm*.

Annex C

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

Part

CAPITAL BUFFERS

...

5.4 A *UK designated investment firm* controlled by a *parent financial holding company in a Member State* or a *parent mixed financial holding company in a Member State* must comply with this Part on the basis of the *consolidated situation* of that holding company, if:

(1) there is no *subsidiary* of the holding company which is a *credit institution* to which 5.3 applies; and

(2) the *PRA* is responsible for the supervision of the *UK designated investment firm* on a *consolidated basis* under Article 111 of the *CRD*.

HANDBOOK ADMINISTRATION INSTRUMENT (No. 1) 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); and
 - (3) paragraph 31 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZB (The Prudential Regulation Authority).
- 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.

Handbook Administration Instrument (No. 1) 2015

- D. The rules in the Modules of the PRA Rulebook listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).
- E. The PRA gives as guidance each provision in the annexes listed in column (2) that is marked with a G.

(1)	(2)
Fees Manual (FEES)	Annex A
Supervision manual (SUP)	Annex B

Commencement

- F. This instrument comes into force on 31 March 2015.

Citation

- G. This instrument may be cited as the Handbook Administration Instrument (No. 1) 2015.

By order of the Board of the Prudential Regulation Authority

30 March 2015

Annex A

Amendments to the Fees manual (FEES)

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

1.1 Application and Purpose

...

Application

1.1.2 R This manual applies in the following way:

(2) FEES 1, 2 and 4 apply to:

...

- (m) every AIFM applying to become a *small registered UK AIFM* and every *small registered UK AIFM*; ~~and~~
- (n) every AIFM notifying the FCA under regulation 57, 58 and 59 of the AIFMD UK regulation and every AIFM which has made such a notification; and
- (o) each of the following that makes *transactions reports* directly to the FCA under SUP 17 (Transaction reporting):
 - (i) a *firm*;
 - (ii) a *third party acting on a firm's behalf*;
 - (iii) an *approved reporting mechanism*;
 - (iv) an *operator of a regulated market*; ~~and~~
 - (v) an *operator of an MTF*.

...

3 Annex 1 R Authorisation fees payable

...

Part 3 Complexity groupings relating to *credit-related regulated activities*

Straightforward cases

Activity Grouping	Description
CC.2	<i>Credit broking;</i> <i>Providing credit information services;</i> <i><u>Advising on regulated credit agreements for the acquisition of land</u></i>

...

...

4.2 Obligation to pay periodic fees

...

Modifications for persons becoming subject to periodic fees during the course of a fee year

4.2.6 R

- (1) ~~Unless (2) applies, for~~ For the fee year during which the event described in column (4) of the table in FEES 4.2.11R and/or FEES 4.2.11AR, giving rise to, or giving rise to an increase in, the fee payable in FEES 4.2.1R occurs, the periodic fee required under FEES 4.2.1R is modified for:

...

- (2) ~~For recognised bodies, if the recognition order is made during the course of the relevant fee year the periodic fee required is set out in Column (4) of the table in FEES 4.2.11R. [deleted]~~

...

Annex B

Amendments to the Supervision manual (SUP)

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

16 Reporting Requirements

16.1 Application

...

16.1.3 R Application of different sections of SUP 16 (excluding SUP 16.13, SUP 16.15, SUP 16.16 and SUP 16.17)

(1) Section(s)	(2) Categories of firm to which section applies	(3) Applicable rules and guidance
...		
<i>SUP 16.6</i>	<i>Bank</i>	<i>SUP 16.6.4R to SUP 16.6.5R</i>
	<i>Depositary of an ICVC</i>	<i>SUP 16.6.6R to SUP 16.6.9G</i>
	<i>OPS firm</i>	<i>SUP 16.6.6R to SUP 16.6.8R</i>
	<i>Trustee of an AUT</i>	<i>SUP 16.6.6R to SUP 16.6.9G</i>
	<i>Depositary of an ACS</i>	<i>SUP 16.6.6R to SUP 16.6.9G</i>
...		

...

16.6 Compliance reports

...

16.6.2 G Applicable provisions of this section (see *SUP 16.6.1G*)

Category of firm	Applicable provisions
------------------	-----------------------

<i>Bank</i>	<i>SUP 16.6.4R - SUP 16.6.5R</i>
<i>Trustee of an AUT</i> <i>Depository of an ICVC</i> <i>Depository of an ACS</i>	<i>SUP 16.6.6R - SUP 16.6.9G</i>
<i>OPS firm</i>	<i>SUP 16.6.6R - SUP 16.6.8R</i>

...

**FINANCIAL SERVICES COMPENSATION SCHEME (MANAGEMENT EXPENSES LEVY
LIMIT) INSTRUMENT 2015**

Powers exercised

- A. The Prudential Regulation 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 137T (General supplementary powers);
 - (2) section 213 (The compensation scheme);
 - (3) section 214 (General); and
 - (4) section 223 (Management expenses).
- 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 with the Financial Conduct Authority) (“FCA”), the PRA consulted the FCA. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

Commencement

- D. This instrument comes into force on 1 April 2015.

Amendments to the Handbook

- E. The Fees manual (FEES) is amended in accordance with the Annex to this instrument.

Citation

- F. This instrument may be cited as the Financial Services Compensation Scheme (Management Expenses Levy Limit) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

30 March 2015

Annex

Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text.

**6 Annex 1R Financial Services Compensation Scheme – Management Expenses
Levy Limit**

This table belongs to FEES 6.4.2R	
Period	Limit on total of all management expenses levies attributable to that period (£)
...	
1 April 2014 to 31 March 2015	£80,000,000
<u>1 April 2015 to 31 March 2016</u>	<u>£74,429,000</u>

PRA RULEBOOK SOLVENCY II FIRMS; NON SOLVENCY II FIRMS; NON-AUTHORISED PERSONS: POLICYHOLDER PROTECTION 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”), The Compensation Act 2006 (Contribution for Mesothelioma Claims) Regulations 2006 (“the mesothelioma regulations”) and The Financial Services and Markets Act 2000 (Transitional Provisions, Repeals and Savings) (Financial Services Compensation Scheme) Order 2001 (“the compensation transitionals order”):
- (1) section 137G (The PRA’s general rules) of the Act;
 - (2) section 137T (General supplementary powers) of the Act;
 - (3) section 213 (The compensation scheme) of the Act;
 - (4) section 214 (General) of the Act;
 - (5) section 215 (Rights of the scheme in insolvency) of the Act;
 - (6) section 216 (Continuity of long-term insurance policies) of the Act;
 - (7) section 217 (Insurers in financial difficulties) of the Act;
 - (8) section 218 (Annual Report) of the Act;
 - (9) section 218A (Regulators power to require information) of the Act;
 - (10) section 219 (Scheme manager’s power to require information) of the Act;
 - (11) section 223 (Management expenses) of the Act;
 - (12) article 9 (Article 9 defaults occurring before commencement) of the compensation transitionals order;
 - (13) article 9A (Contributions in relation to mesothelioma claims) of the compensation transitionals order;
 - (14) article 10 (Applications in respect of compulsory liability insurance) of the compensation transitionals order;
 - (15) article 12 (Applications under the new scheme) of the compensation transitionals order; and
 - (16) article 3 (Further power for Authority to make rules concerning mesothelioma claims) and 4 (Modification of FSMA in relation to FSA rules for mesothelioma claims) of the mesothelioma regulations.
- B. The rule-making powers referred to above and related provisions are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act and the compensation transitionals order.

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: Policyholder Protection Instrument 2015

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

Commencement

- E. This instrument comes into force on 3 July 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook Solvency II Firms; Non-Solvency II Firms; Non-Authorised Persons: Policyholder Protection Instrument 2015.

By order of the Board of the Prudential Regulation Authority
30 March 2015.

Annex A

Insert the following new definitions (in the appropriate alphabetical position) into the Glossary Part of the PRA Rulebook:

aircraft

means the class of *contract of insurance*, specified in paragraph 5 of Part I of Schedule 1 to the *Regulated Activities Order*.

aircraft liability

means the class of *contract of insurance*, specified in paragraph 11 of Part I of Schedule 1 to the *Regulated Activities Order*.

authorised contractual scheme

means a *co-ownership scheme* or a *partnership scheme*.

byelaw

means any byelaw, direction, regulation, or other instrument made using the powers of the *Council* under section 6 of Lloyd's Act 1982 (including any regulation ratified by the *Council* by special resolution) and any condition or requirement made under any such byelaw, direction, regulation or other instrument.

Central Fund

means the Central Fund established under Lloyd's Central Fund Byelaw (No 4 of 1986) and the New Central Fund established under Lloyd's New Central Fund Byelaw (No 23 of 1996).

compensation scheme

means the Financial Services Compensation Scheme established under section 213 of *FSMA*.

EEA State

(in the Solvency II Firms, Non Solvency II Firms and Non-Authorised Persons Sectors of the *PRA Handbook*) has the meaning given in the Interpretation Act 1978 and, where the context requires, includes references to Gibraltar as appropriate.

FSCS

means the *body corporate* established under section 212 of *FSMA* to administer the *compensation scheme*.

goods in transit

means the class of *contract of insurance* specified in paragraph 7 of Part I of Schedule 1 to the *Regulated Activities Order*.

ICVC

means a body incorporated under the Open-Ended Investment Companies Regulations 2001(SI 2001/1228).

liability of ships

means the class of *contract of insurance*, specified in paragraph 12 of Part I of Schedule 1 to the *Regulated Activities Order*.

policyholder protection scheme

means the *compensation scheme* for claims under *contracts of insurance*.

premium

means the consideration payable under a *contract of insurance* by the *policyholder* to the *insurer*.

protected claim

means a *claim* which is covered by the *policyholder protection scheme* as defined in Policyholder Protection 9.1.

recognised scheme

means a scheme recognised under:

- (1) section 264 of *FSMA* (Schemes constituted in other EEA States);
- (2) section 270 of *FSMA* (Schemes authorised in designated countries or territories); or
- (3) section 272 of *FSMA* (Individually recognised overseas schemes).

regulated collective investment scheme

means:

- (1) an *ICVC*;
- (2) an *authorised unit trust scheme*;
- (3) an *authorised contractual scheme*; or
- (4) a *recognised scheme*.

reinsurance contract

means a *contract of insurance* covering all or part of a risk to which a *person* is exposed under a *contract of insurance*.

share

means the investment specified in article 76 of the *Regulated Activities Order*.

ships

means the class of *contract of insurance* specified in paragraph 6 of Part I of Schedule 1 to the *Regulated Activities Order*.

waiver

means a direction waiving or modifying a rule given by the *PRA* under section 138A of *FSMA* (Modification or waiver of rules).

Annex B

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

Part

POLICYHOLDER PROTECTION

Chapter content

1. APPLICATION AND DEFINITIONS
 2. FSCS
 3. QUALIFYING CONDITIONS FOR PAYING COMPENSATION
 4. SECURING CONTINUITY OF LONG-TERM INSURANCE COVER
 5. RELEVANT PERSONS IN FINANCIAL DIFFICULTIES
 6. LIMITS WHEN SECURING CONTINUITY AND TAKING MEASURES IN RELATION TO RELEVANT PERSONS IN FINANCIAL DIFFICULTIES
 7. ELIGIBLE CLAIMANTS
 8. EXCEPTIONS
 9. PROTECTED CLAIMS
 10. RELEVANT PERSONS IN DEFAULT
 11. SUCCESSORS IN DEFAULT
 12. ASSIGNMENT (AUTOMATIC, ELECTRONIC AND IN WRITING)
 13. AUTOMATIC SUBROGATION
 14. RECOVERIES
 15. REJECTION OF APPLICATION FOR, AND WITHDRAWAL OF OFFER OF COMPENSATION
 16. TIME LIMITS ON PAYMENT AND POSTPONING PAYMENT
 17. LIMITS ON COMPENSATION PAYABLE
 18. PAYMENT OF COMPENSATION
 19. CALCULATING COMPENSATION – GENERAL
 20. THE COMPENSATION CALCULATION
 21. FSCS LEVIES
 22. TRANSITIONAL ARRANGEMENTS
- Annex 1: MAXIMUM LEVY LIMIT
- Annex 2: METHODOLOGY FOR CALCULATION OF A PARTICIPANT FIRM'S LEVY SHARE

Links

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to the *FSCS*, and for the purposes of chapter 21, 22.6 - 22.8 and Annex 2, this Part also applies to *participant firms* and the *Society*.

1.2 In this Part, the following definitions shall apply:

AIF

means an *alternative investment fund*.

AIFM

means *alternative investment fund manager*.

AIFMD

means Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010.

alternative investment fund

means (in accordance with article 4(1)(a) of *AIFMD*) a collective investment undertaking, including investment compartments thereof, which:

- (a) raises capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors; and
- (b) does not require authorisation pursuant to article 5 of the *UCITS Directive*.

alternative investment fund manager

means (in accordance with article 4(1)(b) of *AIFMD*) a legal person whose regular business is performing *AIFM investment management functions* for one or more *AIF*.

AIFM investment management functions

means investment management functions of an *AIFM* as set out in 1(a) (portfolio management) or (b) (risk management) of Annex I to *AIFMD*.

article 9 default

has the meaning given in article 2(2) of the *compensation transitionals order*.

authorised insurance company

means (in accordance with the *compensation transitionals order*) a person who was, at any time before 1 December 2001, authorised under section 3 or 4 of the Insurance Companies Act 1982 to carry on insurance business of any class in the *UK*.

base costs

means *management expenses* which are not attributable to any *insurance class*.

base costs levy

means a levy, forming part of the *management expenses levy*, to meet the *base costs* in the financial year of the *compensation scheme* to which the levy relates, each *participant firm's* (and, where applicable, the *Society's*) share being calculated in accordance with the FSCS Management Expenses Levy Limit and Base Costs Part.

claim

means a valid claim made in respect of a civil liability:

- (1) owed by a *relevant person*; or
- (2) owed by a *relevant person* which has been assumed by a *successor* and which is based on the acts or omissions of the *relevant person*;

under a *contract of insurance*.

COMP

means the Compensation Sourcebook of the *PRA Handbook* in force immediately prior to 3 July 2015.

compensation costs

means the costs incurred:

- (1) in paying compensation in accordance with this Part;
- (2) as a result of making the arrangements contemplated in 4.1 or 4.3 or taking the measures contemplated in 5.1; or
- (3) in making payments or giving indemnities under 18.2.

compensation costs levy

means a levy imposed by the FSCS on *participant firms* to meet *compensation costs*, each *participant firm's* share being calculated in accordance with 21.37 – 21.41.

compensation transitionals order

means the Financial Services and Markets Act 2000 (Transitional Provisions, Repeals and Savings) (Financial Services Compensation Scheme) Order 2001 (SI 2001/2967).

contribution group

means one of the groups of *participant firms* within a *sub-scheme* in existence prior to 1 April 2008 set out in FEES 6.5.7 R at the time, being groups that carried on business of a similar nature, to which *compensation costs* and *specific costs* were allocated in accordance with FEES 6.4 and FEES 6.5 in force at the relevant time.

credit

means the class of *contract of insurance*, specified in paragraph 14 of Part I of Schedule 1 to the *Regulated Activities Order*.

depository

has the meaning given to it in regulation 2 of the Alternative Investment Fund Managers Regulations 2013.

directive friendly society

means a *friendly society* other than a *non-directive friendly society*.

eligible claimants

means a *person* who is eligible to bring a *claim* for compensation under 7.1.

FEES

means the Fees Manual of the *PRA Handbook* in force immediately prior to 3 July 2015.

friendly society

means an *incorporated friendly society* or a *registered friendly society*.

Friendly Societies Protection Scheme

means the Friendly Societies Protection Scheme established in accordance with section 141 of the Financial Services Act 1986.

group

has the meaning given to it in section 421 of *FSMA* and where the context requires, includes reference to Gibraltar as appropriate.

habitual residence

means:

- (1) if the *policyholder* is an individual, the address given by the *policyholder* as his residence if it reasonably appears to be a residential address and there is no evidence to the contrary;
- (2) if the *policyholder* is not an individual or a group of individuals, the State in which the *policyholder* has its place of establishment, or, if it has more than one, its relevant place of establishment; or
- (3) in respect of the variation of a *life policy*, or the purchase of a *pension annuity* related to a *life policy*, unless there is evidence to the contrary, the habitual residence of the *policyholder* at the date on which the *policyholder* signed the proposal for the *life policy*.

holding company

has the meaning given to it in section 1159(1) of the Companies Act 2006 (Meaning of “subsidiary” etc).

in default

means the status of being in default following a determination under 10.2 for a *relevant person* (or where applicable, under 11.2 for a *successor*).

insurance class

means one of the classes set out in Annex 1.

investment

means (in accordance with sections 22(4) of *FSMA* (Regulated activities) and section 93(2) of the Financial Services Act 2012) any investment, including any asset, right or interest.

large company

means a *body corporate* which does not qualify as a small company under section 247 of the Companies Act 1985, or section 382 of the Companies Act 2006 as applicable.

large mutual association

means an unincorporated mutual association or an unincorporated association (which is not a mutual association) with net assets of more than £1.4 million (or its equivalent in any currency at the relevant time).

large partnership

means a *partnership* with net assets of more than £1.4 million (or its equivalent in any other currency at the relevant time).

levy limit

means the maximum aggregate amount of *compensation costs* and *specific costs* that may be allocated to a particular *insurance class* in one financial year as set out in Annex 1.

liability subject to compulsory insurance

means any liability required under any of the following enactments to be covered by insurance or (as the case may be) by some other provisions for securing its discharge:

- (1) section 1(4A)(d) of the Riding Establishments Act 1964 (or any corresponding enactment for the time being in force in Northern Ireland);
- (2) section 1 of the Employers' Liability (Compulsory Insurance) Act 1969 or Article 5 of the Employers' Liability Order (Defective Equipment and Compulsory Insurance) (Northern Ireland) Order 1972;
- (3) Part VI of the Road Traffic Act 1988 or Part VIII of the Road Traffic (Northern Ireland) Order 1981;
- (4) section 19 of the Nuclear Installations Act 1965.

life policy

means (in accordance with the definition of a 'qualifying contract of insurance' in article 3(1) of the *Regulated Activities Order*) a *contract of long-term insurance* (other than a reinsurance contract and a *pure protection contract*) and a *long-term care insurance contract*.

limited liability partnership

means:

- (1) a *body corporate* incorporated under the Limited Liability Partnerships Act 2000;
- (2) a *body corporate* incorporated under legislation having the equivalent effect to the Limited Liability Partnerships Act 2000.

Lloyd's policy

means a *contract of insurance* written at Lloyd's.

long-term care insurance contract

means a *contract of long-term insurance*:

- (1) which provides, would provide at the *policyholder's* option, or is sold or held out as providing, benefits that are payable or provided if the *policyholder's* health deteriorates to the extent that he cannot live independently without assistance and that is not expected to change; and
- (2) under which the benefits are capable of being paid for periodically for all or part of the period that the *policyholder* cannot live without assistance;

where 'benefits' are services, accommodation or goods necessary or desirable for the continuing care of the *policyholder* because he cannot live independently without assistance.

management expenses

means (in accordance with section 223 of *FSMA* (Management expenses)) expenses incurred or expected to be incurred by the *FSCS* in connection with its function under *FSMA*, other than *compensation costs* and costs incurred under Part 15A of *FSMA*.

management expenses levy

means a levy imposed by the *FSCS* on *participant firms* to meet the *management expenses* and which is made up of one or more of a *base cost levy* and a *specific costs levy*, each *participant firm's* share being calculated in accordance with 21.28 – 21.35.

mesothelioma regulations

means The Compensation Act 2006 (Contribution for Mesothelioma Claims) Regulations 2006 (SI 2006/3259).

mesothelioma victim

means (in accordance with section 3 (1) of the Compensation Act 2006) a *person* who has contracted mesothelioma as a result of exposure to asbestos by a *responsible person*.

money laundering

means any act which:

- (1) constitutes an offence under section 18 (Money laundering) of the Terrorism Act 2000;
- (2) constitutes an offence under section 327 (Concealing etc), section 328 (Arrangements) or section 329 (Acquisition, use and possession) of the Proceeds of Crime Act 2002;
- (3) constitutes an attempt, conspiracy or incitement to commit an offence specified in paragraph (2);
- (4) constitutes aiding, abetting, counselling or procuring the commission of an offence specified in paragraph (2); or
- (5) would constitute an offence specified in paragraph (2), (3), or (4) if done in the *United Kingdom*.

money-purchase benefits

means in relation to a member of a *personal pension scheme* or an *occupational pension scheme* or the widow or widower or surviving civil partner of a member of such a scheme, benefits the rate or amount of which is calculated solely by reference to the schemes assets which (because of the nature of the calculation) must necessarily suffice to provide the benefits which fall within section 181 of the Pensions Scheme Act 1993 and section 99 of the Pensions Act 2008, each as amended by section 29 of the Pensions Act 2011.

nominee company

means a *body corporate* whose business consists solely of acting as a nominee holder of *investments* or other property.

occupational pension fund management business

means the business of carrying on:

- (1) *pension fund management*,
- (2) (other than in connection with a *personal pension scheme*) *pension fund management* written as linked long-term business, for an *occupation pension scheme* or for an institution falling within article 2 of the Council Directive of 3 June 2003 on the activities and supervision of institutions for occupation retirement provision (No 2003/43/EC), but only to the extent that:
 - (a) there is no transfer to the *participant firm* of:
 - (i) investment, market or credit risk;
 - (ii) mortality or expense risk prior to any annuity being effected;
 and
 - (b) any annuity options provide for the *participant firm* to change the annuity rates without prior notice.

occupational pension scheme

means a scheme specified in article 3(1) of the *Regulated Activities Order* which is, in summary, a pension scheme established for the purpose of providing benefits to people with service in employments of a prescribed description.

operator

means (in relation to a *personal pension scheme* or a *stakeholder pension scheme*) the *person* who carries on the regulated activity specified in article 52 of the *Regulated Activities Order* (Establishing a pension scheme etc).

overseas financial services institution

means an institution authorised to carry on any *regulated activity* or other financial service by an *overseas regulator*.

participant firm

means a *firm* which is an *insurer*, or a *member* (except 21, 22.6 - 22.8 and Annex 2 in respect of a *member*).

pension annuity

means an *investment* purchased with the sums derived from the vesting (partial or full) of a *pension policy* or *pension contract*, for the purposes of securing the beneficiary's entitlement to immediate or future benefits.

pension contract

means a contract under which rights to benefits are obtained by the making of contributions to an *occupational pension scheme* or to a *personal pension scheme*, where the contributions are paid to a *regulated collective investment scheme*.

pension fund management

means in relation to a class of *contract of insurance* the class of *contract of insurance* specified in paragraph VII of Part II of Schedule 1 to the *Regulated Activities Order* (Contracts of long-term insurance).

pension policy

means a contract under which a right to benefits results from contributions made to an *occupational pension scheme* or to a *personal pension scheme*, where the contributions are paid to a *long-term insurer*.

pension scheme

means a scheme under which a right to benefits results from contributions made under a *pension contract* or *pension policy*.

personal pension scheme

means a scheme or arrangement which is not an *occupational pension scheme* or *stakeholder pension scheme* and which is comprised in one or more instruments or agreements having or capable of having effect so as to provide benefits to or in respect of people:

- (1) on retirement;

- (2) on having reached a particular age; or
- (3) on termination of service in an employment.

policyholder

means (as defined in article 3 of the Financial Services and Markets Act 2000 (Meaning of "Policy" and "Policyholder") Order 2001 (SI 2001/2361)) the *person* who for the time being is the legal holder of the *policy*, including any *person* to whom, under the *policy*, a sum is due, a periodic payment is payable or any other benefit is to be provided or to whom such a sum, payment or benefit is contingently due, payable or to be provided.

professional indemnity insurance

means *contracts of insurance*, including directors' and officers' liability and error and omissions liability, against the risks of the persons insured incurring liabilities to third parties arising from wrongful acts (such as breach of duty, breach of trust, negligence, error or omissions) by professionals, named individuals or businesses occurring in the course of the insured's professional activities.

protected contract of insurance

means a *contract of insurance* which is covered by the *policyholder protection scheme* as defined in 9.2.

pure protection contracts

means:

- (1) a *contract of long-term insurance* in respect of which the following conditions are met:
 - (a) the benefits under the contract are payable only on death or in respect of incapacity due to injury, sickness or infirmity;
 - (b) the contract has no surrender value, or the consideration consists of a single premium and the surrender value does not exceed that premium; and
 - (c) the contract makes no provision for its conversion or extension in a manner which would result in it ceasing to comply with (a) or (b); or
- (2) a *reinsurance contract* covering all or part of a risk to which a *person* is exposed under a *contract of long-term insurance*.

quantification date

means the date as at which the liability of the *relevant person in default* is to be determined under 19.8 – 19.10.

relevant former scheme

means in relation to an *article 9 default*, one of the following that applied to the default before 1 December 2001:

- (1) the Policyholders Protection Scheme established by the Policyholders Protection Act 1975; or
- (2) the Friendly Societies Protection Scheme established in accordance with section 141 of the Financial Services Act 1986.

relevant general insurance contract

means any *contract of general insurance* other than a contract falling within any of the following classes:

- (1) *aircraft*;
- (2) *ships*;
- (3) *goods in transit*;
- (4) *aircraft liability*;
- (5) *liability of ships*; or
- (6) *credit*.

relevant net premium income

means in relation to business which is not *occupational pension fund management business*:

- (1) either (at the election of the *firm*):
 - (a) the premium income in respect of *protected contracts of insurance of a firm*; or
 - (b) the premium income in respect of *protected contracts of insurance with eligible claimants of a firm*; or
- (2) (in relation to *occupational pension fund management business*) the *remuneration* retained by a *firm* in relation to its carrying on *occupational pension fund management business*;

in the year preceding that in which the date for submission of the information under 21.42 falls, net of any relevant rebates or refunds.

relevant person

means a *person* for *claims* against whom the *policyholder protection scheme* provides cover, as defined in 10.1.

remuneration

means any form of remuneration, including salaries, discretionary pension benefits and benefits of any kind.

responsible person

means (in accordance with section 3(1) of the Compensation Act 2006) a *person* who has negligently or in breach of statutory duty caused or permitted another *person* to be exposed to asbestos (including an *insurer* of such a *person*).

small business

means a *partnership, body corporate*, unincorporated association or mutual association with an annual turnover of less than £1 million (or its equivalent in any other currency at the relevant time).

small self-administered scheme

means an *occupational pension scheme* of a kind described in article 4(4) or 4(5) of the Financial Services and Markets Act 2000 (Carrying on Regulated Activities by Way of Business) Order 2001 (SI 2001/1177).

specific costs

means *management expenses* other than *base costs*.

specific costs levy

a levy, forming part of the *management expenses levy*, to meet the *specific costs* in the financial year of the *compensation scheme* to which the levy relates, each *participant firm's* share being calculated in accordance with 21.34.

stakeholder pension scheme

means a scheme that meets the conditions in section 1 of the Welfare Reform and Pensions Act 1999 or article 3 of the Welfare Reform and Pensions (Northern Ireland) Order 1999.

sub-scheme

means one of the sub-schemes to which the FSCS allocated liabilities for *compensation costs* prior to 1 April 2008, as described in FEES 6.5.7 R at the time.

successor

means a *person* for *claims* against whom the *policyholder protection scheme* provides cover, as defined in 11.1.

SUP

means the Supervision Manual of the *PRA Handbook* in force immediately prior to 3 July 2015.

UCITS Directive

means the European Parliament and Council Directive of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (No 2009/65/EC) as amended.

2 FSCS

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- 2.1 The FSCS must administer the *policyholder protection scheme* in accordance with the rules in this Part, the FSCS Management Expenses Levy Limit and Base Costs Part, the Management Expenses in Respect of Relevant Scheme Part, and any other Part of the *PRA Rulebook* prescribed by law to ensure that the *policyholder protection scheme* is administered

in a manner that is procedurally fair and in accordance with the European Convention on Human Rights.

- 2.2 The FSCS must publish information for claimants and potential claimants on the operation of the *policyholder protection scheme*.
- 2.3 The FSCS may agree to pay the reasonable costs of an *eligible claimant* bringing or continuing insolvency proceedings against a *relevant person* (whether those proceedings began before or after a determination of default), if the FSCS is satisfied that those proceedings would help it to discharge its functions under the requirements of this Part.
- 2.4 The FSCS must have regard to the need to use its resources in the most efficient and economic way in carrying out its functions under the requirements of this Part.
- 2.5 The FSCS must take appropriate steps to ensure that potential claimants are informed of how they can make a *claim* for compensation as soon as possible after a determination has been made that a *relevant person* (or where applicable, a *successor*) is *in default*, whether by the FSCS or the PRA.
- 2.6 The FSCS must put in place and publish procedures which satisfy the minimum requirements of procedural fairness and comply with the European Convention on Humans Rights for the handling of any complaints of maladministration relating to any aspect of the operation of the *policyholder protection scheme*.
- 2.7 Notwithstanding anything to the contrary in this Part in relation to the *Society, members* and *Lloyd's policies*, the FSCS must act, so far as is reasonably practicable, to ensure that:
- (1) *eligible claimants* have protection under this Part in relation to *Lloyd's policies* equivalent to that otherwise afforded to *eligible claimants* by the FSCS;
 - (2) the FSCS does not meet *claims* in relation to *Lloyd's policies* unless the *Central Fund* is unlikely to be able to meet them;
 - (3) *claims* against *members* under the *policyholder protection scheme* which arise from the same loss under the same *Lloyd's policy* must be treated as a single *claim*; and
 - (4) any recovery resulting from the exercise of any subrogation or assignment of rights to the FSCS, is treated by the FSCS in accordance with 14.1 – 14.6, and any such recovery which is not paid to the claimant in accordance with those rules, is used for the benefit of FSCS in priority to any interest that the *Society* may have.
- 2.8 For the purposes of sections 219(1A)(b) and (d) of FSMA (Scheme manager's power to require information), whether a *relevant person* (or where applicable, a *successor*) is unable or likely to be unable to satisfy claims, shall be determined by reference to whether:
- (1) the *relevant person* (or where applicable, the *successor*) is *in default*;
 - (2) the FSCS has secured, or is attempting to secure, continuity of *contracts of long-term insurance* for *policyholders* of the *relevant person* in accordance with 4.1;
 - (3) the FSCS has made, or is considering making, a payment to *policyholders* of the *relevant person* in accordance with 4.3; or
 - (4) the FSCS has taken, or is considering taking, measures for the purposes of safeguarding the rights of *policyholders* of the *relevant person* in accordance with 5.1.

3 QUALIFYING CONDITIONS FOR PAYING COMPENSATION

- 3.1 The FSCS may pay compensation to an *eligible claimant*, subject to 18, if it is satisfied that:
- (1) an *eligible claimant* has made an application for compensation (or falls within the category of persons referred to in 3.2);
 - (2) the claim is in respect of a *protected claim* against a *relevant person* (or where applicable, a *successor*) who is *in default*;
 - (3) where the FSCS so:
 - (a) requires, the claimant has assigned the whole or any part of his rights under the *protected contract of insurance* against the *relevant person* (or where applicable, a *successor*) or against any third party to the FSCS, on such terms as the FSCS thinks fit; and/or
 - (b) determines, the claimant has immediately and automatically subrogated all or any part (as determined by the FSCS) of its rights and claims against the *relevant person* (or where relevant, a *successor*) under the *protected contract of insurance* or against any third party to the FSCS, on such conditions (under 13) as the FSCS thinks fit; and
 - (4) it:
 - (a) is not reasonably practicable or appropriate to make, or continue to make, arrangements to secure continuity of insurance under 4.1; and/or
 - (b) would not be appropriate to take, or continue to take, measures under 5.1 to safeguard policyholders of a *relevant person* in financial difficulties.
- 3.2 The FSCS may treat *persons* who are or may be entitled to claim compensation as if they had done so.
- 3.3 The FSCS may pay compensation (and any recovery or other amount payable by the FSCS to the claimant) to a *person* who makes a *claim* on behalf of another *person* if the FSCS is satisfied that the *person* on whose behalf the *claim* is made:
- (1) is or would have been an *eligible claimant*; and
 - (2) would have been paid compensation by the FSCS had he been able to make the *claim* himself, or to pursue his application for compensation further.
- 3.4 Notwithstanding any provision in this Part to the contrary, the FSCS may:
- (1) pay compensation in accordance with 18;
 - (2) secure continuity of a *contract of long-term insurance* in accordance with 4.1;
 - (3) make a payment to an *eligible claimant* in accordance with 4.3; or
 - (4) take such measures as it considers appropriate in accordance with 5.1;
- without fully or at all investigating the eligibility of the claimant and/or the validity and/or amount of the *claim*, if in the opinion of the FSCS:

- (a) the costs of investigating the merits of the *claim* are reasonably likely to be disproportionate to the likely benefit of such investigation; and
- (b) (as a result or otherwise) it is reasonably in the interests of *relevant persons* to do so.

4 SECURING CONTINUITY OF LONG-TERM INSURANCE COVER

- 4.1 Subject to 6.1, the *FSCS* must make arrangements to secure continuity of insurance for an *eligible claimant* under a *protected contract of insurance* which is a *contract of long-term insurance* with a *relevant person*, if:
- (1) the *relevant person* is the subject of any of the proceedings listed in 10.4;
 - (2) it is reasonably practicable to do so;
 - (3) in the opinion of the *FSCS* at the time it proposes to make the arrangements, it would be beneficial to the generality of *eligible claimants* covered by the proposed arrangements, and, in situations where the cost of securing continuity of insurance might exceed the cost of paying compensation under 3.1, any additional cost is likely to be justified by the benefits; and
 - (4) where the *relevant person* is a *member*, the *FSCS* is satisfied that the amounts which the *Society* is able to provide from the *Central Fund* are or are likely to be insufficient to ensure that *claims* against the *member* under a *protected contract of insurance* will be met to the level of protection which would otherwise be available under this Part.
- 4.2 In order to secure continuity of insurance under 4.1 the *FSCS* may take such measures as it considers appropriate to:
- (1) secure or facilitate the transfer of the business of the *relevant person* that is *in default* and which consists of carrying out *contracts of long-term insurance* or any part of that business, to another *firm*; and/or
 - (2) secure the issue of policies by another *firm* to *eligible claimants* in substitution for their existing policies.
- 4.3 (1) If the *FSCS* is seeking to secure continuity of insurance under 4.1, it must secure 100% of any benefit under a *contract of long-term insurance* which:
- (a) falls due, or would have fallen due, to be paid to any *eligible claimant*; or
 - (b) had already fallen due to be paid to any *eligible claimant* before the beginning of that period and has not yet been paid;
- and is paid to the *eligible claimant* in question as soon as reasonably practicable after the time when the benefit in question fell due, or would have fallen due, under contract.
- (2) Any payment under (1) is made subject to and in accordance with any other terms which apply or would have applied under the contract.
 - (3) A payment made under (1) is required to be made regardless of whether the cost of making the payment is more or less than the cost of paying compensation under 3.1 – 3.3.

- (4) Where a payment is due under (1), the *FSCS* may:
- (a) make payments to or on behalf of *eligible claimants* on such terms (including any terms requiring repayment in whole or in part) and on such conditions as it thinks fit (subject to (1)); or
 - (b) secure that payments (subject to (1)) are made to or on behalf of any such *eligible claimants* by the liquidator, administrator or provisional liquidator by giving him an indemnity covering any such payments or any class or description of such payments.

4.4 For the purposes of 4.3 and 6.1 – 6.3, "benefit" does not include:

- (1) any bonus provided for under the contract unless it was declared and the *policyholder* was contractually entitled to it before the *relevant person* became the subject of one or more of the proceedings listed in 10.4; or
- (2) any reduction which the *FSCS* has determined, or any benefit which the *FSCS* has decided to disregard under 20.7, to the extent that the *FSCS* has decided so to treat it.

4.5 Unless the *FSCS* has decided to treat the liability of the *relevant person* under the contract as reduced or (as the case may be) disregarded under 20.7, it must not treat as a reason for failing to secure, or for delaying the securing of, payments under 4.3 the fact that:

- (1) it considers that any benefit referred to in 4.3 is or may be excessive in any respect;
- (2) it has referred the contract in question to an independent actuary under 20.6; or
- (3) it considers that it may at some later date decide to treat the liability of the *relevant person* under a contract as reduced or disregarded under 20.7;

save where the *FSCS* decides to exclude certain benefits to the extent that they arise out of the exercise of any option under the policy and for this purpose the option includes, but is not restricted to, a right to surrender the policy.

4.6 In making arrangements to secure continuity of insurance the *FSCS* must use its reasonable endeavours to seek the most cost-effective arrangements available.

5 RELEVANT PERSONS IN FINANCIAL DIFFICULTIES

- 5.1 (1) Subject to 6.1 and 6.2, the *FSCS* may take such measures as it considers appropriate for the purpose of safeguarding the rights of *eligible claimants* under *protected contracts of insurance* which are:
- (a) *contracts of general insurance* with a *relevant person* in financial difficulties as described in 5.4; or
 - (b) *contracts of long-term insurance* with a *relevant person* in financial difficulties as described in 5.4 but in respect of which the *FSCS* is not securing continuity of insurance within 4.1;

if, in the opinion of the *FSCS* at the time it proposes to make the measures, it would be beneficial to the generality of *eligible claimants* covered by the proposed measures, and, in situations where the cost of taking those measures might exceed

the cost of paying compensation under 3.1, any additional cost is likely to be justified by the benefits.

- (2) Measures under (1) may be taken on such terms (including terms reducing or deferring payment of any liabilities or benefits provided under any *protected contract of insurance*) as the *FSCS* considers appropriate.

5.2 The measures contemplated in 5.1 include measures to:

- (1) secure or facilitate the transfer of the *insurance business* of the *relevant person*, or any part of the business, to another *firm*;
- (2) give assistance to the *relevant person* to enable it to continue to effect *contracts of insurance* or *carry out contracts of insurance*; and
- (3) secure the issue of policies by another *firm* to *eligible claimants* in substitution for their existing policies.

5.3 If it thinks appropriate, the *PRA* may, in relation to any *relevant person* which is in financial difficulties:

- (1) give the *FSCS* assistance in determining what measures under 5.1 are practicable or desirable;
- (2) impose constraints on the measures which may be taken by the *FSCS* under 5.1; and/or
- (3) require the *FSCS* to provide it with information about any measures which it is proposing to take under 5.1.

5.4 A *relevant person* is in financial difficulties for the purpose of 5.1 if:

- (1) a liquidator, administrator, provisional liquidator, administrative receiver or interim manager is appointed to the *relevant person*, or a receiver is appointed by the court to manage the *relevant person's* affairs;
- (2) there is a finding by a court of competent jurisdiction that the *relevant person* is unable to pay its debts;
- (3) a resolution is passed for winding up of the *relevant person*, unless a declaration of solvency has been made in accordance with section 89 of the Insolvency Act 1986;
- (4) the *PRA* determines that the *relevant person* is likely to be unable to satisfy *protected claims* against it;
- (5) approval is given to any company voluntary arrangement made by the *relevant person*;
- (6) the *relevant person* makes a composition or arrangement with any one or more of its creditors providing for the reduction of, or deferral of payment of, the liabilities or benefits provided for under any of the *relevant person's* policies;
- (7) the *relevant person* is dissolved or struck off from the Register of Companies;
- (8) a receiver is appointed over particular property of the *relevant person*;

- (9) any of (1) to (8) or anything equivalent occurs in respect of the *relevant person* in a jurisdiction outside England and Wales; or
- (10) in the case of a *relevant person* which is a *member*, the *FSCS* is satisfied that any of (1) to (9) apply to the *member*, and the amounts which the *Society* is able to provide from the *Central Fund* are or are likely to be insufficient to ensure that *claims* against the *member* under a *protected contract of insurance* will be met to the level of protection which would otherwise be available under this Part.

6 LIMITS WHEN SECURING CONTINUITY AND TAKING MEASURES IN RELATION TO RELEVANT PERSONS IN FINANCIAL DIFFICULTIES

6.1 If the *FSCS* makes arrangements to:

- (1) secure continuity of insurance under 4.1; or
- (2) take measures for the purpose of safeguarding the rights of *eligible claimants* under 5.1 in respect of a *contract of long-term insurance*,

it must ensure that the claimant will receive 100% of any future benefit under his *contract of long-term insurance*, on terms corresponding in all material respects (so far as it appears to the *FSCS* to be reasonable in the circumstances), to those which have applied under the *contract of long-term insurance*.

6.2 If the *FSCS* takes measures for the purpose of safeguarding the rights of *eligible claimants* under 5.1 in respect of a *contract of general insurance*:

- (1) where *claims*:
 - (a) arise in respect of a *liability subject to compulsory insurance*; or
 - (b) arise in respect of a *liability* subject to *professional indemnity insurance*; or
 - (c) arise from the death or incapacity of the policyholder due to injury, sickness, or infirmity;

it must ensure that the claimant will receive 100% of any benefit under his *contract of general insurance*; and

- (2) in all other cases, it must ensure that the claimant will receive at least 90% of any benefit under his *contract of general insurance*;

and in either case, on terms corresponding in all material respects (so far as it appears to the *FSCS* to be reasonable in the circumstances), to those which have applied under the *contract of general insurance*.

6.3 If the *FSCS* secures less than 100% of any benefit of a claimant under a contract falling under 6.2(2), then the *FSCS* must ensure that any future *premiums* that the claimant is committed to paying under the contract will be reduced by an equivalent amount to reflect the reduced benefit.

6.4 For the purposes of 4.1(3) and 5.1(1), when assessing the cost of paying compensation under 3.1 – 3.3, the *FSCS* may have regard to the likely total cost of paying compensation arising out of the default, not just the compensation amounts likely to be payable to particular *eligible claimants* covered by the proposed arrangements for continuity.

7 ELIGIBLE CLAIMANTS

- 7.1 Unless 7.3 applies, an *eligible claimant* is any *person* who at any material time:
- (1) did not come within 7.2; or
 - (2) did come within 7.2, but satisfied a relevant exception in 8.
- 7.2 The following *persons* are not eligible to claim unless an exception in 8.1 – 8.5 applies:
- (1) *Firms* other than a:
 - (a) *sole trader firm*;
 - (b) *credit union*;
 - (c) trustee of a:
 - (i) *stakeholder pension scheme* (which is not an *occupational pension scheme*); or
 - (ii) *personal pension scheme*;
 - (d) *firm* carrying on the *regulated activity* of operating, or winding up, a:
 - (i) *stakeholder pension scheme* (which is not an *occupational pension scheme*); or
 - (ii) *personal pension scheme*; or
 - (e) *small business*;

in each case, whose *claim* arises out of a *regulated activity* for which they do not have a permission).
 - (2) *Overseas financial services institutions*.
 - (3) *Collective investment schemes*, and anyone who is the operator or trustee of such a scheme.
 - (4) Pension and retirement funds, and anyone who is a trustee of such a fund, other than:
 - (a) a trustee of a *personal pension scheme* or a *stakeholder pension scheme* (which is not an *occupational pension scheme*); or
 - (b) a trustee of a *small self-administered scheme* or an *occupational pension scheme* of an employer which is not a *large company*, *large partnership* or *large mutual association*.
 - (5) Supranational institutions, governments, and central administrative authorities.
 - (6) Provincial, regional, local and municipal authorities.
 - (7) *Directors* of the *relevant person* (or where applicable, the *successor*) *in default*, unless:
 - (a) both of the following apply:

- (i) the *relevant person* (or where applicable, the *successor*) *in default* is a mutual association which is not a *large mutual association*; and
 - (ii) the *directors* do not receive a salary or other remuneration for services performed by them for the *relevant person* (or where applicable, the *successor*) *in default*; or
 - (b) the *relevant person* (or where applicable, the *successor*) *in default* is a *credit union*.
- (8) *Bodies corporate* in the same *group* as the *relevant person* (or where applicable, the *successor*) *in default* unless that *body corporate* is:
- (a) a trustee of:
 - (i) a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or a *personal pension scheme* (but in each case if the trustee is a *firm* it will only be an *eligible claimant* if its *claim* arises out of a *regulated activity* for which it does not have a permission);
 - (ii) (if the *claim* is with respect to a *contract of long-term insurance*) a *small self-administered scheme* or an *occupational pension scheme*; or
 - (iii) (if the *claim* is not with respect to a *contract of long-term insurance*) a *small self-administered scheme* or an *occupational pension scheme* of an employer which is not a *large company*, *large partnership* or *large mutual association*; or
 - (b) carrying on the *regulated activity* of operating or winding up a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or *personal pension scheme*.
- (9) *Persons* who, in the opinion of the *FSCS*, are responsible for, or have contributed to, the *relevant person's* (or where applicable, the *successor's*) default.
- (10) *Bodies corporate*, *partnerships*, mutual associations and unincorporated associations which are not *small businesses*.
- (11) *Persons* whose claim arises from transactions in connection with which they have been convicted of an offence of *money laundering*.
- (12) *Persons* whose claim arises under the Third Parties (Rights against Insurers) Act 1930 (as amended or replaced).
- (13) *Alternative investment funds* and anyone who is the *AIFM* or *depository* of an *alternative investment fund*.
- (14) Any *person* who is or was a partner in a *partnership*, regardless of whether or not that *person* is or may be personally liable for any act or omission of the *partnership*, in respect of a *contract of insurance* entered into by, or for the benefit of, that *partnership*.
- 7.3 A *person* who is a *small business* is an *eligible claimant* in respect of a *relevant general insurance contract* entered into before 1 December 2001 only if the *person* is a *partnership*.

8 EXCEPTIONS

- 8.1 A *person* other than one which comes within any of paragraphs (7), (8), (9) or (11) of 7.2 is eligible to claim compensation in respect of a *contract of long-term insurance*.
- 8.2 (1) A *person* falling within paragraphs (1) – (4) of 7.2 is eligible to claim compensation in respect of a *relevant general insurance contract* if, at the date the contract commenced, he was a *small business*.
- (2) Where the contract has been renewed, the last renewal date shall be taken as the commencement date.
- 8.3 A *person* who comes within 7.2(12) is eligible to claim compensation if:
- (1) the *person* insured would have been an *eligible claimant* at the time that his rights against the insurer were transferred to and vested in the *person* who comes within 7.2(12);
- (2) the liability of the *person* insured in respect of the *person* who comes within 7.2(12) was a liability under a contract of employer's liability insurance which would have been a *liability subject to compulsory insurance* had the contract been entered into after 1 January 1972 or (for contracts in Northern Ireland) 29 December 1975; or
- (3) the extent of the liability of the *person* insured in respect of the *person* who comes within 7.2(12) had been agreed in writing by the insurer, or determined by a court or arbitrator, before the date on which the insurer is determined to be *in default*.
- 8.4 A *person* who comes within 7.2 is eligible to claim compensation in respect of a *liability subject to compulsory insurance* if the *claim* is a *claim* under a *protected contract of insurance*.
- 8.5 The FSCS may treat a *person* who comes within paragraph (7) or (9) of 7.2 as eligible to claim compensation where:
- (1) this is desirable to achieve the efficient performance of any of its functions, including without limitation, to facilitate a transfer of business or any part thereof, to secure the issue of policies by another *firm* to *eligible claimants* in substitution for their existing policies, to achieve the efficient payment of compensation, to secure under 4.3 the payment of benefits under a *contract of long-term insurance*; and
- (2) treating these *persons* as eligible to claim compensation would, in the opinion of the FSCS, be beneficial to the generality of *eligible claimants* who will be affected by the action in (1).
- 8.6 8.7 – 8.12 apply to the FSCS in respect of any claim for a contribution by a *responsible person* made on or after 25 July 2006 in relation to a *mesothelioma victim's* claim which is determined by agreement in writing, a court or an arbitrator on or after 3 May 2006.
- 8.7 In 8.8 – 8.12, references to an *insurer* include an *authorised insurance company*, and references to *in default* include an *article 9 default*.
- 8.8 The rules in this Part shall have effect as modified to the extent necessary to enable the FSCS to receive, assess, determine and make payments in respect of applications for compensation from *responsible persons* in accordance with article 9A of the *compensation transitionals order* and regulation 3 of the *mesothelioma regulations*.

- 8.9 The following specific provisions apply in relation to *claims* of the type referred to in 8.6:
- (1) a *responsible person* is eligible to claim in accordance with the provisions of this chapter;
 - (2) subject to (3), the *FSCS* may pay compensation to a *responsible person* where it is satisfied that an *eligible claimant* has a claim under a *protected contract of insurance* issued by an *insurer* that is *in default*, which, but for satisfaction of that claim by the *responsible person*, the *FSCS* would have paid;
 - (3) the *FSCS* may only pay compensation to a *responsible person* in accordance with (2) if, having satisfied a claim in relation to a *mesothelioma victim*, he could claim contribution from an *insurer* that is *in default*; and
 - (4) the *FSCS* may pay compensation in respect of any contribution for which an *insurer in default* is liable by agreement in writing, or by a determination of a court or arbitrator.
- 8.10 The requirement in 19.5 to take into account payments to the claimant does not require the *FSCS*, in paying compensation in respect of such a *claim*, to take into account payments referred to in that rule made by a *responsible person* in calculating the claimant's overall *claim*.
- 8.11 8.6 – 8.10 also apply to the extent that any liabilities of an *authorised insurance company* have been assumed by a *successor*.
- 8.12 The *FSCS* must not pay, in respect of a claim in accordance with the provisions of 8.6 – 8.11, more than the amount that it would have paid if the *mesothelioma victim* (or a *responsible person* other than an *insurer* of such a *person*) to whom the contribution claim relates had made that claim directly against the *FSCS*.

9 PROTECTED CLAIMS

- 9.1 A *protected claim* is a *claim* under a *protected contract of insurance*.
- 9.2 A *protected contract of insurance* is:
- (1) (if issued after 1 December 2001) a *contract of insurance* within 9.3; or
 - (2) (if issued before 1 December 2001) a *contract of insurance* within 9.6.
- 9.3 A *contract of insurance* issued after 1 December 2001 which:
- (1) relates to a protected risk or commitment as described in 9.4;
 - (2) was issued by a *relevant person* (whether or not there is now a *successor* in respect of that *relevant person*) through an establishment in:
 - (a) the *UK*; or
 - (b) another *EEA State*; or
 - (c) the Channel Islands or the Isle of Man;
 - (3) is a *contract of long-term insurance* or a *relevant general insurance contract*;
 - (4) is not a *reinsurance contract*; and

- (5) if it is a *contract of insurance* entered into by a *member*, was entered into on or after 1 January 2004;

is a *protected contract of insurance*.

9.4 A risk or commitment is a protected risk or commitment for the purpose of 9.3 if:

- (1) in the case of a *contract of insurance* falling within 9.3(2)(a), it is situated in an *EEA State*, the Channel Islands or the Isle of Man;
- (2) in the case of a *contract of insurance* where the *relevant person* is a *UK firm* issuing a *contract of insurance* through an establishment falling within 9.3(2)(b), it is situated in an *EEA State*;
- (3) in the case of a *contract of insurance* where the *relevant person* is a *firm* which is not a *UK firm* issuing a *contract of insurance* through an establishment falling within 9.3(2)(b), it is situated in the *UK*; or
- (4) in the case of a *contract of insurance* falling within 9.3(2)(c), it is situated in the *UK*, the Channel Islands or the Isle of Man.

9.5 For the purpose of 9.4 and 9.6, the situation of a risk or commitment is determined as follows:

- (1) for a *contract of insurance* relating to a building or a building and its contents (in so far as the contents are covered by the same *contract of insurance*), the risk or commitment is situated where the building is situated;
- (2) for a *contract of insurance* relating to vehicles of any type, the risk or commitment is situated where the vehicle is registered;
- (3) for a *contract of insurance* lasting four months or less covering travel or holiday risks (whatever the class concerned), the risk or commitment is situated where the policyholder took out the *contract of insurance*; and
- (4) in cases not covered by (1) – (3):
 - (a) where the policyholder who first took out the *contract of insurance* is an individual, the risk or commitment is situated where he has his *habitual residence* at the date when the *contract of insurance* commenced;
 - (b) where the policyholder who first took out the *contract of insurance* is not an individual, the risk or commitment is situated where the establishment to which the risk or commitment relates is situated at the date when the *contract of insurance* commenced;
 - (c) where the policyholder who first took out the *contract of insurance* is a trustee the risk or commitment is situated:
 - (i) if the trustee is an individual, where the trustee has his *habitual residence* at the date when the *contract of insurance* commenced;
 - (ii) if the trustee is not an individual, where the establishment to which the risk or commitment relates is situated at the date when the *contract of insurance* commenced; and

- (d) where there are two or more policyholders, so long as one policyholder's risk or commitment under (a) – (c) is a protected risk or commitment, that shall be where the risk or commitment is situated.

9.6 (1) If after 1 December 2001, a relevant person (or where applicable, a *successor*) is subject to one or more of the proceedings listed in 10.4 (or 11.4, in the case of a *successor*) or where a relevant person (or where applicable, a *successor*) is declared in default, then a *contract of insurance* issued by a *relevant person* before 1 December 2001 which is within (2) is a protected contract of insurance, provided that the *relevant person* (or where applicable, a *successor*) was not a *member* at the time the *contract of insurance* was issued, and:

- (a) (unless it comes within (b)) at the earlier of the events in (1) it was a "United Kingdom policy" for the purposes of the Policyholders Protection Act 1975; or
- (b) if the *contract of insurance* is a contract of employers' liability insurance entered into before 1 January 1972 or (for contracts in Northern Ireland) 29 December 1975, and the *claim* was agreed after the default of the *insurer*, the risk or commitment was situated in the *UK* (as set out in 9.5).

(2) The *contracts of insurance* referred to in (1) are:

- (a) a *relevant general insurance contract*;
- (b) a *contract of insurance* within the *credit* class; and
- (c) a *contract of long-term insurance*;

which in each case is not a *reinsurance contract*.

9.7 If it appears to the *FSCS* that a *person* is insured under a contract which is not evidenced by a policy, and it is satisfied that if a policy evidencing the contract had been issued, the *person* in question would have had a *protected contract of insurance*, the *FSCS* must treat the contract as a *protected contract of insurance*.

9.8 The *FSCS* must treat liabilities of a *relevant person* (or where applicable, a *successor*) which is *in default*, in respect of the following items, as giving rise to *claims* under a *protected contract of insurance*:

- (1) (if the contract is not a *reinsurance contract* and has not commenced) *premiums* paid to a *relevant person*;
- (2) proceeds of a *contract of long-term insurance* that is not a *reinsurance contract* and that has matured or been surrendered which have not yet been passed to the claimant;
- (3) the unexpired portion of any *premium* in relation to *relevant general insurance contracts* which are not *reinsurance contracts*; or
- (4) *claims* by *persons* entitled to the benefit of a judgement under section 151 of the Road Traffic Act 1988 or Article 98 of the Road Traffic (Northern Ireland) Order 1981.

10 RELEVANT PERSONS IN DEFAULT

10.1 A *relevant person* is a *person* who was, at the time the act or omission giving rise to the *claim* against it took place, a *participant firm*.

- 10.2 A *relevant person* is *in default* if the *FSCS* has determined it to be *in default* under 10.3 and/or 10.4.
- 10.3 Subject to 10.6, and provided that the *FSCS* is not taking measures for the purpose of safeguarding the rights of *eligible claimants* in accordance with 5, the *FSCS* may determine a *relevant person* to be *in default* when it is, in the opinion of the *FSCS* or the *PRA*:
- (1) unable to satisfy *protected claims* against it; or
 - (2) likely to be unable to satisfy *protected claims* against it.
- 10.4 The *FSCS* may determine a *relevant person* to be *in default* if it is satisfied that a *protected claim* exists, and the *relevant person* is the subject of one or more of the following proceedings in the *UK* (or of equivalent or similar proceedings in another jurisdiction):
- (1) the passing of a resolution for a creditors' voluntary winding up;
 - (2) a determination by the *relevant person's Home State regulator* or other competent authority that the *relevant person* appears unable to meet *claims* against it and has no early prospect of being able to do so;
 - (3) the appointment of a liquidator or administrator, or provisional liquidator or interim manager;
 - (4) the making of an order by a court of competent jurisdiction for the winding up of a company, the dissolution of a partnership, the administration of a company or partnership, or the bankruptcy of an individual; or
 - (5) the approval of a company voluntary arrangement, a partnership voluntary arrangement, or of an individual voluntary arrangement.
- 10.5 For *claims* arising in connection with a *relevant person in default* in accordance with this chapter, the *FSCS* must treat any term in the *relevant person's* constitution or in its *contracts of insurance*, limiting its liabilities under a *contract of long-term insurance* to the amount of its assets, as limiting its liabilities to any claimant to an amount which is not less than the gross assets of the undertaking.
- 10.6 The *FSCS* may not declare a *member* to be *in default* unless it is satisfied that the amounts which the *Society* may provide from the *Central Fund* are or are likely to be insufficient to ensure that *claims* against the *member* under a *protected contract of insurance* will be met to the level of protection which would otherwise be available under this Part.

11 SUCCESSORS IN DEFAULT

- 11.1 A *successor* is a *person* who has assumed responsibility for liabilities arising from acts or omissions of a *relevant person*.
- 11.2 Subject to 11.6, a *successor* is *in default* if the *FSCS* has determined it to be *in default* under 11.3 and/or 11.4.
- 11.3 The *FSCS* may determine a *successor* to be *in default* when it is, in the opinion of the *FSCS*, or the *PRA*:
- (1) unable to satisfy *protected claims* against it; or
 - (2) likely to be unable to satisfy *protected claims* against it.

- 11.4 The FSCS may determine a *successor* to be *in default* if it is satisfied that a *protected claim* exists, and the *successor* is the subject of one or more of the following proceedings in the UK (or of equivalent or similar proceedings in another jurisdiction):
- (1) the passing of a resolution for a creditors' voluntary winding up;
 - (2) where relevant, a determination by the *successor's Home State regulator* or other competent authority that the *successor* appears unable to meet *claims* against it and has no early prospect of being able to do so;
 - (3) the appointment of a liquidator or administrator, or provisional liquidator or interim manager;
 - (4) the making of an order by a court of competent jurisdiction for the winding up of a company, the dissolution of a partnership, the administration of a company or partnership, or the bankruptcy of an individual; or
 - (5) the approval of a company voluntary arrangement, a partnership voluntary arrangement, or of an individual voluntary arrangement.
- 11.5 For *claims* arising in connection with a *successor in default* in accordance with this chapter, the FSCS must treat any term in the *successor's* constitution or in its *contracts of insurance*, limiting its liabilities under a *contract of long-term insurance* to the amount of its assets, as limiting its liabilities to any claimant to an amount which is not less than the gross assets of the undertaking.
- 11.6 The FSCS may not declare a *successor* that is a *member* to be *in default* unless it is satisfied that the amounts which the *Society* may provide from the *Central Fund* are or are likely to be insufficient to ensure that *claims* against the *successor* that is a *member* under a *protected contract of insurance* will be met to the level of protection which would otherwise be available under this Part.

12 ASSIGNMENT (AUTOMATIC, ELECTRONIC AND IN WRITING)

- 12.1 The FSCS must, or if the FSCS is subrogated automatically to the *eligible claimant's* rights may, make any payment of compensation to a claimant in respect of a *protected claim* conditional on the claimant assigning the whole or any part of his rights against the *relevant person* (or where applicable, the *successor*) or against any third party, or both, to the FSCS on such terms as the FSCS thinks fit.
- 12.2 Upon payment of compensation by the FSCS (including partial compensation) to an *eligible claimant* in respect of a *protected claim*, all of that claimant's rights against the *relevant person* (or where applicable, the *successor*) and any third party involved in or connected to the *claim* will be deemed to be automatically assigned by way of legal assignment to the FSCS absolutely on terms published by the FSCS.
- 12.3 Production of a statement showing such payment was made pursuant to 12.2 shall be conclusive evidence (or in Scotland sufficient evidence) that a legal assignment has been deemed to have been made.
- 12.4 An assignment completed and signed electronically in a form prescribed by the FSCS will be deemed to satisfy the formalities for a valid legal assignment.

- 12.5 Production of a hard copy of the electronically signed assignment form shall be conclusive evidence (or in Scotland sufficient evidence) that the formalities of a legal assignment have been complied with and that a legal assignment has occurred.
- 12.6 An assignment completed electronically in the prescribed form shall be treated as having been made by writing under the hand of the assignor for the purposes of section 136 of the Law of Property Act 1925 and any other formal requirement whatsoever without limitation.
- 12.7 If a claimant assigns the whole or any part of his rights against any *person* to the *FSCS* in accordance with this chapter, the effect of this is that any sum payable in relation to the rights so assigned will be payable to the *FSCS* and not the claimant.
- 12.8 The *FSCS* must inform the claimant that if, after taking assignment of rights, the *FSCS* decides not to pursue recoveries using those rights it will, if the claimant so requests in writing, reassign the assigned rights to the claimant. The *FSCS* must comply with such a request in such circumstances.
- 12.9 (1) The *FSCS* may determine that:
- (a) if the claimant does not assign or transfer his rights under this Chapter;
 - (b) if it is impractical to obtain such an assignment or transfer; and/or
 - (c) if it is otherwise necessary or desirable in conjunction with the exercise of the *FSCS*'s powers under this Chapter or 13;
- that claimant shall be treated as having irrevocably and unconditionally appointed the chairman of the *FSCS* for the time being to be his attorney and agent and on his behalf and in his name or otherwise to do such things and execute such deeds and documents as may be required under such laws of the *UK*, another *EEA State* or any other state or country to create or give effect to such assignment or transfer or otherwise give full effect to those powers.
- (2) The execution of any deed or document under (1) shall be as effective as if made in writing by the claimant or by his agent lawfully authorised in writing or by will.

13 AUTOMATIC SUBROGATION

- 13.1 The *FSCS*'s powers in this Chapter may be used:
- (1) separately or in any combination as an alternative and in substitution for the powers and processes elsewhere in this Part; and/or
 - (2) in relation to all or any part of a *protected claim* or class of *protected claim* made with respect to the *relevant person* (or where applicable, the *successor*).
- 13.2 The *FSCS* may determine that the exercise of any power in this Chapter is subject to such incidental, consequential or supplemental conditions as the *FSCS* considers appropriate.
- 13.3 (1) Any power conferred on the *FSCS* to make determinations under this Chapter is exercisable in writing.
- (2) An instrument by which the *FSCS* makes the determination must specify the provision under which it is made, the date and time from which it takes effect and the *relevant person* (or where applicable, the *successor*) and *protected claims*, parts of *protected claims* and/or classes of *protected claims* in respect of which it applies.

- (3) The *FSCS* must take appropriate steps to publish the determination as soon as possible after it is made. Such publication must be accompanied by a statement explaining the effect of 13.2.
 - (4) Failure to comply with any requirement in this rule does not affect the validity of the determination.
 - (5) A determination by the *FSCS* under this Chapter may be amended, remade or revoked at any time and subject to the same conditions.
- 13.4 (1) The production of a copy of a determination purporting to be made by the *FSCS* under this Chapter:
- (a) on which is endorsed a certificate, signed by a member of the *FSCS*'s staff authorised by it for that purpose; and
 - (b) which contains the required statements;
- is evidence (or in Scotland sufficient evidence) of the facts stated in the certificate.
- (2) The required statements are:
- (a) that the determination was made by the *FSCS*; and
 - (b) that the copy is a true copy of the determination.
- (3) A certificate purporting to be signed as mentioned in (1) is to be taken to have been properly signed unless the contrary is shown.
- (4) A *person* who wishes in any legal proceedings to rely on a determination may require the *FSCS* to endorse a copy of the determination with a certificate of the kind mentioned in (1).
- 13.5 Other provisions in this Part are modified to the extent necessary to give full effect to the powers provided for in this Chapter.
- 13.6 Other than as expressly provided for, nothing in this Chapter is to be taken as limiting or modifying the rights or obligations of or powers conferred on the *FSCS* elsewhere in this Part.
- 13.7 The *FSCS* may determine that the payment of compensation by the *FSCS* shall have all or any of the following effects:
- (1) the *FSCS* shall immediately and automatically be subrogated, subject to such conditions as the *FSCS* determines are appropriate, to all or any part (as determined by the *FSCS*) of the rights and claims in the *UK* and elsewhere of the claimant against the *relevant person* (or where applicable, the *successor*) and/or any third party (whether such rights are legal, equitable or of any other nature whatsoever and in whatever capacity the *relevant person* (or where applicable, the *successor*) or third party is acting) in respect of or arising out of the *claim* in respect of which the determination under 13.2 was made;
 - (2) the *FSCS* may claim and take legal or any other proceedings or steps in the *UK* or elsewhere to enforce such rights in its own name or in the name of, and on behalf of, the claimant or in both names against the *relevant person* (or where applicable, the *successor*) and/or any third party;

- (3) the subrogated rights and claims conferred on the *FSCS* shall be rights of recovery and claims against the *relevant person* (or where applicable, the *successor*) and/or any third party which are equivalent (including as to amount and priority and whether or not the *relevant person* (or where applicable, the *successor*) is insolvent) to and do not exceed the rights and claims that the claimant would have had; and/or
- (4) such rights and/or obligations (as determined by the *FSCS*) as between the *relevant person* and the claimant arising out of the *protected claim* in respect of which the determination under 13.2 was made may be transferred to, and subsist between, another *firm* with an appropriate *permission* and the claimant provided that the *firm* has consented (but the transferred rights and/or obligations shall be treated as existing between the *relevant person* and the *FSCS* to the extent of any subrogation, transfer or assignment for the purposes of (1) to (3) and 12).

14 RECOVERIES

- 14.1 If the *FSCS* takes assignment or transfer of rights from the claimant or is otherwise subrogated to the rights of the claimant, it must pursue all and only such recoveries as it considers are likely to be both reasonably possible and cost effective to pursue.
- 14.2 If the *FSCS* decides not to pursue such recoveries and a claimant wishes to pursue those recoveries himself and so requests in writing, the *FSCS* must comply with that request and assign the rights back to the claimant.
- 14.3 If the *FSCS* makes recoveries in relation to a *claim* it may deduct from any recoveries paid over to the claimant under 14.4 part or all of its reasonable costs of recovery and distribution (if any).
- 14.4 If a claimant assigns or transfers his rights to the *FSCS* or a claimant's rights and claims are otherwise subrogated to the *FSCS* and the *FSCS* subsequently makes recoveries through those rights or claims, those recoveries must be paid to the claimant:
 - (1) to the extent that the amount recovered exceeds the amount of compensation (excluding interest paid under 18.6) paid to the claimant in relation to the *protected claim* in accordance with 18; or
 - (2) in circumstances where the amount recovered does not exceed the amount of compensation paid, to the extent that failure to pay any sums recovered to the claimant would leave a claimant who had promptly accepted an offer of compensation or whose rights and claims had been subrogated to the *FSCS* at a disadvantage relative to a claimant who had delayed accepting an offer of compensation or whose claims had not been subrogated (in accordance with 14.6).
- 14.5 For the purpose of 14.4, compensation received by *eligible claimants* in relation to *Lloyd's policies* may include payments made from the *Central Fund*.
- 14.6 The *FSCS* must endeavour to ensure that a claimant will not suffer disadvantage arising solely from his prompt acceptance of the *FSCS's* offer of compensation or from the subrogation of his rights and claims to the *FSCS* compared with what might have been the position had he delayed his acceptance or had his claims not been subrogated.

15 REJECTION OF APPLICATION FOR, AND WITHDRAWAL OF OFFER OF COMPENSATION

- 15.1 If an application for compensation contains any material inaccuracy or omission, the *FSCS* may reject the application unless this is considered by the *FSCS* to be wholly unintentional.
- 15.2 The *FSCS* must reject an application for compensation if:
- (1) the *FSCS* considers that a civil claim in respect of the liability would have been defeated by a defence of limitation at the earlier of:
 - (a) the date on which the *relevant person* (or where applicable, the *successor*) is determined to be *in default*, or
 - (b) the date on which the claimant first indicates in writing that he may have a claim against the *relevant person* (or where applicable, the *successor*); or
 - (2) the liability of the *relevant person* (or where applicable, the *successor*) to the claimant has been extinguished by the operation of law.
- 15.3 The *FSCS* may withdraw any offer of compensation made to a claimant if the offer is not accepted or if it is not disputed within 90 days of the date on which the offer is made.
- 15.4 Where the amount of compensation offered is disputed, the *FSCS* may withdraw the offer but must consider exercising its powers to make a reduced or interim payment under 18.4 or 18.5 before doing so.
- 15.5 The *FSCS* may repeat any offer withdrawn under 15.3 or 15.4.
- 15.6 The *FSCS* must withdraw any offer of compensation if it appears to the *FSCS* that no such offer should have been made.
- 15.7 The *FSCS* must seek to recover any compensation paid to a claimant if it appears to the *FSCS* that no such payment should have been made, unless the *FSCS* believes on reasonable grounds that it would be unreasonable to do so, or that the costs of doing so would exceed any amount that could be recovered.

16 TIME LIMITS ON PAYMENT AND POSTPONING PAYMENT

- 16.1 The *FSCS* must pay a *claim* as soon as reasonably possible after:
- (1) it is satisfied that the conditions in 3.1 have been met; and
 - (2) it has calculated the amount of compensation due to the claimant;
- and in any event within three months of that date, unless the *PRA* has granted the *FSCS* an extension, in which case payment must be made no later than six months from that date.
- 16.2 The *FSCS* may postpone paying compensation if:
- (1) it considers that the liability to which the *claim* relates or any part of the liability is covered by another *contract of insurance* with a solvent *insurance undertaking* (or where applicable, a *member*), or where it appears that a *person*, other than the liquidator, may make payments or take such action to secure the continuity of cover as the *FSCS* would undertake;
 - (2) it is not practicable for payment to be made within the usual time limit laid out in 16.1;

- (3) the claimant has been charged with an offence arising out of or in relation to *money laundering*, and those proceedings have not yet been concluded; or
- (4) the *claim* relates solely to a bonus provided for under a *protected contract of insurance* the value of which the *FSCS* considers to be of such uncertainty that immediate payment of compensation in respect of that bonus would not be prudent and a court has yet to attribute a value to such bonus.

17 LIMITS ON COMPENSATION PAYABLE

- 17.1 The limits on the maximum compensation sums payable by the *FSCS* for *protected claims* are set out in 17.2.
- 17.2 (1) For a *protected contract of insurance* when the contract is a *relevant general insurance contract*:
- (a) if the *claim*:
 - (i) is in respect of a *liability subject to compulsory insurance*; or
 - (ii) is in respect of a liability subject to *professional indemnity insurance*; or
 - (iii) is in respect of and arises from the death or incapacity of the policyholder due to injury, sickness, or infirmity;

the level of cover is 100% of the *claim*; and
 - (b) in all other cases the level of cover is 90% of the *claim*; and
- in each case, cover shall be determined in accordance with 19 and 20 and there is no upper limit on the amount that can be paid.
- (2) For a *protected contract of insurance* when the contract is a *contract of long-term insurance*, the level of cover is 100% of the *claim* determined in accordance with 19 and 20 and there is no upper limit on the amount that can be paid.
- 17.3 In applying the financial limits in 17.2 and in calculating the amount of a *claim* in respect of a *protected contract of insurance* arising from the default of one or more *members*, a *policyholder* is to be treated as having a single *claim* for the aggregate of all such amounts as may be payable on the *claim* in respect of the *protected contract of insurance*.

18 PAYMENT OF COMPENSATION

- 18.1 If the *FSCS* determines that compensation is payable (or any recovery or other amount is payable by the *FSCS* to the claimant), it must pay it to the claimant, or if the *FSCS* so decides, as directed by the claimant, unless:
- (1) arrangements have or are being made to secure continuity of insurance under 4.1 or the *FSCS* is taking measures it considers appropriate to safeguard *eligible claimants* under 5.1; or
 - (2) 18.2 applies.
- 18.2 Where an *eligible claimant* has a *claim* under a *protected contract of insurance* against a *relevant person* (or where applicable, the *successor*) that is in administration, provisional liquidation, or liquidation, the *FSCS* may:

- (1) make payments to or on behalf of *eligible claimants* on such terms (including any terms requiring repayment in whole or in part) and on such conditions as it thinks fit (subject to 17); or
 - (2) secure that payments (subject to 17) are made to or on behalf of any such *eligible claimants* by the liquidator, administrator or provisional liquidator by giving him an indemnity covering any such payments or any class or description of such payments.
- 18.3 The FSCS may pay compensation in any form and by any method (or any combination of them) that it determines is appropriate including, without limitation:
- (1) by paying the compensation (on such terms as the FSCS considers appropriate) to an *authorised person* with *permission* to *accept deposits* which agrees to become liable to the claimant in a like sum;
 - (2) by paying compensation directly into an existing deposit account of (or for the benefit of) the claimant, or as otherwise identified by (or on behalf of) the claimant, with an *authorised person* (but before doing so the FSCS must take such steps as it considers appropriate to verify the existence of such an account and to give notice to the claimant of its intention to exercise this power); and/or
 - (3) (where two or more *persons* have a joint beneficial *claim*) by accepting communications from and/or paying compensation to any of those *persons* where this is in accordance with the terms and conditions of the *contract of insurance*.
- 18.4 If the FSCS is satisfied that in principle compensation is payable in connection with any *protected claim*, but considers that immediate payment in full would not be prudent because of uncertainty as to the amount of the claimant's overall *claim*, it may decide to pay an appropriate lesser sum in final settlement, or to make payment on account.
- 18.5 The FSCS may also decide to make a payment on account or to pay a lesser sum in final settlement if the claimant has any reasonable prospect for recovery in respect of the *claim* from any third party or by applying for compensation to any other *person*.
- 18.6 The FSCS may pay interest on the compensation sum in such circumstances as it considers appropriate.
- 18.7 Interest under 18.6 is not to be taken into account when applying the limits on the compensation sum payable in respect of a *claim* under 17.
- 18.8 Where the FSCS considers that the conditions in 18.4 are satisfied but, in relation to a class of *claim*, in order to provide fair compensation for the generality of such *claims* it would be appropriate, it may for that class of *claim*:
- (1) receive whether by assignment, subrogation, transfer or operation of law the whole or any part of a claimant's rights against the *relevant person* (or where applicable, the *successor*), or against any third party, or all of them on such terms as the FSCS thinks fit; and
 - (2) disregard the value of the rights so received in determining the claimant's overall *claim*;
- rather than pay an appropriate lesser sum in final settlement or make a payment on account, for that class of *claims*.

19 CALCULATING COMPENSATION - GENERAL

- 19.1 The amount of compensation payable to the claimant in respect of a *protected claim* is the amount of the overall net *claim* against the *relevant person* (or where applicable, the *successor*) at the *quantification date* and any reference in this Part to overall *claim* shall be construed accordingly.
- 19.2 19.1 is, however, subject to the other provisions of this Part, in particular those rules that set limits on the amount of compensation payable for the *protected claim*. The limits are set out in 17.
- 19.3 A claimant's overall *claim* is the sum of the *protected claims* of the same category that he has against a *relevant person* (or where applicable, a *successor*) *in default*, less the amount of any liability which the *relevant person* (or where applicable, the *successor*) may set off against any of those *claims*.
- 19.4 In calculating the claimant's overall *claim*, the *FSCS* may rely, to the extent that it is relevant, on any determination by:
- (1) a court of competent jurisdiction;
 - (2) a trustee in bankruptcy;
 - (3) a liquidator;
 - (4) any other recognised insolvency practitioner;
- and on the certification of any net sum due which is made in default proceedings of any exchange or clearing house.
- 19.5 Save as provided in 8.10, the *FSCS* must take into account any payments to the claimant (including amounts recovered by the *FSCS* on behalf of the claimant) made by the *relevant person* (or where applicable, the *successor*) or the *FSCS* or any other *person*, if that payment is connected with the *relevant person's* (or where applicable, the *successor's*) liability to the claimant in calculating the claimant's overall *claim*.
- 19.6 The *FSCS* must calculate the amount of compensation due to the claimant as soon as reasonably possible after it is satisfied that the conditions in 3.1 have been met.
- 19.7 In calculating the claimant's overall *claim* the *FSCS* must take into account the amounts paid by, or expected to be paid by, the *Society* from the *Central Fund* to meet a *member's* liabilities under the contract which gives rise to the *claim*.
- 19.8 For a *claim* under a *protected contract of insurance* that is a *contract of long-term insurance*, the *FSCS* must determine as the *quantification date* a specific date by reference to which the liability of the *relevant person* (or where applicable, the *successor*) to the *eligible claimant* is to be determined.
- 19.9 For a claim under a *protected contract of insurance* that is a *relevant general insurance contract*, the *FSCS* must determine as the *quantification date* a specific date by reference to which the liability of the *relevant person* (or where applicable, the *successor*) to the *eligible claimant* is to be determined.
- 19.10 For a *claim* in respect of the unexpired *premiums* under a *protected contract of insurance* that is a *relevant general insurance contract* (treated in accordance with 9.8(3)), the *quantification date*, being the date by which the liability of the *relevant person* (or where applicable, the

successor) to the *eligible claimant* is to be determined, is the date the policy was terminated or cancelled.

20 THE COMPENSATION CALCULATION

- 20.1 The FSCS must pay a sum equal to 100% of any liability of a *relevant person* (or where applicable, a *successor*) in respect of a *liability subject to compulsory insurance* to the claimant as soon as reasonably practicable after it has determined the *relevant person* (or where applicable, the *successor*) to be *in default*.
- 20.2 The FSCS must calculate the liability of a *relevant person* (or where applicable, the *successor*) to the claimant under a *relevant general insurance contract* in accordance with the terms of the contract, and (subject to any limits in 17.2(1)) pay that amount to the claimant.
- 20.3 Unless the FSCS is making arrangements to secure continuity of insurance cover under 4.1, the FSCS must calculate the liability of a *relevant person* (or where applicable, a *successor*) to the claimant under a *contract of long-term insurance* in accordance with the terms of the contract as it would be valued in a liquidation of the *relevant person* (or where applicable, the *successor*), or (in the absence of such relevant terms) in accordance with such reasonable valuation techniques as the FSCS considers appropriate.
- 20.4 (1) Unless the FSCS is seeking to secure continuity of cover for a *relevant person* under 4.1 it must:
- (a) pay compensation in accordance with 20.3 for any benefit provided for under a protected *contract of long-term insurance* which has fallen due or would have fallen due under the contract to be paid to any *eligible claimant* and has not already been paid; and
 - (b) do so, as soon as reasonably practicable after the time when the benefit in question fell due or would have fallen due under the contract (but subject to and in accordance with any other terms which apply or would have applied under the contract).
- (2) If the FSCS decides to treat the liability of the *relevant person* (or where applicable, the *successor*) under the contract as reduced or (as the case may be) disregarded under 20.7 then, for the purposes of (1), the value of benefits falling due after the date of that decision must be treated as reduced or disregarded to that extent.
- (3) Unless it has decided to treat the liability of the *relevant person* (or where applicable, the *successor*) under the contract as reduced or disregarded under 20.7 the FSCS must not treat as a reason for failing to pay, or for delaying the payment of compensation in accordance with (1), the fact that:
- (a) it considers that any benefit referred to in (1) is or may be excessive in any respect;
 - (b) it has referred the contract in question to an independent actuary under 20.6; or
 - (c) it considers that it may at some later date decide to treat the liability of the *relevant person* (or where applicable, the *successor*) under a contract as reduced or (as the case may be) disregarded under 20.7;

save where the *FSCS* decides to exclude certain benefits to the extent that they arise out of the exercise of any option under the policy (for this purpose option includes, but is not restricted to, a right to surrender the policy).

- 20.5 The *FSCS* must not treat any bonus provided for under a *contract of long-term insurance* as part of the claimant's claim except to the extent that:
- (1) a value has been attributed to it by a court in accordance with the Insurers (Winding Up) Rules 2001 or any equivalent rules or legislative provision in force from time to time; or
 - (2) the *FSCS* considers that a court would be likely to attribute a value to the bonus if it were to apply the method set out in those rules.
- 20.6 (1) If the *FSCS* is:
- (a) seeking to secure continuity of cover under 4.1 or to calculate the liability owed to an *eligible claimant* under 20.3; and
 - (b) considers that the benefits provided for under a protected *contract of long-term insurance* are or may be excessive in any respect;
- it must refer the contract to an actuary who is independent of the *eligible claimant* and of the *relevant person* (or where applicable, the *successor*).
- (2) In this rule and in 20.7, a benefit is only "excessive" if, at the time when the *relevant person* decided to confer or to offer to confer that benefit, no reasonable and prudent *insurer* in the position of the *relevant person* would have so decided given the *premiums* payable and other contractual terms.
- 20.7 If the *FSCS* is satisfied, following the actuary's written recommendation, that any of the benefits provided for under the contract are or may be excessive, it may treat the liability of the *relevant person* (or where applicable, the *successor*) under the contract as reduced or (as the case may be) disregarded for the purpose of any payment made after the date of that decision.
- 20.8 The *FSCS* may rely on the value attributed to the contract by the actuary when calculating the compensation payable to the claimant, or when securing continuity of cover.
- 20.9 When calculating compensation payable to the claimant in accordance with this Chapter, the *FSCS* must treat any term in the *relevant person's* (or where applicable, the *successor's*) constitution or in its *contracts of insurance*, limiting its liabilities under a *contract of long-term insurance* to the amount of its assets, as limiting its liabilities to any claimant to an amount which is not less than the gross assets of the undertaking.
- 20.10 If a claimant's *claim* includes a *claim* as:
- (1) trustee; or
 - (2) the *operator* of, or the *person* carrying on the *regulated activity* of winding up, a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or *personal pension scheme*;

the *FSCS* must treat him in respect of that *claim* as if his *claim* was the *claim* of a different *person*.

20.11 If a claimant has a *claim* as a bare trustee or *nominee company* for one or more beneficiaries, for the purpose of calculating compensation, the FSCS must treat the beneficiary or beneficiaries as having the *claim*, and not the claimant.

20.12 If a claimant has a *claim*:

- (1) as the trustee of a *small self-administered scheme*, or an *occupational pension scheme* of an employer which is not a *large company*, *large partnership* or *large mutual association*, or the trustee or *operator* of, or the *person* carrying on the *regulated activity* of winding up a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or *personal pension scheme*;
- (2) for one or more members of a pension scheme (or, where relevant, the beneficiary of any member) whose benefits are *money-purchase benefits*;

for the purpose of calculating compensation, the FSCS must treat the member or members (or, where relevant, the beneficiary of any member) as having the *claim*, and not the claimant.

20.13 If any group of *persons* has a *claim* as:

- (1) trustees; or
- (2) *operators* of, or as *persons* carrying on the *regulated activity* of winding up, a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or a *personal pension scheme*;

(or any combination thereof), the FSCS must treat them as a single and continuing *person* distinct from the *persons* who may from time to time be the trustees, *operators* or *persons* winding up the relevant pension scheme.

20.14 Where the same *person* has a *claim* as:

- (1) trustee for different trusts or for different *stakeholder pension schemes* (which are not *occupational pension schemes*) or *personal pension schemes*; or
- (2) the *operator* of, or the *person* carrying on the *regulated activity* of winding up, different *stakeholder pension schemes* (which are not *occupational pension schemes*) or *personal pension schemes*;

this Chapter applies as if the *claims* relating to each of these trusts or schemes were claims of different *persons*.

20.15 Where the claimant is a trustee, and some of the beneficiaries of the trust are *persons* who would not be *eligible claimants* if they had a claim themselves, the FSCS must adjust the amount of the overall *claim* to eliminate the part of the claim which, in the FSCS's view, is a claim for those beneficiaries.

20.16 Where any of the provisions of 20.10 – 20.15 apply, the FSCS must try to ensure that any amount paid to:

- (1) the trustee; or
- (2) the *operator* of, or the *person* carrying on the *regulated activity* of winding up, a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or *personal pension scheme*;

is, in each case:

- (3) for the benefit of members or beneficiaries who would be eligible claimants if they had a claim themselves; and
 - (4) no more than the amount of the loss suffered by those members or beneficiaries.
- 20.17 Where a *person* numbers among his *claims* a *claim* as the personal representative of another, the *FSCS* must treat him in respect of that *claim* as if he were standing in the shoes of that other *person*.
- 20.18 If a claimant has a *claim* under a *contract of insurance* as agent for one or more *persons*, for the purpose of calculating compensation, the *FSCS* must treat each *person* as having the *claim*, not the claimant.
- 20.19 If two or more *persons* have a joint beneficial *claim*, the *claim* is to be treated as a *claim* of the partnership if they are carrying on business together in partnership. Otherwise each of those *persons* is taken to have a *claim* for his share, and in the absence of satisfactory evidence as to their respective shares, the *FSCS* must regard each *person* as entitled to an equal share.
- 20.20 In applying this Part to *claims* arising out of business done with a branch or establishment of the *relevant person* (or where applicable, the *successor*) outside the *UK*, the *FSCS* must interpret references to:
- (1) persons entitled as personal representatives, trustees, bare trustees or agents, *operators of pension schemes* or *persons* carrying on the *regulated activity* of winding up *pension schemes*; or
 - (2) *persons* having a joint beneficial *claim* or carrying on business in partnership;
- as references to *persons* entitled, under the law of the relevant country or territory, in a capacity appearing to the *FSCS* to correspond as nearly as may be to that capacity.

21 FSCS LEVIES

- 21.1 If a *participant firm* does not pay the total amount of the *participant firm's* share of the *FSCS* levy, before the end of the date on which it is due, under the relevant provision in this Part, that *participant firm* must pay an additional amount as follows:
- (1) if the share of the *FSCS* levy owing was not paid in full before the end of the due date, an administrative fee of £250; plus
 - (2) interest on any unpaid part of the share of the *FSCS* levy owing at the rate of 5% per annum above the Official Bank Rate from time to time in force, accruing on a daily basis from the date on which the amount concerned became due.
- 21.2 If it appears to the *PRA* or the *FSCS* that in the exceptional circumstances of a particular case, the payment of any *FSCS* levy would be inequitable, the *PRA* or the *FSCS* may (unless 21.4 applies) reduce or remit all or part of the levy in question which would otherwise be payable.
- 21.3 If it appears to the *PRA* or the *FSCS* that in the exceptional circumstances of a particular case to which 21.2 does not apply, the retention by the *FSCS* of any *FSCS* levy which has been paid would be inequitable, the *FSCS* may (unless 21.4 applies) refund all or part of that fee or levy.
- 21.4 The *PRA* or the *FSCS* may not consider a claim under 21.2 and/or 21.3 to reduce, remit or refund any overpaid amounts paid by a fee or levy payer in respect of a particular period, due

to a mistake of fact or law by the fee or levy payer, if the claim is made by the fee or levy payer more than 2 years after the beginning of the period to which the overpayment relates.

- 21.5 (1) A *participant firm* which does not conduct business that could give rise to a *protected claim* by an *eligible claimant* and has no reasonable likelihood of doing so is exempt from a *specific costs levy*, or a *compensation costs levy*, or both, provided that:
- (a) it has notified the *FSCS* in writing that those conditions apply, and has received written confirmation from *FSCS* that those conditions apply; and
 - (b) the conditions in fact continue to apply.
- (2) The exemption takes effect from the date on which the *participant firm* receives confirmation from the *FSCS* that those conditions apply.
- 21.6 A *participant firm* which is exempt under 21.5 must notify the *FSCS* in writing as soon as reasonably practicable if the conditions in 21.5 no longer apply.
- 21.7 If a *participant firm* ceases to conduct business that could give rise to a *protected claim* by an *eligible claimant* and notifies the *FSCS* of this under 21.5(1)(a), it will be treated as a *participant firm* to which 21.48 applies until the end of the financial year of the *compensation scheme* in which the notice was given.
- 21.8 For the purposes of 21.5, a *participant firm* will only be exempt from a *specific costs levy* or *compensation costs levy* for any given financial year if it met the conditions in 21.5 on 31 March of the immediately preceding financial year.
- 21.9 The *FSCS* may at any time impose a *management expenses levy* or a *compensation costs levy*, provided that the *FSCS* has reasonable grounds for believing that the funds available to it to meet relevant expenses are, or will be, insufficient, taking into account expenditure already incurred, actual and expected recoveries and:
- (1) in the case of a *management expenses levy*, the level of the *FSCS*'s expected expenditure in respect of those expenses in the financial year of the *compensation scheme* in relation to which the levy is imposed;
 - (2) in the case of a *compensation costs levy* relating to *protected claims*:
 - (a) the *FSCS*'s expenditure in respect of *compensation costs* expected in the 12 *months* following the levy; or, if greater
 - (b) one third of the *FSCS*'s expenditure in respect of *compensation costs* expected in the 36 *months* following the levy.
- 21.10 In the calculation of levies, the *FSCS* will also take into account previous levies, where funds raised in anticipation of meeting liabilities prove either more or less than the amount actually required.
- 21.11 The maximum aggregate amount of *compensation costs* and *specific costs* for which the *FSCS* can levy each *insurance class* in any one financial year of the *compensation scheme* is limited to the amounts set out in the table in Annex 1.
- 21.12 The *FSCS* may include in a *compensation costs levy* the costs of compensation paid by the *FSCS* in error, provided that the payment was not made in bad faith.

- 21.13 The FSCS must hold any amount collected from a *specific costs levy* or *compensation costs levy* to the credit of the *insurance classes* in accordance with the allocation established under 21.31 and 21.35.
- 21.14 Any funds received by the FSCS by way of levy or otherwise for the purposes of the *policyholder protection scheme* are to be managed as the FSCS considers appropriate, and in doing this the FSCS must act prudently.
- 21.15 Interest earned by the FSCS in the management of funds held to the credit of an *insurance class* must be credited to that *insurance class*, and must be set off against the *management expenses* or *compensation costs* allocated to that *insurance class*.
- 21.16 The FSCS must keep accounts which include:
- (1) the funds held to the credit of each *insurance class*; and
 - (2) the liability of that *insurance class*.
- 21.17 (1) The FSCS may use any money held to the credit of one *insurance class* (the creditor *insurance class*) to pay *compensation costs* or *specific costs* attributable or allocated by way of levy to the other *insurance class* (the debtor *insurance class*) if the FSCS has reasonable grounds to believe that this would be more economical than borrowing funds from a third party or raising a levy.
- (2) Where the FSCS acts in accordance with (1), it must ensure that:
- (a) the creditor *insurance class* is reimbursed by the debtor *insurance class* as soon as possible;
 - (b) the debtor *insurance class* pays interest at a rate equivalent to the Bank of England's repo rate from time to time in force; and
 - (c) the amount lent by the creditor *insurance class* to the debtor *insurance class* is taken into account by the FSCS when considering whether to impose a *compensation costs levy* on the creditor *insurance class* under 21.9.
- 21.18 Unless 21.19 applies, any recoveries made by the FSCS in relation to *protected claims* must be credited to the *insurance classes* to which the related *compensation costs* was attributable.
- 21.19 (1) Where the FSCS makes recoveries in relation to *protected claims* where a related *compensation costs levy* would have been allocated to a *insurance class* (class X) had the *levy limit* for class X not been reached and has been allocated to the other *insurance class*, the recoveries must be applied:
- (a) first, to the *insurance class* to which the costs levied were allocated in the same proportion as that *insurance class* contributed, up to the total amount of that allocation plus interest at a rate equivalent to the Bank of England's Official Bank Rate from time to time in force; and
 - (b) thereafter, to class X.
- (2) This rule applies even though the recovery is made in a subsequent financial year.
- 21.20 Recoveries under 21.19 are net of the costs of recovery.

- 21.21 If the *FSCS* has more funds (whether from levies, recoveries or otherwise) to the credit of an *insurance class* than the *FSCS* believes will be required to meet levies on that *insurance class* for the next 12 *months*, it may refund the surplus to members or former members of the *insurance class* on any reasonable basis.
- 21.22 The *FSCS* may adjust the calculation of a *participant firm's* share of any levy imposed in accordance with this Chapter to take proper account of:
- (1) any excess, not already taken into account, between previous levies of that type imposed in relation to previous periods and the relevant costs actually incurred in that period;
 - (2) *participant firms* that are exempt from the levy under 21.5 to 21.8;
 - (3) amounts that the *FSCS* has not been able to recover from *participant firms* as a result of 21.11;
 - (4) amounts that the *FSCS* has not been able to recover from *participant firms* after having taken reasonable steps;
 - (5) 21.25, 21.33 or 21.40; or
 - (6) anything else that the *FSCS* believes on reasonable grounds should be taken into account.
- 21.23 The *FSCS* may not adjust the calculation of a *participant firm's* share of any levy imposed under this Chapter under 21.22 on the grounds that it would be inequitable for that *firm* to pay that share or part of it or on the grounds that it would be inequitable for the *FSCS* to retain that share or part of it.
- 21.24 (1) This rule applies to the calculation of the levies of a *firm* (A) if:
- (a) A:
 - (i) acquires all or a part of the business of another *firm* (B), whether by merger, acquisition of goodwill or otherwise; or
 - (ii) becomes authorised as a result of B's simple change of legal status (as defined in FEES 3 Annex IR Part 6 in the *PRA Handbook*);
 - (b) B is no longer liable to pay a levy; and
 - (c) that acquisition or change takes place after the date to which, or as of which, A's most recent statement of business under 21.42 is drawn up so far as concerns the *insurance classes* covered by B's business.
- (2) A must pay an additional amount equal to the levy that would have been payable by B in relation to the relevant business and relevant *insurance class* if the acquisition or change in legal status had not taken place and B had remained liable to pay levies. The amount is based on the most recent information supplied by B under 21.42. A is included in the *insurance classes* applicable to the relevant business.
- (3) This rule only applies with respect to those financial years of the *FSCS* for which A's levies are calculated on the basis of a statement of business under 21.42 drawn up to a date.

- 21.25 If a *participant firm's* share of a levy or an additional administrative fee under 21.42 would be so small that, in the opinion of the *FSCS*, the costs of collection would be disproportionate to the amount payable, the *FSCS* may treat the *participant firm* as if its share of the levy or additional administrative fee amounted to zero.
- 21.26 The *FSCS* may impose a levy on the *Society* to be calculated as the aggregate of the levies that would be imposed on each *member* if this Chapter applied to *members*, as follows:
- (1) a proportionate share of a *base costs levy* in respect of the *compensation scheme's* costs for the period from 1 January 2004 to the end of the *compensation scheme's* financial year and a share of such levies for all subsequent financial years; and
 - (2) a *specific costs levy* and a *compensation costs levy* in respect of costs arising out of a *relevant person* being *in default*, arrangements made under 4.1 or measures taken under 5.1 where:
 - (a) the default occurs or the circumstances giving rise to the arrangements being made or the measures being taken, as the case may be, occur; and
 - (b) the *protected contracts of insurance* in connection with which the costs arise were entered into;

on or after 1 January 2004.
- 21.27 A *participant firm* must pay to the *FSCS* a share of each *management expenses levy*.
- 21.28 A *participant firm's* share of a *management expenses levy* consists of one or more of:
- (1) a share of a *base costs levy*; and
 - (2) a share of a *specific costs levy*.
- 21.29 The *FSCS* must ensure that each *participant firm's* share of a *management expenses levy* separately identifies the *firm's* share of the *base costs levy* and *specific costs levy*.
- 21.30 Subject to 21.25, the *FSCS* must calculate a *participant firm's* share of a *base costs levy* in accordance with the *FSCS* Management Expenses Levy Limit and Base Costs Part.
- 21.31 The *FSCS* must allocate any *specific costs levy* amongst the relevant *insurance class* in proportion to the amount of relevant costs arising from the different activities for which *firms* in that *insurance class* has *permission* up to the *levy limit* of the relevant *insurance class*.
- 21.32 The *FSCS* must calculate a *participant firm's* share of a *specific costs levy* (subject to 21.24) by:
- (1) identifying each relevant *insurance class* to which the *participant firm* belongs, using the statement of business most recently supplied under 21.42;
 - (2) identifying the *management expenses* other than *base costs* which the *FSCS* has incurred, or expects to incur, in the relevant financial year of the *compensation scheme*, allocated to the *insurance classes* identified in (1), but not yet levied;
 - (3) calculating, in relation to each relevant *insurance class*, the *participant firm's* tariff base (see Annex 2) as a proportion of the total tariff base of all *participant firms* in the *insurance class*, using the statement of business most recently supplied under 21.42;
 - (4) applying the proportion calculated in (3) to the figure in (2); and

- (5) if more than one *insurance class* is relevant, adding together the figure in (4) for each *insurance class*.
- 21.33 A *firm* which becomes a *participant firm* part way through a financial year of the *compensation scheme* will not be liable to pay a share of a *specific costs levy* made in that year.
- 21.34 (1) This rule deals with the calculation of:
- (a) a *participant firm's specific costs levy* in the financial year of the *FSCS* following the *FSCS* financial year in which it became a *participant firm*; or
 - (b) a *participant firm's specific costs levy* in the financial year of the *FSCS* in which it had its *permission* extended, and the following *FSCS* financial year; and
 - (c) the tariff base for the *insurance classes* that relate to the relevant *permissions* or extensions, as the case may be.
- (2) Unless this rule says otherwise the tariff base is calculated, where necessary, using the projected valuation of the business to which the tariff relates.
- (3) The rest of this rule only applies to a *firm* that becomes a *participant firm*, or extends its *permission*, on or after 1 April 2009:
- (a) If a *participant firm's* tariff base is calculated using data from a period that begins on or after it became a *participant firm* or on or after the date that the *participant firm* receives its extension of *permission*, as the case may be, the *participant firm* must use that data.
 - (b) If a *participant firm* satisfies the following conditions it must calculate its tariff base under (c) for the *FSCS* financial year following the *FSCS* financial year it became a *participant firm*:
 - (i) it became a *participant firm* or receives its extension of *permission*, as the case may be, between 1 April and 31 December inclusive; and
 - (ii) its tariff base, but for this rule, is calculated by reference to the financial year ended in the calendar year ending 31 December or the twelve *months* ending 31 December before the *FSCS* financial year.
 - (c) If a *participant firm* satisfies the conditions in (b) it must calculate its tariff base as follows:
 - (i) it must use actual data in relation to the business to which the tariff rather than projected valuations;
 - (ii) the tariff is calculated by reference to the period beginning on the date it became a *participant firm* or had its *permission* extended, and ending on the 31 December before the start of the *FSCS* financial year; and
 - (iii) the figures are annualised by increasing them by the same proportion as the period of 12 *months* bears to the period starting from when the *participant firm* became a *participant firm* or had its *permission* extended to 31 December, as the case may be.

- (d) Where a *participant firm* is required to use a method in (c) it must notify the FSCS of its intention to do so by the date specified in 21.42.
 - (e) Where a *participant firm* is required to use actual data under this rule, Annex 2 is disapplied, to the extent it is incompatible, in relation to the calculation of that *participant firm's* valuation date in its second financial year.
- 21.35 The FSCS must allocate any *compensation costs levy* to the relevant *insurance classes* in proportion to the amount of *compensation costs* arising from, or expected to arise from, claims in respect of the different activities for which *firms* in those *insurance classes* have *permission* up to the *levy limit* of each relevant *insurance class*.
- 21.36 If a *participant firm* which is *in default* has carried on a *regulated activity* other than in accordance with a *permission*, the FSCS must treat any *compensation costs* or *specific costs* arising out of that activity as if the relevant *permission* were held by the *participant firm*.
- 21.37 A *participant firm* must pay to the FSCS a share of each *compensation costs levy* allocated to the *insurance classes* of which it is a member unless the *firm* is exempt under 21.5 to 21.8 or the FSCS has chosen to exercise its discretion under 21.25 in respect of that *firm*.
- 21.38 The FSCS must calculate each *participant firm's* share of a *compensation costs levy* (subject to 21.22) by:
- (1) identifying each of the *insurance classes* to which each *participant firm* belongs, using the statement of business most recently supplied under 21.42(1);
 - (2) identifying the *compensation costs* falling within 21.35 allocated, in accordance with 21.32, to the *insurance classes* identified in (1);
 - (3) calculating, in relation to each relevant *insurance class*, the *participant firm's* tariff base (see Annex 2) as a proportion of the total tariff base of all *participant firms* in the *insurance class*, using the statement of business most recently supplied under 21.42;
 - (4) applying the proportion calculated in (3) to the figure in (2); and
 - (5) if more than one *insurance class* is relevant, adding together the figure in (4) for each *insurance class*.
- 21.39 When calculating a *participant firm's* share of a *compensation costs levy* or *specific costs levy* allocated to each *insurance class* the FSCS must use the *insurance classes* and tariff bases as set out in the table in Annex 2.
- 21.40 A *firm* which becomes a *participant firm* part way through a financial year of the *compensation scheme* will not be liable to pay a share of a *compensation costs levy* made in that year.
- 21.41 21.34 applies to the calculation of a *participant firm's* *compensation costs levy* and its tariff base as it applies to the calculation of its *specific costs levy*.
- 21.42 (1) Unless exempt under 21.5, a *participant firm* must provide the FSCS by the end of February each year (or, if it has become a *participant firm* part way through the financial year, by the date requested by the PRA) with a statement of:
- (a) the *insurance class* to which it belongs; and
 - (b) the total amount of business (measured in accordance with the appropriate tariff base or tariff bases) which it conducted, in respect of the most recent

valuation period (as specified by Annex 2) ending before the relevant year in relation to each *insurance class*.

- (2) In this rule the relevant year means the year in which the *month* of February referred to in (1) falls.
- 21.43 If the information in 21.42 has been provided to the *PRA* under other rule obligations, a *participant firm* will be deemed to have complied with 21.42.
- 21.44 If a *participant firm* does not submit a complete statement by the date on which it is due in accordance with 21.42 and any prescribed submission procedures:
- (1) the *firm* must pay an administrative fee of £250 (but not if it is already subject to an administrative fee for non-submission of data in the same financial year required under this Part, any other rule, the *PRA Handbook* or the *FCA Handbook* and
- (2) the *compensation costs levy* and any *specific costs levy* will be calculated using (where relevant) the valuation or valuations of business applicable to the previous period, multiplied by the factor of 1.10 (or, if it has become a *participant firm* part way through a financial year, on the basis of the information provided to the *PRA* for the purposes of *FEES* 4.4.2R in the *PRA Handbook*) or on any other reasonable basis, making such adjustments as seem appropriate in subsequent levies once the true figures are known.
- 21.45 A *participant firm* must pay its share of any levy made by the *FSCS* in one payment.
- 21.46 A *participant firm's* share of a levy to which 21.45 applies is due on, and payable within 30 days of, the date when the invoice is issued.
- 21.47 A *participant firm* liable to pay its share of the levy under 21.45 must do so using one of the methods set out in *FEES* 4.2.4R in the *PRA Handbook* save that no additional amount or discount is applicable.
- 21.48 If a *firm* ceases to be a *participant firm* or carries out activities within one or more *insurance classes* part way through a financial year of the *compensation scheme*:
- (1) it will remain liable for any unpaid levies which the *FSCS* has already made on the *firm*; and
- (2) the *FSCS* may make one or more levies upon it (which may be before or after the *firm* has ceased to be a *participant firm* or carry out activities within one or more *insurance classes*, but must be before it ceases to be an *authorised person*) for the costs which it would have been liable to pay had the *FSCS* made a levy on all *participant firms* or *firms* carrying out activities within that *insurance class* in the financial year it ceased to be a *participant firm* or carry out activities within that *insurance class*.

22 TRANSITIONAL ARRANGEMENTS

- 22.1 With effect on and from 3 July 2015, the rules in this Part apply to defaults or circumstances giving rise to arrangements made under 4.1 or measures taken under 5.1 or other such actions of the *FSCS* or any levy levied by the *FSCS*.
- 22.2 Prior to 3 July 2015, the rules in *COMP* and/or *FEES* (as the case may be) apply to defaults or circumstances giving rise to arrangements made under *COMP* 3.3.1R or to measures taken under *COMP* 3.3.3R or other such actions of the *FSCS* or any levy levied by the *FSCS*.

22.3 In this Part:

- (1) subject to (3), a *claim* under a *protected contract of insurance* includes a *claim* in respect of an *article 9 default*;
- (2) where the *claim* is in respect of an *article 9 default*, the *FSCS* must apply the rules of the *relevant former scheme*, as they applied to the default before 1 December 2001 unless (3) applies;
- (3) a *claim* must be treated as a *claim* in relation to a *protected contract of insurance* under 9.6 if the conditions in article 9A or 10(1)(a)–(d) of the *compensation transitionals order* are satisfied.

22.4 The rules of the *Friendly Societies Protection Scheme* are amended so that:

- (1) references to the person managing the scheme are replaced by references to the *FSCS*; and
- (2) references to functions conferred upon the Friendly Societies Protection Scheme Board are replaced by references to functions conferred upon the *FSCS*.

22.5 (1) Any recoveries made by the *FSCS* after 31 March 2008 in relation to *protected claims* compensated prior to 1 April 2008, the costs of which were allocated to the relevant *contribution group* in place at the time, must be credited to the *insurance class* in place after 31 March 2008 to which the costs of the *protected claims* would have been allocated had it been compensated after that date, or if relevant, in accordance with *FEES* 6.3.20 R.

- (2) (1) does not apply to the extent that it is inconsistent with the *compensation transitionals order*.

22.6 For the purpose of *FEES* 6.5.13 R as it applied with respect to the *FSCS*'s financial year beginning on 1 April 2008, references in *FEES* 6.5.13 R to an *insurance class* must be read as references to an *insurance class* to which a *participant firm* belonged to on or after 31 March 2008.

22.7 The amendments made by the Fees Manual (*FSCS Funding*) Instrument 2007 to:

- (1) *FEES* 6.5.16 R only has effect before 1 April 2008 for the purpose of *FSCS*'s financial year beginning on 1 April 2008;
- (2) *FEES* 6 applies to any levy made after 31 March 2008. This is so even if:
 - (a) the *claim* against the *participant firm in default* arose or relates to circumstances arising before that date;
 - (b) the *participant firm* was *in default* before that date; or
 - (c) the levy relates to arrangements made or measures taken under *COMP* 3.3 before that date.

22.8 (1) This rule adjusts the calculation of the tariff base for *insurance classes* B1 (General insurance provision) and C1 (Life and pensions provision). It applies if the *participant firm* is in run-off and has been in run-off since 1 November 2008.

- (2) The whole of the levy is calculated by reference to *relevant net premium income* instead of being split 75:25 between *relevant net premium income* and eligible gross technical liabilities or mathematical reserves.
- (3) A *participant firm* is in run-off for these purposes if:
 - (a) it has ceased to effect new *contracts of insurance*;
 - (b) its *permission for effecting contracts of insurance* has been cancelled;
 - (c) its exclusive remaining business is administering its remaining insurance liabilities; and
 - (d) where it is required to supply one, it has supplied a run-off plan under *SUP App 2.8.1R*.

ANNEX 1: MAXIMUM LEVY LIMIT

INSURANCE CLASS	LEVY LIMIT (£ MILLION)
B1: GENERAL INSURANCE PROVISION	600
C1: LIFE AND PENSIONS PROVISION	690

ANNEX 2: METHODOLOGY FOR CALCULATION OF A PARTICIPANT FIRM'S LEVY SHARE

Insurance Class B1	General Insurance Provision
Firms with permission for:	(1) <i>effecting contracts of insurance</i> ; and/or (2) <i>carrying out contracts of insurance</i> ; that are <i>contracts of general insurance</i> .
Tariff base	<p>Insurance Class B1: <i>Relevant net premium income</i> and eligible gross technical liabilities. The levy is split into two in the ratio 75:25. The tariff base for the first portion (75%) is calculated by reference to <i>relevant net premium income</i>. The tariff base for the second portion (25%) is based on eligible gross technical liabilities.</p> <p>Eligible gross technical liabilities are calculated in accordance with the method for calculating gross technical liabilities in fee block A3 in Part 3 of <i>FEES 4 Annex 1B R</i> with the following adjustments.</p> <p>(1) Eligible gross technical liabilities are calculated by reference to <i>protected contracts of insurance with eligible claimants</i>.</p> <p>(2) A <i>participant firm</i> may choose not to apply paragraph (1) and instead include all gross technical liabilities that it would be obliged to take into account for fee block A3 as long as the amount that it would include under (1) is lower.</p> <p>(3) If an <i>incoming EEA firm</i> does not report gross technical liabilities in the way contemplated by this table, the <i>participant firm's</i> gross technical liabilities are calculated in the same way as they would be for a <i>UK firm</i>.</p> <p>(4) None of the notes for the calculation of fees in fee block A3 in Part 3 of <i>FEES 4 Annex 1B R</i> of the <i>PRA Handbook</i> apply except for the purposes of (2).</p> <p>(5) A <i>directive friendly society</i> must also calculate eligible gross technical liabilities in accordance with this table.</p> <p>(6) A <i>non-directive friendly society</i> must calculate gross technical liabilities as the amount that it is required to show in FSC 2 or FSC 1 - Form 9 line 11 in Appendix 10 of IPRU(FSOC) of the <i>PRA Handbook</i> (assets allocated towards the general insurance business required minimum margin) in relation to the most recent financial year of the <i>participant firm</i> (as at the applicable reporting date under 21.42) for which the <i>participant firm</i> is required to have reported that information to the <i>PRA</i> under IPRU(FSOC) of the <i>PRA Handbook</i>. A <i>non-directive friendly society</i> must disregard for this purpose such amounts as are not required to be included by reason of a <i>waiver</i> or a written concession carried forward as an amendment to the rule to which it relates under <i>SUPTP</i> of the <i>PRA Handbook</i>.</p>

Insurance Class C1	Life and Pensions Provision
Firms with permission for:	(1) <i>effecting contracts of insurance</i> ; and/or (2) <i>carrying out contracts of insurance</i> ; that are <i>contracts of long-term insurance</i> (including <i>pure protection contracts</i>).
Tariff base	Insurance Class C1: <i>Relevant net premium income</i> and eligible mathematical

reserves. The levy is split into two in the ratio 75:25. The tariff base for the first portion (75%) is calculated by reference to *relevant net premium income*. The tariff base for the second portion (25%) is based on mathematical reserves.

Eligible mathematical reserves are calculated in accordance with the method for calculating mathematical reserves in fee block A4 in Part 3 of *FEES 4 Annex 1B R* of the *PRA Handbook* with the following adjustments.

(1) Eligible mathematical reserves are calculated by reference to *protected contracts of insurance with eligible claimants*.

(2) A *participant firm* may choose not to apply paragraph (1) and instead include all mathematical reserves that it would be obliged to take into account for fee block A4 as long as the amount that it would include under (1) is lower.

(3) If an *incoming EEA firm* does not report mathematical reserves in the way contemplated by this table, the *participant firm's* mathematical reserves are calculated in the same way as they would be for a *UK firm*.

(4) None of the notes for the calculation of fees in fee block A4 in Part 3 of *FEES 4 Annex 1B R* of the *PRA Handbook* apply except for the purposes of (3).

(5) A *directive friendly society* must also calculate eligible mathematical reserves in accordance with this table.

(6) A *non-directive friendly society* must calculate mathematical reserves as the amount that it is required to show in FSC 2 or FSC 1 - Form 9 line 23 in Appendix 10 of IPRU(FSOC) of the *PRA Handbook* (total mathematical reserves after distribution of surplus) in relation to the most recent financial year of the *firm* (as at the applicable reporting date under 21.42) for which the *firm* is required to have reported that information to the *PRA* under IPRU(FSOC) of the *PRA Handbook*. A *non-directive friendly society* must disregard for this purpose such amounts as are not required to be included by reason of a *waiver* or a written concession carried forward as an amendment to the rule to which it relates under *SUP TP* of the *PRA Handbook*.

(7) The provisions relating to pension fund management business in Part 3 of *FEES 4 Annex 1B R* of the *PRA Handbook* does not apply. A *participant firm* undertaking such business that does not carry out any other activities within *insurance class C1* (ignoring any activities that would have a wholly insignificant effect on the calculation of its tariff base for *insurance class C1*) must use its long-term insurance capital requirement instead of gross technical liabilities. The Long-term insurance capital requirement means the amount that it is required to show as its long-term insurance capital requirement in Form 2 Line 31 (Statement of solvency - long-term insurance business) in relation to the most recent financial year of the *participant firm* (as at the applicable reporting date under 21.42) for which the *participant firm* is required to have reported that information to the *PRA*.

(8) The split in the levy between *relevant net premium income* and eligible mathematical reserves does not apply to a partnership pension society (as defined in chapter 7 of IPRU(FSOC) (Definitions) of the *PRA Handbook*). Instead the levy is only calculated by reference to *relevant net premium income*.

PRA RULEBOOK: SOLVENCY II FIRMS; NON SOLVENCY II FIRMS; NON-AUTHORISED PERSONS: LLOYD'S 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);
 - (2) section 137T (General supplementary powers);
 - (3) section 213(1) (The compensation scheme);
 - (4) section 316(1) (Direction by a regulator);and
 - (5) section 317 (The core provisions).
- 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) and section 319 of the Act (Consultation), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and the proposed direction and had regard to representations made.

PRA Rulebook: Solvency II Firms; Non Solvency II Firms; Non-Authorized Persons: Lloyd's Instrument 2015

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

Commencement

- E. This instrument comes into force on 3 July 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: Solvency II Firms; Non Solvency II Firms; Non-Authorised Persons: Lloyd's Instrument 2015.

By order of the Board of the Prudential Regulation Authority
30 March 2015

Annex A

Insert the following new definitions (in the appropriate alphabetical position) into the Glossary Part of the *PRA* Rulebook:

former member

means a *person* who has ceased to be a *member*, whether by resignation or otherwise, in accordance with Lloyd's Act 1982 and any *byelaw* made under it.

individual member

includes a *member* which is a *limited liability partnership* or a *body corporate* whose *members* consist only of, or of the nominees for, a single natural *person* or a group of connected *persons*.

Annex B

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

Part

~~LLOYD'S: ACTUARIES AND AUDITORS~~

Chapter content

1. APPLICATION AND DEFINITIONS
2. AUDITORS AND ACTUARIES DIRECTION
3. LLOYD'S AND THE FSCS
4. LLOYD'S MEMBERS COMPENSATION SCHEME

Links

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to the *Society*.

~~4.1.1.2~~ In this Part the following definitions apply:

insurance business

...

underwriting agent

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

2 AUDITORS AND ACTUARIES DIRECTION

2.1 ...

...

3 LLOYD'S AND THE FSCS

3.1 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).

4 LLOYD'S MEMBERS COMPENSATION SCHEME

4.1 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*.

**PRA RULEBOOK: CRR FIRMS: NON CRR FIRMS: NON AUTHORISED PERSONS:
DORMANT ACCOUNT SCHEME 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 213 (The compensation scheme);
 - (2) section 214 (General); and
 - (3) section 219 (Scheme manager’s power to require information)
- 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: Non Authorised Persons: Dormant Account Scheme Instrument 2015

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

Commencement

- E. This instrument comes into force on 3 July 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms Non CRR Firms Non Authorised Persons: Dormant Account Scheme Instrument 2015

By order of the Board of the Prudential Regulation Authority
30 March 2015

Annex

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

Part

DORMANT ACCOUNT SCHEME

Chapter content

1. APPLICATION AND DEFINITIONS
2. ELIGIBILITY
3. DORMANT ACCOUNT FUND OPERATORS IN DEFAULT
4. THE QUALIFYING CONDITIONS FOR PAYING COMPENSATION
5. LIMITS ON COMPENSATION PAYABLE
6. PAYING COMPENSATION
7. FORM AND METHOD OF COMPENSATION
8. CALCULATING COMPENSATION
9. DUTIES OF THE FSCS
10. CLAIMS AGAINST THE FSCS AND CHALLENGING FSCS DECISIONS
11. ASSIGNMENT OF RIGHTS
12. SUBROGATION
13. RECOVERIES
14. REJECTION OF APPLICATION AND WITHDRAWAL OF OFFER
15. TIME LIMITS AND POSTPONING PAYMENT
16. FUNDING - FSCS'S POWER TO LEVY AND LIMITS ON LEVIES
17. FUNDING - MANAGEMENT OF FUNDS LEVIED
18. FUNDING - ADJUSTMENTS TO LEVY SHARES
19. FUNDING - BUSINESS ACQUISITIONS FROM DAS MEMBERS
20. FUNDING - BUSINESS ACQUISITIONS FROM NON-DAS MEMBERS
21. FUNDING - MANAGEMENT EXPENSES
22. FUNDING - DAS COMPENSATION COSTS
23. FUNDING - REPORTING REQUIREMENTS
24. FUNDING - OBLIGATION TO PAY
25. FUNDING – OVERPAYMENTS AND DEFERRAL
26. FUNDING - PAYMENT OF LEVIES
27. INFORMATION REQUIREMENTS

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) the *FSCS*;
- (2) a *dormant account fund operator*;
- (3) *UK banks*;
- (4) *building societies*; and
- (5) an *overseas firm* that:
 - (a) is not an *incoming firm*; and
 - (b) has a *Part 4A permission* that includes *accepting deposits*.

1.2 In this Part, the following definitions shall apply:

base costs

means *management expenses* which are not attributable to any particular *class*.

base costs levy

means a levy, forming part of the *management expenses levy*, to meet the *base costs* in the financial year of the *compensation scheme* to which the levy relates.

claim

means a valid claim made in respect of a civil liability owed by a *dormant account operator* to the claimant.

class

means one of the classes to which *FSCS* allocates levies in accordance with the rules of the *compensation scheme*.

class J

means the *class* which includes *DAS members*.

class J tariff base

means *dormant accounts* multiplied by 0.2 as at *31 December*.

compensation date

means the date on which a *dormant account operator* is determined to be *in default*.

compensation scheme

means the Financial Services Compensation Scheme established under section 213 of *FSMA*.

DAS base costs levy

means a *base costs levy* imposed by the *FSCS* on *DAS members*.

DAS compensation costs

means the costs incurred in paying compensation under the *dormant account scheme* (including the costs of paying interest, principal and other costs of borrowing to pay such costs).

DAS compensation costs levy

means a levy imposed by the *FSCS* on *DAS members* to meet *DAS compensation costs*.

DAS levy

means a *DAS compensation costs levy* or a *DAS management expenses levy*.

DAS management expenses levy

a levy imposed by the *FSCS* on *DAS members* to meet *management expenses* and which is made up of one or more of a *DAS base costs levy* and a *DAS specific costs levy*.

DAS member

means:

- (1) a *dormant account fund operator* for claims against which the *dormant account scheme* provides cover;
- (2) a *UK bank*;
- (3) a *building society*; or
- (4) an overseas firm that is not an *incoming firm* and has a *part 4A permission* that includes *accepting deposits*.

DAS specific costs

means *management expenses* attributable to the *dormant account scheme* other than *base costs*.

DAS specific costs levy

means a levy, forming part of the *DAS management expenses levy*, to meet the *DAS specific costs* in the financial year of the *dormant account scheme* to which the levy relates.

DGS compensation costs

has the meaning given in the Depositor Protection Part.

dormant account

has the meaning given in section 10 of the Dormant Bank and Building Society Accounts Act 2008.

depositor

has the meaning given in the Depositor Protection Part.

DGS member

has the meaning given in the Depositor Protection Part.

DGS specific costs

has the meaning given in the Depositor Protection Part.

dormant account fund operator

a person with a *Part 4A permission for operating a dormant account fund*.

dormant account scheme

means the *compensation scheme* for compensating persons in respect of *protected dormant accounts*.

eligible claimant

means a claimant whose *dormant account*.

- (1) was transferred to a *dormant account fund operator* which accepted the liability to repay it; and
- (2) would be an *eligible deposit* if it were held by a *DGS member*.

eligible deposit

has the meaning given in the Depositor Protection Part.

in default

describes the status of a *dormant account fund operator* following a determination made under 3.3.

legacy costs

has the meaning given in the Depositor Protection Part.

management expenses

has the meaning given in the Depositor Protection Part.

micro, small and medium-sized enterprises

has the meaning given in the Depositor Protection Part.

money laundering

has the meaning given in the Depositor Protection Part.

money purchase benefits

has the meaning given in the Depositor Protection Part.

occupational pension scheme

has the meaning given in the Depositor Protection Part.

operating a dormant account fund

means any of the *regulated activities* specified in:

- (1) article 63N(1)(a) of the *Regulated Activities Order* (meeting of repayment claims); or
- (2) article 63N(1)(b) of the *Regulated Activities Order* (managing dormant account funds (including the investment of such funds)).

personal pension scheme

has the meaning given in the Depositor Protection Part.

protected dormant account

means a *dormant account* which is covered by the *dormant account scheme*.

protected dormant account claim

means a *claim* in respect of a *protected dormant account*.

small self-administered scheme

has the meaning given in the Depositor Protection Part.

stakeholder pension scheme

has the meaning given in the Depositor Protection Part.

tariff statement

means the statement required under 23.2.

2 ELIGIBILITY

2.1 This Chapter applies only to the *FSCS*.

2.2 A *dormant account* is a *protected dormant account* only if:

- (1) the liability for it has been transferred to a *dormant account fund operator*;
- (2) it is not an *eligible deposit*; and
- (3) it would be an *eligible deposit* if it were held by a *DGS member*.

3 DORMANT ACCOUNT FUND OPERATORS IN DEFAULT

3.1 This Chapter applies only to the *FSCS*.

- 3.2 The FSCS shall pay compensation in respect of a *protected dormant account* if it is satisfied that the *protected dormant account* is a *dormant account* of a *dormant account fund operator* who is *in default*.
- 3.3 A *dormant account fund operator* is *in default* if the FSCS has determined it to be *in default* under 3.4 or 3.5.
- 3.4 The FSCS may determine a *dormant account fund operator* to be *in default* when it is, in the opinion of the FSCS or the PRA:
- (1) unable to satisfy *protected dormant account claims* against it; or
 - (2) likely to be unable to satisfy *protected dormant account claims* against it.
- 3.5 The FSCS may determine a *dormant account fund operator* to be *in default* if it is satisfied that a *protected dormant account claim* exists, and the *dormant account fund operator* is the subject of one or more of the following proceedings in the *United Kingdom* (or of equivalent or similar proceedings in another jurisdiction):
- (1) the passing of a resolution for a creditors' voluntary winding up;
 - (2) a determination by the *dormant account fund operator's* home state regulator that the *dormant account fund operator* appears unable to meet *claims* against it and has no early prospect of being able to do so;
 - (3) the appointment of a liquidator or administrator, or provisional liquidator or interim manager;
 - (3) the making of an order by a court of competent jurisdiction for the winding up of a company, the dissolution of a partnership, the administration of a company or partnership, or the bankruptcy of an individual;
 - (4) the approval of a company voluntary arrangement, a partnership voluntary arrangement, or of an individual voluntary arrangement.
- 3.6 For the purposes of sections 219(1A)(b) and (d) of *FSMA* whether a *dormant account fund operator* is unable or likely to be unable to satisfy *claims* shall be determined by reference to whether it is *in default*.

4 THE QUALIFYING CONDITIONS FOR PAYING COMPENSATION

- 4.1 This Chapter applies only to the FSCS.
- 4.2 The FSCS may, subject to Chapter 5, pay compensation to an *eligible claimant* if it is satisfied that:
- (1) an *eligible claimant* has made an application for compensation;
 - (2) the claim is a *protected dormant account claim* against a *dormant account fund operator* who is *in default*, and
 - (3) where the FSCS so requires, the claimant has assigned the whole or any part of his rights against the *dormant account fund operator* or against any third party to the FSCS, on such terms as the FSCS thinks fit.

5 LIMITS ON COMPENSATION PAYABLE

- 5.1 This Chapter applies only to the *FSCS*.
- 5.2 The maximum compensation sum payable for the aggregate *protected dormant accounts* of each *eligible claimant* is the same sum as the maximum compensation sum payable for aggregate *eligible deposits* of each *depositor* under Depositor Protection 4.2 but without reference to the cases in which additional compensation may be payable under Depositor Protection 4.3.
- 5.3 In the event of a default of a *dormant account fund operator*, the *FSCS* will pay compensation in accordance with 5.2 on the basis of the authorisation of the *DGS member* who was liable for the *eligible deposit* immediately prior to the liability being transferred to the *dormant account fund operator* (and the relevant authorisation of the *DGS member* is the authorisation that was in place at the time that the liability was transferred).

6 PAYING COMPENSATION

- 6.1 This Chapter applies only to the *FSCS*.
- 6.2 The *FSCS* may treat *persons* who are or who may be entitled to claim compensation in respect of a *protected dormant account* as if they had done so.
- 6.3 The *FSCS* may also pay compensation (and any recovery or other amount payable by the *FSCS* to the claimant) to a *person* who makes a *protected dormant account claim* on behalf of another *person* if the *FSCS* is satisfied that the *person* on whose behalf the *claim* is made:
- (1) is or would have been an *eligible claimant*, and
 - (2) would have been paid compensation by the *FSCS* had he been able to make the *claim* himself, or to pursue his application for compensation further.
- 6.4 The *FSCS* must pay any compensation to the claimant, with the following exceptions:
- (1) where the claimant directs that any compensation be paid to another *person*, the *FSCS* may pay compensation as directed by the claimant;
 - (2) where the claimant is not absolutely entitled to the *protected dormant account*:
 - (a) if another *person* is absolutely entitled to the *protected dormant account*, that *person* is the *person* entitled to compensation in respect of the *protected dormant account*, and accordingly the *FSCS* must pay any compensation to the *person* who is absolutely entitled to the *protected dormant account*, provided that the *person* has been identified or is identifiable before the *compensation date*; and
 - (a) if no *person* is absolutely entitled to the *protected dormant account*, the *FSCS* must pay any compensation in accordance with such of 6.5 – 6.8 as applies.
- 6.5 If a *person* is:
- (1) a trustee (other than a bare trustee); or

- (2) the operator of, or the *person* carrying on the *regulated activity* of winding up, a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or *personal pension scheme*,

the *FSCS* must treat their entitlement to compensation in this capacity as separate from their entitlement to compensation in any other capacity, as if the two entitlements were held by different *persons*.

6.6 If a *protected dormant account* is held:

- (1) for the trustees of a *small self-administered scheme*, an *occupational pension scheme* of *micro, small or medium sized enterprise*, or the trustee or operator of, or the *person* carrying on the *regulated activity* of winding up, a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or *personal pension scheme*, or

- (2) for one or more members of a pension scheme (or, where relevant, the beneficiary of any member) whose benefits are *money-purchase benefits*;

the *FSCS* must treat the member or members (or, where relevant, the beneficiary of any member) separately as *persons* entitled to receive compensation.

6.7 If any group of *persons* are:

- (1) co-trustees (other than bare co-trustees); or
- (2) *operators* of, or persons carrying on the *regulated activity* of winding up, a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or a *personal pension scheme*,

(or any combination thereof), the *FSCS* must treat them as a single and continuing *person* distinct from the *persons* who may from time to time be the trustees, or the operators or persons winding up the relevant pension scheme.

6.8 Where the same *person* is:

- (1) trustee for different trusts or for different *stakeholder pension schemes* (which are not *occupational pension schemes*) or *personal pension schemes*; or
- (2) the operator of, or the *person* carrying on the *regulated activity* of winding up, different *stakeholder pension schemes* (which are not *occupational pension schemes*) or *personal pension schemes*,

the *FSCS* shall treat that person's entitlement to compensation in respect of each of these trusts or schemes as if they were entitlements of a *different person*.

6.9 Where any of the provisions of 6.5, 6.7 or 6.8 apply, the *FSCS* must try to ensure that any amount paid to:

- (1) the trustee; or
- (2) the operator of, or the person carrying on the *regulated activity* of winding up, a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or *personal pension scheme*

is, in each case:

- (3) for the benefit of members or beneficiaries whose own *deposits* would be *eligible deposits* if they were held by a *DGS member*; and
 - (4) no more than the amount of the loss suffered by those members or beneficiaries.
- 6.10 Where a person holds a *protected dormant account* as the personal representative of another or on behalf of another, the *FSCS* must treat the personal representative or the person acting on behalf of another in respect of that *protected dormant account* as if they were standing in the shoes of that other *person*.
- 6.11 In applying this Chapter to *protected dormant accounts* held with a branch outside the *United Kingdom* of a *dormant account fund operator*, the *FSCS* must interpret references to:
- (1) *persons* entitled as personal representatives, trustees, bare trustees, *operators of pension schemes* or persons carrying on the *regulated activity* of winding up *pension schemes*; or
 - (2) persons having a joint account or joint interest in a deposit or carrying on business in partnership,
- as references to *persons* entitled, under the law of the relevant country or territory, in a capacity appearing to the *FSCS* to correspond as nearly as may be to that capacity.

7 FORM AND METHOD OF COMPENSATION

- 7.1 This Chapter applies only to the *FSCS*.
- 7.2 Subject to Chapter 6, the *FSCS* may pay compensation in any form and by any method (or any combination of them) that it determines is appropriate including, without limitation:
- (1) by paying the compensation (on such terms as the *FSCS* considers appropriate) to a *firm* with a *Part 4A permission to accept deposits* or an *incoming firm* or another *dormant account fund operator* which agrees to become liable to the claimant in a like sum;
 - (2) by paying compensation directly into an existing deposit account of (or for the benefit of) the claimant, or as otherwise identified by (or on behalf of) the claimant, with a *firm* (but before doing so the *FSCS* must take such steps as it considers appropriate to verify the existence of such an account and to give notice to the claimant of its intention to exercise this power); or
 - (3) (where two or more *persons* have a joint *claim*) by accepting communications from and/or paying compensation to any one of those *persons* where this is in accordance with the terms and conditions for communications and withdrawals of the relevant *eligible deposit* immediately prior to the transfer of it to the *dormant account fund operator*.
- 7.3 If the *FSCS* is satisfied that, in principle, compensation is payable in connection with any *protected dormant account claim*, but considers that immediate payment in full would not be prudent because of uncertainty as to the amount of the claimant's

overall *claim*, it may decide to pay an appropriate lesser sum in final settlement, or to make payment on account.

- 7.4 The *FSCS* may also decide to make a payment on account or to pay a lesser sum in final settlement if the claimant has any reasonable prospect for recovery in respect of the *claim* from any third party or by applying for compensation to any other *person*.
- 7.5 The *FSCS* may pay interest on the compensation sum in such circumstances as it considers appropriate.
- 7.6 Interest under 7.5 is not to be taken into account when applying the limits on the compensation sum payable in respect of a *claim* for a *protected dormant account* under 5.2.
- 7.7 Where the *FSCS* considers that the conditions in 7.4 are satisfied but, in relation to a class of *claim*, in order to provide fair compensation for the generality of such *claims* it would be appropriate to take the approach in (1) and (2) rather than pay an appropriate lesser sum in final settlement or make a payment on account, it may for that class of *claim*:
- (1) receive whether by assignment, transfer or operation of law the whole or any part of a claimant's rights against the *dormant account fund operator*, or against any third party, or both on such terms as the *FSCS* thinks fit; and
 - (2) disregard the value of the rights so received in determining the claimant's overall *claim*.

8 CALCULATING COMPENSATION

- 8.1 This Chapter applies only to the *FSCS*.
- 8.2 Subject to 5.2, the amount of compensation payable to the claimant in respect of a *protected dormant account claim* is the amount of his overall net *claim* against the *dormant account fund operator* at the *compensation date*.
- Any reference in this Part to overall *claim* means "overall net *claim*".
- 8.3 The *FSCS* must take into account any payments to the claimant (including amounts recovered by the *FSCS* on behalf of the claimant) made by the *dormant account fund operator* or the *FSCS* or any other *person*, if that payment is connected with the *dormant account fund operator's* liability to the claimant in calculating the claimant's overall *claim*.
- 8.4 The *FSCS* must calculate the amount of compensation due to the claimant as soon as reasonably possible after it is satisfied that the conditions in 4.2 have been met.
- 8.5 The share of each claimant of a joint *protected dormant account* shall be considered separately in calculating the limits provided for in 5.2. In the absence of contrary provision, the joint *protected dormant account* shall be divided equally among the claimants to the nearest penny.
- 8.6 *Protected dormant accounts* to which two or more *persons* are entitled as a members of a business partnership, association or grouping of a similar nature, without legal personality, must be aggregated and treated as if made by a single claimant for the purposes of calculating the limit in 5.2.

- 8.7 Where several *persons* are absolutely entitled to a beneficial interest in a *protected dormant account*, the share of each, under the arrangements subject to which the *protected dormant account* is managed, shall be considered separately in calculating the amount payable to each of them.
- 8.8 Where several *persons* are absolutely entitled to a beneficial interest in a *protected dormant account* and some of them are *persons* whose own *dormant account* would not be a *protected dormant accounts*, the *FSCS* must adjust the amount of the overall *protected dormant account* to eliminate the part of it which, in the *FSCS*'s view, relates to those beneficiaries' interest in the overall *dormant account*.

9 DUTIES OF FSCS

- 9.1 This Chapter applies only to the *FSCS*.
- 9.2 The *FSCS* must administer the *dormant account scheme*:
- (1) in accordance with the rules in this Part and any other rules prescribed by law;
 - (2) in a manner that is procedurally fair; and
 - (3) in accordance with the *European Convention on Human Rights*.
- 9.3 The *FSCS* must publish for *claimants* on its website all necessary information:
- (1) on the operation of the *dormant account scheme*; and
 - (2) on the process, eligibility and conditions for payment of compensation.
- 9.4 The *FSCS* may agree to pay the reasonable costs of an *eligible claimant* bringing or continuing insolvency proceedings against a *dormant account fund operator* in respect of *protected dormant accounts* (whenever instituted), if the *FSCS* is satisfied that those proceedings would help it to discharge its functions under this Part.
- 9.5 The *FSCS* must have regard to the need to use its resources in the most efficient and economic way in carrying out its functions under this Part.
- 9.6 The *FSCS* must take appropriate steps to ensure that claimants are informed of how they can make a *claim* for compensation under the *dormant account scheme* as soon as a possible after the *compensation date*.

10 CLAIMS AGAINST THE FSCS AND CHALLENGING FSCS DECISIONS

- 10.1 This Chapter applies only to the *FSCS*.
- 10.2 The *FSCS* must ensure that a person who would be, or considers that they would be, affected by an *FSCS* decision in relation to compensation, has an opportunity to make representations in respect of that potential decision before it is finalised.
- 10.3 The *FSCS* must, if requested by a claimant and subject to other applicable laws, give reasons to the claimant for any decision not to pay compensation in relation to some or all of their *protected dormant accounts*.
- 10.4 The procedure established by the *FSCS* under this Chapter must satisfy the minimum requirements of procedural fairness and comply with the *European Convention on Human Rights* for the handling of any complaints of

maladministration relating to any aspect of the operation of the *dormant account scheme*.

11 ASSIGNMENT OF RIGHTS

- 11.1 This Chapter applies only to the *FSCS*.
- 11.2 The *FSCS* may make any payment of compensation to a claimant in respect of a *protected dormant account* conditional on the claimant assigning the whole or any part of his rights against the *dormant account fund operator*.
- 11.3 If a claimant assigns the whole or any part of his rights against any *person* to the *FSCS* as a condition of payment, the effect of this is the sum payable in relation to the rights so assigned will be payable to the *FSCS* and not the claimant.
- 11.4 Before taking the assignment of rights from the claimant under 11.2, the *FSCS* must inform the claimant that if, after taking assignment of rights, the *FSCS* decides not to pursue recoveries using those rights, it will, if the claimant so requests in writing, reassign the assigned rights to the claimant. The *FSCS* must comply with such a request in such circumstances.

12 SUBROGATION

- 12.1 This Chapter applies only to the *FSCS*.
- 12.2 The *FSCS*'s powers in this Chapter may be used:
- (1) separately or in any combination as an alternative and in substitution for the powers and processes elsewhere in this Part;
 - (2) in relation to all or any part of a *claim* in respect of a *protected dormant account* or class of *claims* in respect of *protected dormant accounts*.
- 12.3 The *FSCS* may determine that the payment of compensation by the *FSCS* in respect of *protected dormant accounts* shall have all or any of the following effects:
- (1) the *FSCS* shall immediately and automatically be subrogated, subject to such conditions as the *FSCS* determines are appropriate, to all or any part (as determined by the *FSCS*) of the rights and claims in the *United Kingdom* and elsewhere of the claimant against the *dormant account fund operator* and/or any third party (whether such rights are legal, equitable or of any other nature whatsoever and in whatever capacity the *dormant account fund operator* or third party is acting) in respect of or arising out of the *claim* in respect of which the payment of or on account of compensation was made;
 - (2) the *FSCS* may claim and take legal or any other proceedings or steps in the *United Kingdom* or elsewhere to enforce such rights in its own name or in the name of, and on behalf of, the claimant or in both names against the *dormant account fund operator* and/or any third party;
 - (3) the subrogated rights and claims conferred on the *FSCS* shall be rights of recovery and claims against the *dormant account fund operator* and/or any third party which are equivalent (including as to amount and priority and whether or not the relevant *dormant account fund operator* is insolvent) to the

payment of compensation made by the *FSCS* and do not exceed the rights and claims that the claimant would have had; and/or

- (4) such rights or obligations (as determined by the *FSCS*) as between the *dormant account fund operator* and the claimant arising out of the *protected dormant account claim* in respect of which the payment was made shall be transferred to, and subsist between, another *dormant account fund operator* with an appropriate permission and the claimant provided that the other *dormant account fund operator* has consented (but the transferred rights and/or obligations shall be treated as existing between the *dormant account fund operator* and the *FSCS* to the extent of any subrogation, transfer or assignment for the purposes of (1) to (3) and 12.4.
- 12.4 (1) The *FSCS* may determine that, if it is necessary or desirable in conjunction with the exercise of the *FSCS*'s powers under 12.3, that the claimant shall be treated as having irrevocably and unconditionally appointed the chairman of the *FSCS* for the time being to be their attorney and agent and on their behalf and in their name or otherwise to do such things and execute such deeds and documents as may be required under such laws of the *UK*, another *EEA State* or any other state or law-country to create or give effect to such assignment or transfer or otherwise give full effect to those powers.
- (2) The execution of any deed or document under (1) shall be as effective as if made in writing by the compensation recipient or by his agent lawfully authorised in writing or by will.
- 12.5 (1) The powers conferred on the *FSCS* in 12.3 and 12.4 to make a determination must be exercised in writing.
- (2) An instrument by which the *FSCS* makes the determination must specify the provision under which it is made, the date and time from which it takes effect and the *dormant account fund operator* and *protected dormant account claims*, parts of *protected dormant account claims* and/or classes of *protected dormant account claims* in respect of which it applies.
- (3) The *FSCS* must take appropriate steps to publish the determination as soon as possible after it is made. Such publication must be accompanied by a statement explaining the effect of 12.3 and the *FSCS*'s determination.
- (4) Failure to comply with any requirement in this rule does not affect the validity of the determination.
- (5) A determination by the *FSCS* under 12.3 may be amended, remade or revoked at any time and subject to the same conditions.
- 12.6 (1) The production of a copy of a determination purporting to be made by the *FSCS* under this Chapter:
- (a) on which is endorsed a certificate, signed by a member of the *FSCS*'s staff authorised by it for that purpose; and
- (b) which contains the required statements; is evidence (or in Scotland sufficient evidence) of the facts stated in the certificate.
- (2) The required statements are:

- (a) that the determination was made by the *FSCS*; and
 - (b) that the copy is a true copy of the determination.
- (3) A certificate purporting to be signed as mentioned in (1) is to be taken to have been properly signed unless the contrary is shown.
- (4) A *person* who wishes in any legal proceedings to rely on a determination may require the *FSCS* to endorse a copy of the determination with a certificate of the kind mentioned in (1).

13 RECOVERIES

- 13.1 This Chapter applies only to the *FSCS*.
- 13.2 If the *FSCS* takes assignment or transfer of rights from the claimant or is otherwise subrogated to the rights of the claimant, it must pursue all and only such recoveries as it considers are likely to be both reasonably possible and cost effective to pursue.
- 13.3 If the *FSCS* decides not to pursue such recoveries and a claimant wishes to pursue those recoveries and so requests in writing, the *FSCS* must comply with that request and assign the rights back to the claimant.
- 13.4 If the *FSCS* makes recoveries in relation to a *protected dormant account claim* it may deduct from any recoveries paid over to the claimant under 13.5 part or all of its reasonable costs of recovery and distribution (if any).
- 13.5 If a claimant assigns or transfers his rights to the *FSCS* or a claimant's rights and claims are otherwise subrogated to the *FSCS* and the *FSCS* subsequently makes recoveries through those rights or claims, those recoveries must be paid to the claimant:
- (1) to the extent that the amount recovered exceeds the amount of compensation (excluding interest paid under 7.5) received by the claimant in relation to the *protected dormant account claim*; or
 - (2) in circumstances where the amount recovered does not exceed the amount of compensation paid, to the extent that failure to pay any sums recovered to the claimant would leave a claimant who had promptly accepted an offer of compensation or whose rights and claims had been subrogated to the *FSCS* at a disadvantage relative to a claimant who had delayed accepting an offer of compensation or whose claims had not been subrogated.
- 13.6 The *FSCS* must endeavour to ensure that a claimant will not suffer disadvantage arising solely from his prompt acceptance of the *FSCS*'s offer of compensation or from the subrogation of his rights and claims to the *FSCS* compared with what might have been the position had he delayed his acceptance or had his claims not been subrogated.

14 REJECTION OF APPLICATION AND WITHDRAWAL OF OFFER

- 14.1 This Chapter applies only to the *FSCS*.
- 14.2 If an application for compensation contains any material inaccuracy or omission, the *FSCS* may reject the application unless this is considered by the *FSCS* to be unintentional.

- 14.3 The *FSCS* must reject an application for compensation if:
- (1) the *FSCS* considers that a civil claim in respect of the liability would have been defeated by a defence of limitation at the earlier of:
 - (a) the date on which the *dormant account fund operator* is determined to be *in default*, and
 - b) the date on which the claimant first indicates in writing that he may have a claim against the *dormant account fund operator*,
 unless 14.4 applies.
- 14.4 The *FSCS* may withdraw any offer of compensation made to a claimant if the offer is not accepted or if it is not disputed within 90 days of the date on which the offer is made.
- 14.5 Where the amount of compensation offered is disputed, the *FSCS* may withdraw the offer but must consider exercising its powers to make a reduced or interim payment under 7.3 or 7.4 before doing so.
- 14.6 The *FSCS* may repeat any offer withdrawn under 14.4 or 14.5.
- 14.7 The *FSCS* must withdraw any offer of compensation if it appears to the *FSCS* that no such offer should have been made.
- 14.8 The *FSCS* must seek to recover any compensation paid to a claimant if it appears to the *FSCS* that no such payment should have been made, unless the *FSCS* believes on reasonable grounds that it would be unreasonable to do so, or that the costs of doing so would exceed any amount that could be recovered.

15 TIME LIMITS AND POSTPONING PAYMENT

- 15.1 This Chapter applies only to the *FSCS*.
- 15.2 The *FSCS* must pay a *protected dormant account claim* as soon as reasonably possible after:
- (1) it is satisfied that the conditions in 4.2 have been met; and
 - (2) it has calculated the amount of compensation due to the claimant
- and in any event within three months of that date, unless the *PRA* has granted the *FSCS* an extension, in which case payment must be made no later than six months from that date.
- 15.3 The *FSCS* may postpone paying compensation if the claimant has been charged with an offence arising out of or in relation to *money laundering* and those proceedings have not yet been concluded.
- 15.4 The *FSCS* may pay compensation in respect of a *protected dormant account* to a claimant in respect of assets held by a *dormant account fund operator* if an insolvency practitioner has been appointed to the *dormant account fund operator* and:

- (1) the FSCS considers it likely that the insolvency practitioner would, in due course, return the assets to the claimant;
- (2) the claimant has agreed to be compensated for the assets on the basis of the valuation provided by the FSCS; and
- (3) the claimant has agreed, to the satisfaction of the FSCS, that his rights to the assets in respect of which compensation is payable should pass to it.

16 FUNDING – FSCS’S POWER TO LEVY AND LIMITS ON LEVIES

16.1 This Chapter applies only to the FSCS.

16.2 The FSCS may at any time impose a:

- (1) *DAS compensation costs levy* on a *DAS member*;
- (2) *DAS specific costs levy* on a *DAS member*, or
- (3) *base costs levy* on a *dormant account fund operator*

provided that the FSCS has reasonable grounds for believing that the funds available to it to meet relevant expenses are, or will be, insufficient, taking into account expenditure already incurred, actual and expected recoveries and:

- (a) in the case of a *DAS management expenses levy*, the level of the FSCS's expected expenditure in respect of those expenses in the financial year of the *DAS compensation scheme* in relation to which the levy is imposed;
- (b) in the case of a *DAS compensation costs levy*
 - (i) the FSCS's expenditure in respect of *DAS compensation costs* expected in the 12 *months* following the levy; or, if greater
 - (ii) one third of the FSCS's expenditure in respect of *DAS compensation costs* expected in the 36 *months* following the levy.

16.3 The calculation of *DAS levies* must also take into account previous levies, where funds raised in anticipation of meeting liabilities prove either more or less than the amount actually required.

16.4 The maximum aggregate amount of *DAS compensation costs* and *DAS specific costs* for which the FSCS can levy *class J* in any one financial year of the *dormant account scheme* is limited to £1,500,000,000 less whatever *DGS compensation costs*, *legacy costs* and *DGS specific costs* the FSCS has imposed on *class A* in that same financial year.

17 FUNDING – MANAGEMENT OF FUNDS LEVIED

17.1 This Chapter applies only to the FSCS.

17.2 The FSCS must hold any amount collected from a *DAS specific costs levy* or *DAS compensation costs levy* to the credit of *class J*.

- 17.3 Any funds received by the *FSCS* by way of levy or otherwise for the purposes of the *dormant account scheme* are to be managed as the *FSCS* considers appropriate, and in doing this the *FSCS* must act prudently.
- 17.4 Interest earned by the *FSCS* in the management of funds held to the credit of *class J* must be credited to that *class*, and must be set off against the *DAS management expenses* or *DAS compensation costs* allocated to that *class*.
- 17.5 The *FSCS* must keep accounts which include:
- (1) the funds held to the credit of *class J*; and
 - (2) the liabilities of *class J*.
- 17.6 If the *FSCS* has more funds (whether from levies, recoveries or otherwise) to the credit of *class J* than the *FSCS* believes will be required to meet levies on *class J* for the next 12 months, it may refund the surplus to members or former members of *class J* on any reasonable basis.

18 FUNDING – ADJUSTMENTS TO LEVY SHARES

- 18.1 This Chapter applies only to the *FSCS*.
- 18.2 The *FSCS* may adjust the calculation of a *DAS member's* share of a *DAS levy* to take proper account of:
- (1) any excess, not already taken into account, between previous levies of that type imposed in relation to previous periods and the relevant costs actually incurred in that period; or
 - (2) amounts that the *FSCS* has not been able to recover from *DAS members* as a result of 16.4; or
 - (3) amounts that the *FSCS* has not been able to recover from *DAS members* after having taken reasonable steps; or
 - (4) payments deferred under 25.2, the calculation of levies after an acquisition of business under 19 or 20, calculations under 21.7, remission of additional administrative fee under 23.4; or
 - (5) anything else that the *FSCS* believes on reasonable grounds should be taken into account.
- 18.3 The *FSCS* may not adjust the calculation of a *DAS member's* share of any *DAS levy* under 18.2 on the grounds that it would be inequitable for that *firm* to pay that share or part of it or on the grounds that it would be inequitable for the *FSCS* to retain that share or part of it. Any such claim should be dealt with under 25.
- 18.4 If a *DAS member's* share of a *DAS levy* or an additional administrative fee under this Part would be so small that, in the opinion of the *FSCS*, the costs of collection would be disproportionate to the amount payable, the *FSCS* may treat the *DAS member* as if its share of the levy or additional administrative fee amounted to zero.

19 FUNDING – BUSINESS ACQUISITIONS FROM DAS MEMBERS

- 19.1 This Chapter applies only to the *FSCS*.

- 19.2 If:
- (1) a *DAS member* (A) assumes the liability to repay the *dormant accounts* of another *DAS member* (B);
 - (2) B is no longer liable to pay a *DAS levy* to the *FSCS*; and
 - (3) the assumption of liability takes place after the date to which, or as of which, A's most recent *tariff statement* is drawn up,

the *FSCS* must require A pay an additional amount equal to the levy that would have been payable by B in relation to the relevant business and *class J* if the acquisition had not taken place and B had remained liable to pay *DAS levies*. The amount is based on B's most recent *tariff statement*.

- 19.3 This Chapter only applies with respect to those financial years of the *FSCS* for which A's levies are calculated on the basis of a *tariff statement* drawn up to a date, or as of a date, before the assumption of liability took place.

20 FUNDING – BUSINESS ACQUISITIONS FROM NON-DAS MEMBERS

- 20.1 This Chapter applies only to the *FSCS*.
- 20.2 If a *DAS member* (A) assumes a liability to repay *protected dormant accounts* held by a non-*DAS member* (B) and the assumption of liability takes place after the date to which, or as of which, A's most recent *tariff statement* is drawn up, the *FSCS* must not require A to pay an additional amount as a result of that acquisition.
- 20.3 This Chapter only applies with respect to those financial years of the *FSCS* for which A's levies are calculated on the basis of a *tariff statement* drawn up to a date, or as of a date, before the assumption of liability took place.

21 FUNDING – MANAGEMENT EXPENSES

- 21.1 This Chapter applies only to the *FSCS*.
- 21.2 A *DAS member's* share of a *DAS management expenses levy* consists of:
- (1) one or more of a share of a *DAS base costs levy* and a share of a *DAS specific costs levy* if the *DAS member* is a *dormant account fund operator*;
 - (2) a share of a *DAS specific costs levy* if the *DAS member* is not a *dormant account fund operator*.
- 21.3 The *FSCS* must ensure that each *DAS member's* share of a *DAS management expenses levy* separately identifies the *firm's* share of the *DAS base costs levy* and *DAS specific costs levy* as applicable.
- 21.4 The *FSCS* must allocate any *DAS specific costs levy* to *class J* up to the levy limit for *class J* under 16.4.
- 21.5 The *FSCS* must calculate a *DAS member's* share of a *DAS specific costs levy* by:
- (1) identifying the *DAS specific costs* which the *FSCS* has incurred, or expects to incur, in the relevant financial year of the compensation schemes allocated to *class J*, but not yet levied;

- (2) calculating the *DAS member's class J tariff base* as a proportion of the *total class J tariff base*, using the *tariff statement* most recently supplied; and
 - (3) applying the proportion calculated in (2) to the figure in (1).
- 21.6 The *FSCS* must not require a *firm (A)* which becomes a *DAS member* part way through a financial year of the *dormant account scheme* to pay a share of a *DAS specific costs levy* until the financial year of the *FSCS* following the *FSCS* financial year in which *A* became a *DAS member*, at which time *A's* share of a *DAS specific costs levy* must be calculated under 21.7.
- 21.7 (1) Unless otherwise provided in (2) *A's class J tariff base* is calculated, where necessary, using the projected valuation of the business to which the tariff relates.
- (2)
- (a) If *A's class J tariff base* is calculated using data from a period that begins on or after it became a *DAS member*, that data must be used to calculate *A's class J tariff base*.
 - (b) If a *A's class J tariff base* satisfies the following conditions, it must be calculated under (c):
 - (i) *A* became a *DAS member* between 1 April and 31 December inclusive; and
 - (ii) *A's class J tariff base*, but for this rule, is calculated by reference to the financial year ended in the calendar year ending 31 December or the twelve *months* ending 31 December before the *FSCS* financial year.
 - (c) If *A* satisfies the conditions in (b) it must calculate its *class J tariff base* as follows:
 - (i) it must use actual data in relation to the business to which the tariff relates rather than projected valuations;
 - (ii) the tariff is calculated by reference to the period beginning on the date it became a *DAS member* and ending on the 31 December before the start of the *FSCS* financial year; and
 - (iii) the figures are annualised by increasing them by the same proportion as the period of 12 *months* bears to the period starting from when *A* became a *DAS member* to the 31 December, as the case may be.
 - (d) Where *A* is required to use the method in (c) it must notify the *FSCS* of its intention to do so by the date specified in 23.2.
 - (e) Where *A* is required to use actual data under this rule, 23.2 is disapplied, to the extent it is incompatible, in relation to the calculation of *A's* valuation date in its second financial year.

22 FUNDING – DAS COMPENSATION COSTS

- 22.1 This Chapter applies only to the *FSCS*.
- 22.2 The *FSCS* must allocate any *DAS compensation costs levy* to *DAS members* in accordance with the amount of *DAS compensation costs* arising from, or expected to arise from claims in respect of *protected dormant accounts* up to the levy limit of *class J* under 16.4.
- 22.3 The *FSCS* must calculate each *DAS member's* share of a *DAS compensation costs levy* by:
- (1) identifying the *DAS compensation costs* allocated to *class J*;
 - (2) calculating, in relation to *class J*, the *DAS member's* tariff base as a proportion of the total tariff base of all *DAS members* in *class J*, using the *tariff statement* most recently supplied;
 - (3) applying the proportion calculated in (2) to the figure in (1).
- 22.4 When calculating a *DAS member's* share of a *DAS compensation costs levy* or *DAS specific costs levy* allocated to *class J*, the *FSCS* must use the *class J tariff base*.
- 22.5 A *firm* which becomes a *DAS member* part way through a financial year of the *dormant account scheme* will not be liable to pay a share of a *DAS compensation costs levy* made in that year.
- 22.6 21.6 applies to the calculation of a *DAS member's* *DAS compensation costs levy* and its tariff base as it applies to the calculation of its *DAS specific costs levy*.

23 FUNDING – REPORTING REQUIREMENTS

- 23.1 This Chapter applies only to *DAS members*.
- 23.2 A *DAS member* must provide the *FSCS* by end of February each year (or, if it has become a *DAS member* part way through the financial year, by the date requested by the *PRA*) with a statement of its *class J tariff base* calculation (measured in accordance with the *class J tariff base*) which it conducted, in respect of the most recent valuation period ending before the relevant year in relation to *class J*.
- The relevant year means the year in which the month of February (referred to above) falls.
- The valuation period will be 31 December.
- 23.3 A new *DAS member* must calculate its *class J tariff base* in accordance with 21.7.
- 23.4 If a *DAS member* does not submit a complete *tariff statement* by the date on which it is due in accordance with 23.2 and any prescribed submission procedures:
- (1) the *DAS member* must pay an administrative fee of £250 (but not if it is already subject to an administrative fee by the *PRA* for the same financial year); and
 - (2) the *DAS compensation costs levy* and any *DAS specific costs levy* will be calculated using (where relevant) the valuation or valuations of business

applicable to the previous period, multiplied by the factor of 1.10 (or, if it has become a *DAS member* part way through a financial year, on the basis of the information provided to the *PRA* for the purposes of FEES 4.4.2 R) or on any other reasonable basis, making such adjustments as seem appropriate in subsequent levies once the true figures are known.

24 FUNDING – OBLIGATION TO PAY

- 24.1 This Chapter applies only to *DAS members*.
- 24.2 A *firm* must pay to the *FSCS* its share of each:
- (1) *DAS management expenses levy*; and
 - (2) *DAS compensation costs levy* allocated to *class J*.
- 24.3 If a *firm* does not pay the total amount of its share of a *DAS levy*, before the end of the date on which it is due, it must pay an additional amount as follows:
- (1) if the *DAS levy* was not paid in full before the end of the due date, an administrative fee of £250; plus
 - (2) interest on any unpaid part of the *DAS levy* or administrative fee at the rate of 5% per annum above the Official Bank Rate from time to time in force, accruing on a daily basis from the date on which the amount concerned became due.

25 FUNDING – OVERPAYMENTS AND DEFERRAL

- 25.1 The *FSCS* may reduce, remit or refund any overpaid amounts paid by a *DAS member* in respect of a particular period, due to a mistake of law or fact by the *DAS member* provided that the claim is made by the *DAS member* not more than 2 years after the beginning of the period to which the overpayment relates.
- 25.2 The *PRA* may defer, in whole or in part, a *firm's* obligation to pay a *DAS levy* if the *PRA* considers that such contributions would jeopardise the liquidity or solvency of the *firm*. Such deferral shall not be granted for a longer period than six months but may be renewed upon request of the *firm*.
- 25.3 Any contributions deferred pursuant to 25.2 shall be paid when the payment no longer jeopardises the liquidity and solvency of the *firm*.

26 PAYMENT OF LEVIES

- 26.1 This Chapter applies only to *DAS members*.
- 26.2 A *firm* must pay its share of any levy made by the *FSCS* in one payment.
- 26.3 A *firm's* share of a *DAS levy* is due on, and payable within, 30 days of the date when the invoice is issued.

- 26.4 A *firm* must pay its share of a *DAS levy* by direct debit, credit transfer (e.g. BACS or CHAPS), cheque, Maestro, Visa Debit or by credit card (Visa/MasterCard/American Express only).
- 26.5 If a *firm* ceases to be a *DAS member* part way through a financial year of the *dormant account scheme*:
- (1) it will remain liable for any unpaid levies which the *FSCS* has already made on the *firm*; and
 - (2) the *FSCS* may make one or more levies upon it (which may be before or after the *firm* has ceased to be a *DAS member* but must be before it ceases to be a *firm* for the costs which it would have been liable to pay had the *FSCS* made a levy on all *DAS members* in the financial year it ceased to be a *DAS member*.

HANDBOOK (RULEBOOK CONSEQUENTIALS No. 1) INSTRUMENT 2015**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);
 - (2) section 137T (General supplementary powers);
 - (3) section 213 (The compensation scheme);
 - (4) section 214 (General);
 - (5) section 215 (Rights of the scheme in insolvency);
 - (6) section 218A (Regulators power to require information);
 - (7) section 223 (Management expenses); and
 - (8) section 224F (Rules about relevant schemes).
- 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 with the Financial Conduct Authority) (“FCA”), the PRA consulted the FCA. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

Commencement

- D. This instrument comes into force on 3 July 2015.

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 of definitions	Annex A
General provisions (GEN)	Annex B
Fees manual (FEES)	Annex C
Supervision manual (SUP)	Annex D
Credit Unions sourcebook (CREDS)	Annex E

Deletion

- G. Each of the following modules and chapters of the PRA’s Handbook is deleted:

FEES 6 (Financial Services Compensation Scheme Funding)
COMP (Compensation)

Citation

H. This instrument may be cited as the Handbook (Rulebook Consequentials No. 1) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

30 March 2015

Annex A

Amendments to the Glossary of definitions

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

Amend the following as shown:

annual eligible income ~~————— (in FEES) (in relation to a *firm* and a *class*) the annual income (as described FEES 6 Annex 3) for the *firm's* last financial year ended in the year to 31 December preceding the date for submission of the information under FEES 6.5.13 R, attributable to that *class*. A *firm* must calculate *annual eligible income* from such annual income in one of the following ways:~~

~~(a) only include such annual income if it is attributable to business conducted with or for the benefit of *eligible claimants* and is otherwise attributable to compensatable business; or~~

~~(b) include all such annual income.~~

article 9 default ~~————— (as defined in article 2(2) of the *compensation transitionals order*) any of the following:~~

~~(a) the passing of a resolution for the voluntary winding up of an authorised insurance company within the meaning of section 3 of the Policyholders Protection Act 1975 in circumstances falling within section 5(1)(a) of that Act;~~

~~(b) the making by the court of an order for the winding up of such a company in accordance with section 5(1)(b) of that Act;~~

~~(c) the appointment of a provisional liquidator in the circumstances falling within section 15 of that Act in respect of such a company;~~

~~(d) such a company becoming a company in financial difficulties within the meaning of section 16 of that Act;~~

~~(e) a *participating deposit taker* becoming insolvent for the purposes of Part II of the Banking Act 1987;~~

~~(f) a *participating institution* becoming insolvent within the meaning of section 25A of the Building Societies Act 1986;~~

~~(g) the beginning of a dissolution or transfer of engagements of a *member society* in accordance with rule 9(2) of the Rules of the Friendly Societies Protection Scheme.~~

~~*authorised insurance company* (In *COMP*) (in accordance with the *compensation transitionals order*) a person who was, at any time before *commencement*, authorised under section 3 or 4 of the Insurance Companies Act 1982 to carry on insurance business of any class in the *United Kingdom*.~~

~~*base costs levy* a levy, forming part of the *management expenses levy*, to meet the *base costs* in the financial year of the *compensation scheme* to which the levy relates, each *participant firm's share* being calculated in accordance with FEES 6.4.5 R.~~

class

...

(B) In the *PRA Handbook*:

....

(5) (in *FEES*) one of the classes to which *FSCS* allocates levies as described in FEES 6.5.7 R in accordance with the rules of the *compensation scheme*.

~~compensation costs~~ ————— ~~the costs incurred:~~

- ~~(a) in paying compensation; or~~
- ~~(b) as a result of making the arrangements contemplated in COMP 3.3.1 R or taking the measures contemplated in COMP 3.3.3 R; or~~
- ~~(c) in making payments or giving indemnities under COMP 11.2.3 R; or~~
- ~~(d) under section 214B or section 214D of the Act; or~~
- ~~(e) by virtue of section 61 (Sources of compensation) of the Banking Act 2009; (including the costs of paying interest, principal and other costs of borrowing to pay such costs).~~

~~compensation costs levy~~ ————— ~~a levy imposed by the FSCS on participant firms to meet compensation costs, each participant firm's share being calculated in accordance with FEES 6.5~~

deferred share

(A) In the FCA Handbook:

(1) (other than in *CREDS* and *COMP*) in relation to a *building society*, a deferred share as defined in the Building Societies (Deferred Shares) Order 1991.

(2) (in *CREDS* and COMP 5.3.1 R (2)(cA)) in relation to a *Great Britain credit union*, means any share of a class defined as a deferred share by section 31A of the Credit Unions Act 1979.

(B) In the PRA Handbook:

in relation to a *building society*, a deferred share as defined in the Building Societies (Deferred Shares) Order 1991.

deposit

(A) In the FCA Handbook:

(1)

(B) In the PRA Handbook:

the investment, specified in article 74 and defined in articles 5(2) and 5(3) of the Regulated Activities Order, which is in summary: a sum of money (other than one excluded by any of articles 6 to 9 AB of the Regulated Activities Order) paid on terms:

(1) under which it will be repaid, with or without interest or a premium, and either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the person receiving it; and

(2) which are not referable to the provision of property (other than currency) or services or the giving of security; in this definition, money is paid on terms which are referable to the provision of property or services or the giving of security if, and only if:

(a) it is paid by way of advance or part payment under a contract for the sale, hire or other provision of property or services, and is repayable only in the event that the property or services is or are not in fact sold, hired or otherwise provided; or

(b) it is paid by way of security for the performance of a contract or by way of security in respect of loss which may result from the non-performance of a contract; or

(c) without prejudice to (ii), it is paid by way of security for the delivery up or return of any property, whether in a particular state of repair or otherwise.

DGD claim

(A) In the PRA Handbook:

a claim, in relation to a protected deposit, against a CRD credit institution, whether established in the United Kingdom or in another EEA State.

electronic SCV rules

(in COMP) COMP 17.2.1 R(2), COMP 17.2.3 R(3) and COMP 17.2.5 R, the application of

which is determined by COMP 17.1 and COMP 17.2.7 R.

eligible claimant — a *person* eligible to have a *complaint* considered under the *Financial Ombudsman Service*, as defined in DISP 2.7 (Is the complainant eligible?).

establishment costs — (1) (in FEES 6) the costs of establishing the *compensation scheme*.

(2) (in FEES 5) the costs of establishing the *Financial Ombudsman Service*.

in default — the status of being in default following a determination made under COMP 6.3.1 R.

investment business compensation scheme — (as defined in article 2(2) of the *compensation transitionals order*) any of the following:

(a) the scheme established under section 54 of the Financial Services Act 1986 and known as the Investors Compensation Scheme;

(b) the scheme established under section 22j of the Grey Paper published by the FSA on 26 September 1998 and known as the Section 43 Compensation Scheme;

(c) the scheme established by chapter II of part L:VIII of the *PIA* rule book and known as the PIA Indemnity Scheme;

(d) the scheme resulting from an agreement dated 1 February 1999 between the Association of British Insurers and the Investors Compensation Scheme Limited for the making of payments by way of compensation to widows, widowers and dependants of persons (since deceased), in connection with advice given to such persons in relation to pensions, or the arranging of pensions for such persons, and known as the ABI/ICS scheme.

large mutual association

(A) (in the *PRA Handbook*):

(1) (in *COMP*), an unincorporated mutual association or an unincorporated association (which is not a mutual

association) with net assets of more than £1.4 million (or its equivalent in any currency at the relevant time).

(2) (except in *COMP*), A mutual association or unincorporated association with net assets of more than £1.4 million (or its equivalent in any other currency at the relevant time).

...

large partnership

(A) (in the *PRA Handbook*):

(1) (in *COMP*), a *partnership* with net assets of more than £1.4 million (or its equivalent in any other currency at the relevant time).

(2) (except in *COMP*), A *partnership* or unincorporated association with net assets of more than £1.4 million (or its equivalent in any other currency at the relevant time).

levy limit

...

(B) In the *PRA Handbook*:

(in *FEES*) the maximum aggregate amount of *compensation costs* and *specific costs* that may be allocated to a particular *class* in one financial year as set out in *FEES 6 Annex 2 R*.

management expenses

(A) In the *FCA Handbook*:

(1) (except in *INSPRU*) ...

(2) (in *INSPRU*) ...

(B) In the *PRA Handbook*:

(1) (except in *INSPRU*) (in accordance with section 223 of the *Act* (Management expenses)) expenses incurred or expected to be incurred by the *FSCS* in connection with its function under the *Act*, other than *compensation costs* and costs incurred under Part 15A of the *Act*; for the purposes of *FEES 6* these are

~~subdivided into *base costs*, *specific costs* and *establishment costs*.~~

(2) ~~(in *INSPRU*)~~ in relation to *long-term insurance business*, means all expenses, other than *commission*, incurred in the administration of an *insurer* or its business.

~~*management expenses levy* — a levy imposed by the *FSCS* on *participant firms* to meet the *management expenses* and which is made up of one or more of a *base cost levy* and a *specific costs levy*, each *participant firm's share* being calculated in accordance with FEES 6.4.~~

~~*MERS levy* — a levy (management expenses in respect of relevant schemes levy) imposed by the *FSCS* on *participant firms* to meet the management expenses incurred by the *FSCS* in connection with acting on behalf of the *manager of the relevant scheme* in accordance with Part 15A of the *Act*.~~

~~*mesothelioma victim* — (in accordance with section 3 (1) of the Compensation Act 2006) a *person* who has contracted mesothelioma as a result of exposure to asbestos by a *responsible person*.~~

~~*money-purchase benefits* — (A) In the *FCA Handbook*:~~

(1) (except in *COMP*) (in relation to an *occupational pension scheme*) benefits the rate or amount of which are calculated by reference to a payment or payments made by a member of the scheme.

(2) (in *COMP*) in relation to a member of a *personal pension scheme* or an *occupational pension scheme* or the widow or widower or surviving civil partner of a member of such a scheme, means benefits the rate or amount of which is calculated by reference to a

payment or payments made by the member or by any other *person* in respect of the member and which are not average salary benefits.

(B) In the *PRA Handbook*:

(in relation to an *occupational pension scheme*) benefits the rate or amount of which are calculated by reference to a payment or payments made by a member of the scheme.

~~*occupational pension fund management business*—(in *COMP*) the business of carrying on:~~

~~(1) *pension fund management*; or~~

~~(2) (other than in connection with a *personal pension scheme*) *pension fund management*, written as linked long term business, for an *occupational pension scheme* or for an institution falling within article 2 of the Council Directive of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision (No 2003/41/EC) but only to the extent that:~~

~~(a) there is no transfer to the *participant firm* of:~~

~~(i) investment, market, or credit risk;~~

~~(iii) mortality or expense risk prior to any annuity being effected; and~~

~~(b) any annuity options provide for the *participant firm* to change the annuity rates without prior notice.~~

participant firm

(A) In the *PRA Handbook*:

(1) (except in FEES 1 and FEES 6) a *firm* or a *member* other than:

(a)

(2) (in FEES 1 and FEES 6) a *firm* specified in paragraph (1) above that is not a *member*.

(B) In the *FCA Handbook*:

(1) ...

<i>pending application</i>	<p>(as defined in article 3(1) of the <i>compensation transitionals order</i>):</p> <p>(a) an application for compensation made under an investment business compensation scheme before commencement in relation to which a terminating event did not occur before commencement; and</p> <p>(b) an application made to the FSCS after commencement under an investment business compensation scheme, even if at the time of application that scheme had otherwise ceased to exist.</p>
<i>PRA's SCV requirements</i>	<p>(in <i>COMP</i>) the <i>PRA's</i> requirements with respect to <i>single customer view</i>.</p>
<i>protected claim</i>	<p>a claim which is covered by the compensation scheme, as defined in COMP 5.2.1 R.</p>
<i>protected contract of insurance</i>	<p>a contract of insurance which is covered by the compensation scheme, as defined in COMP 5.4.1 R.</p>
<i>protected deposit</i>	<p>deposit which is covered by the compensation scheme, as defined in COMP 5.3.1 R.</p>
<i>protected dormant account</i>	<p>a dormant account which is covered by the compensation scheme, as defined in COMP 5.3.2R.</p>
<i>protected home finance mediation</i>	<p>activities in relation to home finance transactions which are covered by the compensation scheme, as defined in COMP 5.6.1 R.</p>
<i>protected investment business</i>	<p>designated investment business which is covered by the compensation scheme, as defined in COMP 5.5.1 R.</p>
<i>protected non-investment insurance</i>	

<i>mediation</i>	insurance mediation activities which are covered by the compensation scheme, as defined in COMP 5.7.1 R.
<i>quantification date</i>	the date as at which the liability of the relevant person in default is to be determined under COMP 12.3.
<i>reinsurance contract</i>	(in, COBS 21, ICOBS, CASS 5 and COMP) a contract of insurance covering all or part of a risk to which a person is exposed under a contract of insurance.
<i>relevant former scheme</i>	<p>(as defined in article 2(2) of the compensation transitionals order):</p> <p>(a) in relation to a pending application, the investment business compensation scheme under which the application was made;</p> <p>(b) in relation to an article 9 default, one of the following that applied to the default before commencement:</p> <ul style="list-style-type: none"> (i) the Policyholders Protection Scheme established by the Policyholders Protection Act 1975; (ii) the Deposit Protection Scheme established by Part II of the Banking Act 1987; (iii) the Building Societies Investor Protection Scheme established by Part IV of the Building Societies Act 1986; (iv) the Friendly Societies Protection Scheme established in accordance with section 141 of the Financial Services Act 1986.
<i>relevant general insurance contract</i>	<p>(in COMP) any general insurance contract other than:</p> <ul style="list-style-type: none"> (a) [deleted] (b) [deleted]

(c) a contract falling within any of the following classes:

- (i) *aircraft*;
- (ii) *ships*;
- (iii) *goods in transit*;
- (iv) *aircraft liability*;
- (v) *liability of ships*;
- (vi) *credit*.

relevant net premium income — (1) (in relation to business which is not *occupational pension fund management business*) the premium income in respect of *protected contracts of insurance of a firm*; or

(2) (in relation to *occupational pension fund management business*) the remuneration retained by a *firm* in relation to its carrying on *occupational pension fund management business*

in the year preceding that in which the date for submission of the information under FEES 6.5.13 R falls, net of any relevant rebates or refunds.

relevant person

(A) In the *FCA Handbook*:

(1) (in *COMP*) a *person* for *claims* against whom the *compensation scheme* provides cover, as defined in COMP 6.2.1 R.

(2)

(B) In the *PRA Handbook*:

Any of the following:

(1) a *director, partner or equivalent, manager or appointed representative* (or where applicable, *tied agent*) of the *firm*;

(2) a *director, partner or equivalent, or manager of any appointed representative* (or where applicable, *tied agent*) of the *firm*;

(3) an *employee of the firm* or of an *appointed representative* (or where applicable, *tied agent*)

of the firm; as well as any other natural person whose services are placed at the disposal and under the control of the firm or an appointed representative or a tied agent of the firm and who is involved in the provision by the firm of regulated activities;

(4) a natural person who is directly involved in the provision of services to the firm or its appointed representative (or where applicable, tied agent) under an outsourcing arrangement or (in the case of a management company) a delegation arrangement to third parties, for the purpose of the provision by the firm of regulated activities or (in the case of a management company) collective portfolio management.

[Note: article 2(3) of the MiFID implementing Directive and article 3(3) of the UCITS implementing Directive]

relevant scheme

~~(1) (except in FEES 6) a collective investment scheme managed by an EEA UCITS management company.~~

~~(2) (in FEES 6) a scheme or arrangement (other than the compensation scheme) for the payment of compensation (in certain cases) to customers (including customers outside the United Kingdom) of persons (including persons outside the United Kingdom) who provide financial services (including financial services provided outside the United Kingdom) or carry on a business connected with the provision of such services.~~

repayment claim

~~(in relation to a dormant account) a claim for repayment made by virtue of sections 1(2)(b) or 2(2)(b) of the Dormant Bank and Building Society Accounts Act 2008, that is, in summary, that the customer has against the dormant account fund operator whatever right to payment of the balance the customer would have against the bank or building society if the transfer (or in the case of section 2(2)(b), transfers) had not happened. In this definition, 'customer' is the person who held with a bank or building society the balance of a dormant~~

	<i>account transferred to a dormant account fund operator.</i>
<i>responsible person</i>	<p>(1) (except in COMP) (as defined in section 3(8) of the Child Trust Funds Act 2004) a person with parental responsibility in relation to a child under 16 who is not:</p> <p>(a) a local authority or, in Northern Ireland, an authority within the meaning of the Children (Northern Ireland) Order 1995 (SI 1995/755 (NI 2)); or</p> <p>(b) a person under 16.</p> <p>(2) (in COMP) (in accordance with section 3 (1) of the Compensation Act 2006) a person who has negligently or in breach of statutory duty caused or permitted another person to be exposed to asbestos (including an insurer of such a person).</p>
<i>retail pool</i>	the pool of <i>classes</i> to which the FSCS allocates levies as described in FEES 6.5A [to follow].
<i>SCV implementation report</i>	(in COMP) a report in accordance with COMP 17.3.6 R explaining how the relevant <i>firm</i> has satisfied the PRA's SCV requirements.
<i>SCV report</i>	(in COMP) a report in accordance with COMP 17.3.9 R from the relevant <i>firm's</i> board of directors confirming that the <i>firm's</i> SCV system satisfies the PRA's SCV requirements.
<i>SCV system</i>	(in COMP) a <i>firm's</i> system for satisfying the PRA's SCV requirements.
<i>single customer view</i>	(in COMP) a single, consistent view of an <i>eligible claimant's</i> aggregate protected deposits with the relevant <i>firm</i> which contains the information required by COMP 17.2.4 R, but excluding from that view those accounts where the <i>eligible claimant</i> is a beneficiary rather than the account holder or if the account is not active as defined in COMP 17.2.3 R (2).

<i>small business</i>	(in <i>COMP</i>) a <i>partnership, body corporate, unincorporated association or mutual association with an annual turnover of less than £1 million (or its equivalent in any other currency at the relevant time).</i>
<i>specific costs</i>	<i>management expenses other than base costs and establishment costs.</i>
<i>specific costs levy</i>	a levy, forming part of the <i>management expenses levy</i> , to meet the <i>specific costs</i> in the financial year of the <i>compensation scheme</i> to which the levy relates, each <i>participant firm's</i> share being calculated in accordance with FEES 6.4.7 R.
<i>terminating event</i>	(as defined in article 2(1) of the <i>compensation transitionals order</i>) in relation to applications made under an <i>investment business compensation scheme</i> , the withdrawal, discontinuance or rejection of the application, or its determination by a final payment of compensation to the applicant.
<i>working day</i>	<p>(1) (in <i>PR</i> and <i>COMP</i>) (as defined in section 103 of the <i>Act</i>) any day other than a Saturday, a Sunday, Christmas Day, Good Friday or a day which is a bank holiday under the Banking and Financial Dealings Act 1971 in any part of the <i>United Kingdom</i>.</p> <p>(2) (in relation to an <i>underwriter</i> and for the purpose of <i>BIPRU</i> but not for the purpose of the definition of <i>working day 0</i>) the number of <i>business days</i> after <i>working day 0</i> specified by the provision in question so that, for example, <i>working day one</i> means the <i>business day</i> following <i>working day 0</i>.</p>

Annex B

Amendments to General Provisions (GEN)

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

2.2.25 G ~~[PRA]~~ Examples of rules being interpreted as cut back by *GEN 2.2.23 R* include the following:

(1) ~~[deleted]~~

(2) ~~*SYSC 6.1.1 R* requires a *firm* to maintain adequate policies and procedures to ensure compliance with its obligations under the *regulatory system*; *SYSC 6.1.1 R* should be interpreted:~~

(a) ~~as applied by the *FCA* in respect of a *PRA-
authorised person's* compliance with regulatory obligations that are the responsibility of the *FCA* (for example, in respect of a *bank* maintaining policies and procedures to ensure compliance with banking conduct requirements in *BCOBS*); and,~~

(b) ~~as applied by the *PRA* in respect of a *PRA-
authorised person's* compliance with those regulatory obligations that are the responsibility of the *PRA* (for example, in respect of a *bank* maintaining policies and procedures to ensure compliance with financial resources requirements in the *PRA* Rulebook and the *EU*~~

~~CRR).~~

- (3) ~~COMP 5.2.1 R sets out types of *protected claims* to be covered by the FSCS. The powers of the FCA and the PRA to make this type of *rule* are set out in the order made under section 213(1A) of the Act. The *rule* must be read as applying only to the extent of those powers. For example, the PRA has no power to make COMP 5.2.1 R (3) creating *protected claims* in connection with *protected investment business*, and the FCA has no power to make COMP 5.2.1 R (1) as creating *protected claims* for a *protected deposit*. As such, those provisions are to be interpreted as not applied by the PRA and FCA, respectively.~~

2.2.25A G **[PRA]** - Examples of rules being interpreted as cut back by GEN 2.2.23R include the following:

- (1) SYSC 6.1.1R requires a firm to maintain adequate policies and procedures to ensure compliance with its obligations under the regulatory system; SYSC 6.1.1 R should be interpreted:
- (a) as applied by the FCA in respect of a PRA-*authorised person's* compliance with regulatory obligations that are the responsibility of the FCA (for example, in respect of a bank maintaining policies and procedures to ensure compliance with banking conduct requirements in BCOBS); and,
 - (b) as applied by the PRA in respect of a PRA-*authorised person's* compliance with those regulatory obligations that are the responsibility of the PRA (for example, in respect of a bank maintaining policies and procedures to ensure compliance with financial resources requirements in the PRA Rulebook and the EU CRR).

Annex C

Amendments to the Fees manual

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

- 1 Fees Manual**
- 1.1 Application and purpose**
- 1.1.1 ~~G~~ ~~FEES applies to all persons required to pay a fee or levy under a provision of the Handbook. The purpose of this chapter is to set out to whom the rules and guidance in FEES apply. FEES 2 (General Provisions) contains general provisions which may apply to any type of fee payer. FEES 3 (Application, Notification and Vetting Fees) covers one-off fees payable on a particular event for example various application fees (including those in relation to authorisation, variation of Part 4A permission, listing and the Basel Capital Accord) and fees relating to certain notifications and document vetting requests. FEES 4 (Periodic fees) covers all periodic fees and transaction reporting fees. FEES 5 (Financial Ombudsman Service Funding) relates to FOS levies and case fees (in FEES 5.5A). FEES 6 (Financial Services Compensation Scheme Funding) relates to the FSCS levy. FEES 7 relates to the CFEB levy.~~
- 1.1.1- G FEES applies to all persons required to pay a fee or levy under a provision of the Handbook. The purpose of this chapter is to set out to whom the rules and guidance in FEES apply. FEES 2 (General Provisions) contains general provisions which may apply to any type of fee payer. FEES 3 (Application, Notification and Vetting Fees) covers one-off fees payable on a particular event for example various application fees (including those in relation to authorisation, variation of Part 4A permission, listing and the Basel Capital Accord) and fees relating to certain notifications and document vetting requests. FEES 4 (Periodic fees) covers all periodic fees and transaction reporting fees.
- A
- 1.1.2 R ...
- (4) ~~FEES 1, 2 and 6 apply to:~~
- (a) ~~every participant firm;~~
- (b) ~~the FSCS; and~~
- (c) ~~the Society.~~
- ...
- 2 General provisions**
- 2.1.1 R ~~Except to the extent referred to in FEES 2.1.1A R, this chapter applies to every person who is required to pay a fee or share of a levy to the appropriate~~

regulator, *FOS Ltd* or *FSCS*, as the case may be, by a provision of the *Handbook*.

2.1.1- R This chapter applies to every *person* who is required to pay a fee or share of a
A levy to the *PRA* by a provision of the *Handbook*.

...

2.1.4 ~~G~~ The purpose of this chapter is to set out the general provisions applicable to those who are required to pay fees or levies to the *appropriate regulator* or a share of the *FSCS* levy.

2.1.4A G The purpose of this chapter is to set out the general provisions applicable to those who are required to pay fees or levies to the *PRA*.

2.1.5- ~~G~~ Paragraph 31 of Schedule 1ZB of the *Act* enables the *PRA* to charge fees to cover its costs and expenses in carrying out its functions. ~~The corresponding provisions for the *FSCS* levy are set out in *FEES 6.1*.~~
 A

...

2.1.7 ~~G~~ The key components of the *appropriate regulator* fee mechanism (excluding the *FSCS* levy, the *FOS* levy and case fees, and the *CFEB* levy which are dealt with in *FEES 5*, *FEES 6* and *FEES 7*) are:

- (1) a funding requirement derived from:
 - (a) the *appropriate regulator's* financial management and reporting framework;
 - (b) the *appropriate regulator's* budget; and
 - (c) adjustments for audited variances between budgeted and actual expenditure in the previous accounting year, and reserves movements (in accordance with the *appropriate regulator's* reserves policy);
- (2) mechanisms for applying penalties received during previous financial years for the benefit of fee payers;
- (3) fee blocks, which are broad groupings of fee payers offering similar products and services and presenting broadly similar risks to the *appropriate regulator's* regulatory objectives;
- (4) a costing system to allocate an appropriate part of the funding requirement to each fee block; and
- (5) tariff bases, which, when combined with fee tariffs, allow the calculation

of fees.

2.1.7A G The key components of the PRA fee mechanism (excluding levies relating to the FSCS) are:

- (1) a funding requirement derived from:
 - (a) the PRA's financial management and reporting framework;
 - (b) the PRA's budget; and
 - (c) adjustments for audited variances between budgeted and actual expenditure in the previous accounting year, and reserves movements (in accordance with the PRA's reserves policy);
- (2) mechanisms for applying penalties received during previous financial years for the benefit of fee payers;
- (3) fee-blocks, which are broad groupings of fee payers offering similar products and services and presenting broadly similar risks to the PRA's regulatory objectives;
- (4) a costing system to allocate an appropriate part of the funding requirement to each fee-block; and
- (5) tariff bases, which, when combined with fee tariffs, allow the calculation of fees.

...

2.2.1 R If a person does not pay the total amount of a periodic fee, FOS levy, or share of the FSCS levy or CFEB levy, before the end of the date on which it is due, under the relevant provision in FEES 4, 5, 6 or 7, that person must pay an additional amount as follows:

- (1) if the fee was not paid in full before the end of the due date, an administrative fee of £250; plus
- (2) interest on any unpaid part of the fee at the rate of 5% per annum above the Official Bank Rate from time to time in force, accruing on a daily basis from the date on which the amount concerned became due.

2.2.1A R If a person does not pay the total amount of a periodic fee before the end of the date on which it is due, under the relevant provision in FEES 4, that person must pay an additional amount as follows:

- (1) if the fee was not paid in full before the end of the due date, an administrative fee of £250; plus

(2) interest on any unpaid part of the fee at the rate of 5% per annum above the Official Bank Rate from time to time in force, accruing on a daily basis from the date on which the amount concerned became due.

...

- 2.2.3 G Paragraphs 23(8) and 27 of Schedule 1ZA and paragraphs 31(7) and 35 of Schedule 1ZB of the *Act* permit the *FCA* and *PRA* respectively to recover fees (including in respect of the *FCA*, fees relating to *payment services*, the issuance of *electronic money* and, where relevant, *FOS levies* and *CFEB levies*), and section 213(6) permits the *FSCS* to recover shares of the *FSCS* levy payable, as a debt owed to the *FCA*, *PRA* and *FSCS* respectively, and the *FCA*, *PRA* and *FSCS*, as relevant, will consider taking action for recovery (including interest) through the civil courts.
- 2.2.3A G Paragraphs 31(7) and 35 of Schedule 1ZB of the *Act* permits the *PRA* to recover fees as a debt owed to the *PRA* and the *PRA* will consider taking action for recovery (including interest) through the civil courts.
- 2.2.4 G In addition, the *appropriate regulator* may be entitled to take regulatory action in relation to the non-payment of fees, *FOS levies* and *CFEB levies*. The *appropriate regulator* may also take regulatory action in relation to the non-payment of a share of the *FSCS* levy, after reference of the matter to the *appropriate regulator* by the *FSCS*. What action (if any) that is taken by the *appropriate regulator* will be decided upon in the light of the particular circumstances of the case.
- 2.2.4A G In addition, the *PRA* may be entitled to take regulatory action in relation to the non-payment of fees. What action (if any) that is taken by the *PRA* will be decided upon in the light of the particular circumstances of the case.
- 2.3.1 R If it appears to the *appropriate regulator* or the *FSCS* (in relation to any *FSCS* levy only) that in the exceptional circumstances of a particular case, the payment of any fee, *FSCS* levy, *FOS* levy or *CFEB* levy would be inequitable, the *appropriate regulator* or the *FSCS* as relevant, may (unless *FEES 2.3.2B R* applies) reduce or remit all or part of the fee or levy in question which would otherwise be payable.
- 2.3.1A R If it appears to the *PRA* that in the exceptional circumstances of a particular case, the payment of any fee would be inequitable, the *PRA* may (unless *FEES 2.3.2B R* applies) reduce or remit all or part of the fee in question which would otherwise be payable.
- 2.3.2 R If it appears to the *appropriate regulator* or the *FSCS* (in relation to any *FSCS* levy only) that in the exceptional circumstances of a particular case to which *FEES 2.3.1R* does not apply, the retention by the *appropriate regulator*, the

~~FSCS, or the CFEB, as relevant, of a fee, FSCS levy, FOS levy or CFEB levy which has been paid would be inequitable, the appropriate regulator, the FSCS or the CFEB, may (unless FEES 2.3.2B R applies) refund all or part of that fee or levy.~~

2.3.2-A R If it appears to the PRA that in the exceptional circumstances of a particular case to which FEES 2.3.1A R does not apply, the retention by the PRA of a fee which has been paid would be inequitable, the PRA may (unless FEES 2.3.2C R applies) refund all or part of that fee.

...

~~2.3.2B R The appropriate regulator or the FSCS may not consider a claim under FEES 2.3.1 R and/or FEES 2.3.2 R to reduce, remit or refund any overpaid amounts paid by a fee or levy payer in respect of a particular period, due to a mistake of fact or law by the fee or levy payer, if the claim is made by the fee or levy payer more than 2 years after the beginning of the period to which the overpayment relates.~~

2.3.2C R The PRA may not consider a claim under FEES 2.3.1A R and/or FEES 2.3.2-A R to reduce, remit or refund any overpaid amounts paid by a fee payer in respect of a particular period, due to a mistake of fact or law by the fee payer, if the claim is made by the fee payer more than 2 years after the beginning of the period to which the overpayment relates.

Annex E

Amendments to the Credit Unions Sourcebook (CREDS)

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

Sch G ~~[PRA]~~
3.2

Description of fee	Reference
Appropriate regulator rules relating to authorisation fees	FEES 3
Schedule of authorisation fees payable	FEES 3 Annex 1 R
Appropriate regulator fees rules relating to the periodic fee	FEES 4
Schedule of periodic fees payable	FEES 4 Annex 2A R Part 1 and FEES 4 Annex 2B R Part 1
FOS funding rules	FEES 5
FSCS funding rules	FEES 6

Sch G ~~[PRA]~~
3.2
A

Description of fee	Reference
Appropriate regulator rules relating to authorisation fees	FEES 3
Schedule of authorisation fees payable	FEES 3 Annex 1 R
Appropriate regulator fees rules relating to the periodic fee	FEES 4

<u>Schedule of periodic fees payable</u>	<u>FEES 4 Annex 2A R Part 1 and FEES 4 Annex 2B R Part 1</u>
<u>FOS funding rules</u>	<u>FEES 5</u>
<u>FSCS funding rules</u>	<u>FEES 6-Depositor Protection Part in the PRA Rulebook, Management Expenses in Respect of Relevant Schemes Part in the PRA Rulebook</u>

PRA RULEBOOK: CRR FIRMS: NON CRR FIRMS: NON AUTHORISED PERSONS: DEPOSITOR PROTECTION 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);
 - (2) section 137T (General supplementary powers);
 - (3) section 213 (The compensation scheme);
 - (4) section 214 (General);
 - (5) section 215 (Rights of the scheme in insolvency); and
 - (6) section 218A (Regulators power to require information).
- 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: Non Authorised Persons: Depositor Protection Instrument 2015

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

Commencement

- E. With the exception of the rules in Chapters 12 to 15, the rules in the Annex come into force on 3 July 2015.
- F. The rules in Chapters 12 to 15 in the Annex come into force on 1 December 2016.
- G. With effect from 1 December 2016, the PRA deletes rules 9.6(2) and the rules in Chapters 49 to 52 in the Annex.
- H. With effect from 1 January 2024, the PRA deletes rule 9.6(1) and 9.6(3) in the Annex.

Citation

- I. This instrument may be cited as the PRA Rulebook: CRR Firms: Non CRR Firms: Non Authorised Persons: Depositor Protection Instrument 2015.

By order of the Board of the Prudential Regulation Authority
30 March 2015

Annex

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

Part

DEPOSITOR PROTECTION

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Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) the *FSCS*;
- (2) *UK banks*;
- (3) *credit unions*;
- (4) *Northern Ireland credit unions*;
- (5) *building societies*; and
- (6) an *overseas firm* that:
 - (a) is not an *incoming firm*; and
 - (b) has a *Part 4A permission* that includes *accepting deposits*.

1.2 Chapter 23 applies to a *UK branch* of an *incoming firm* that is a *credit institution*.

1.3 This Part also applies to a *firm* which used to have a *Part 4A permission to accept deposits* but which has ceased to have a *Part 4A permission to accept new deposits*, or which is subject to a requirement not to accept new *deposits*, and which is not a member of a *non-UK scheme*.

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

available financial means

means cash, *deposits* and *low-risk assets* which can be liquidated within a period not exceeding seven *business days*.

[Note: Art. 2(1)(12) of the *DGSD*]

base costs

means *management expenses* which are not attributable to any particular *class*.

base costs levy

means a levy, forming part of the *management expenses levy*, to meet the *base costs* in the financial year of the *compensation scheme* to which the levy relates.

class

means one of the classes to which the *FSCS* allocates levies in accordance with the rules of the *compensation scheme*.

class A

means the *class* which consists of *DGS members*.

class A tariff base

has the meaning given in 43.1.

class J

has the meaning given in the Dormant Account Scheme Part.

claim

means a valid claim made in respect of a civil liability owed by a *DGS member* to the claimant.

compensation date

means the date on which a determination is made by the *PRA*, the *FSCS* or a judicial authority that *deposits* held by a *DGS member* are *unavailable deposits* such that the *DGS member* is *in default*.

compensation recipient

means the *person* to whom the *FSCS* is required to pay compensation, as set out in Chapter 6.

compensation scheme

means the Financial Services Compensation Scheme established under section 213 of *FSMA*.

continuity of access systems

means a firm's systems for satisfying 13.4 to 13.9.

covered deposit

means the part of an *eligible deposit* that does not exceed the coverage levels set out in Chapter 4.

[Note: Art. 2(1)(5) of the *DGSD*]

DAS compensation costs

has the meaning given in the Dormant Account Scheme Part.

DAS specific costs

has the meaning given in the Dormant Account Scheme Part.

deferred share

means:

- (1) in relation to a *credit union*, any share of a class defined as a deferred share by section 31A of the Credit Unions Act 1979;
- (2) in relation to a *building society*, any share of a class defined as deferred shares for the purposes of section 119 of the Building Societies Act 1986.

deposit

means:

- (1) a credit balance which results from funds left in an account or from temporary situations deriving from normal banking transactions and which a *credit institution* is required to repay under the legal and contractual conditions applicable, including a fixed-term deposit and a savings deposit, but excluding a credit balance where:
 - (a) its existence can only be proven by a financial instrument as defined in *MiFID II*, unless it is a savings product which is evidenced by a certificate of deposit made out to a named person and which exists in a Member State on 2 July 2014;
 - (b) its principal is not repayable at par; or
 - (c) its principal is only repayable at par under a particular guarantee or agreement provided by the *credit institution* or a third party;
- (2) a share in a *building society*, excluding a *deferred share*;
- (3) a share in a *credit union*, excluding a *deferred share*; or
- (4) a share in a *Northern Ireland credit union*, excluding a *deferred share*.

[Note: Art. 2(1)(3) of the DGSD]

deposit guarantee scheme

means the *compensation scheme* for compensating persons in respect of *deposits*.

deposit guarantee scheme regulations

means the Deposit Guarantee Scheme Regulations 2015 (SI 2015/486).

depositor

means the holder or, in the case of a *joint account*, each of the holders, of a *deposit*.

[Note: Art. 2(1)(6) of the DGSD]

DGS base costs levy

means a *base costs levy* imposed by the *FSCS* on *DGS members*.

DGS compensation costs

means the costs incurred:

- (1) in paying compensation under the *deposit guarantee scheme*;
- (2) under section 214B or section 214D of *FSMA*; or
- (3) by virtue of section 61 of the Banking Act 2009;

(including the costs of paying interest, principal and other costs of borrowing to pay such costs).

DGS compensation costs levy

means a levy imposed by the *FSCS* on *DGS members* to meet *DGS compensation costs*.

DGS levy

means a *DGS compensation costs levy*, a *DGS management expenses levy* or a *legacy costs levy*.

DGS management expenses levy

means a levy imposed by the *FSCS* on *DGS members* to meet *management expenses* and which is made up of one or more of a *DGS base costs levy* and a *DGS specific costs levy*.

DGS member

means:

- (1) a *UK bank*;
- (2) a *building society*;
- (3) a *credit union*;
- (4) a *Northern Ireland credit union*; or
- (5) an *overseas firm* that is not an *incoming firm* and has a *Part 4A permission* that includes *accepting deposits*.

DGS specific costs

means *management expenses* attributable to the *deposit guarantee scheme* other than *base costs*, which the *FSCS* has incurred or expects to incur.

DGS specific costs levy

means a levy, forming part of the *DGS management expenses levy*, to meet the *DGS specific costs* in the financial year of the *deposit guarantee scheme* to which the levy relates.

DGSD

means Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes (recast).

dormant account

has the meaning given in section 10 of the Dormant Bank and Building Society Accounts Act 2008.

EEA right

means the entitlement of a *person* to establish a *branch* or provide services in an *EEA State* other than that in which they have their relevant office in accordance with the *Treaty* as applied in the *European Economic Area*; and subject to the conditions of the *CRR* and *CRD*.

eligible deposit

has the meaning given in Chapter 2.

exclusions view

means a single, consistent view of a *depositor's* aggregate *eligible deposits* with a *firm* which contains the information required by 12.9, limited to accounts which:

- (1) hold any funds to which the *depositor* is not absolutely entitled; or
- (2) are *not active*.

exclusions list

has the meaning given in 16.2.

European Economic Area

means the area established by the *EEA agreement*.

home state scheme

means a scheme or arrangement (including the *deposit guarantee scheme*) for the payment of compensation in respect of *eligible deposits*, which was established in the *EEA State* which is, with regard to a particular *institution*, the *home Member State*.

host state scheme

means a scheme or arrangement (including the *deposit guarantee scheme*) for the payment of compensation in respect of *eligible deposits*, which was established in the *EEA State* which is, with regard to a particular *institution*, the *host Member State*.

in default

describes the status of a *firm* following a determination that its *deposits* are *unavailable deposits*.

information sheet

has the meaning given in 16.2.

joint account

means an account opened in the name of two or more *persons* or over which two or more *persons* have rights that are exercised by means of the signature of one or more of those *persons*.

[Note: Art. 2(1)(7) of the DGSD]

legacy costs

means the costs incurred prior to 3 July 2015 by the *FSCS*:

- (1) in paying compensation; or
- (2) under section 214B or section 214D of *FSMA*; or
- (3) by virtue of section 61 of the Banking Act 2009;

(including the costs of paying interest, principal and other costs of borrowing to pay such costs).

legacy costs levy

means a levy imposed by the *FSCS* to meet *legacy costs*.

low-risk assets

means items falling into the first or second category of Table 1 of Article 336 of the *CRR*.

[Note: Art. 2(1)(14) of the *DGSD*]

management expenses

has the meaning given in section 223(3) of *FSMA*.

mandatory contributions

means the mandatory contributions described in Article 10(4) of the *DGSD*.

micro, small and medium-sized enterprises

means micro, small and medium-sized enterprises as defined with regard to the annual turnover criterion referred to in Article 2(1) of the Annex to Commission Recommendation 2003/361/EC .

money laundering

has the meaning given in Article 1(2) of the *money laundering directive*.

money laundering directive

means Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

money-purchase benefits

means in relation to a member of a *personal pension scheme* or an *occupational pension scheme* or the widow or widower or surviving civil partner of a member of such a scheme, benefits the rate or amount of which is calculated solely by reference to the schemes assets which (because of the nature of the calculation) must necessarily suffice to provide the benefits which fall within section 181 of the Pensions Scheme Act 1993 and section 99 of the Pensions Act 2008, each as amended by section 29 of the Pensions Act 2011.

non-UK scheme

means a scheme established pursuant to the *DGSD* in an *EEA State* other than the *UK*.

Northern Ireland credit union

means a *firm* which is either a society registered under the Credit Unions (Northern Ireland) Order 1985 or a society registered under the Industrial and Provident Societies Act (Northern Ireland) 1969 as a credit union.

not active

an account is not active if it:

- (1) is a *dormant account*; or
- (2) is an account for which the *firm* has received formal notice of a legal dispute or competing claims to the proceeds of the account; or
- (3) is an account owned or controlled by a person whose name appears on the “Consolidated list of financial sanctions targets in the United Kingdom” that is maintained by HM Treasury or which is otherwise subject to restrictive measures imposed by national governments or international bodies.

occupational pension scheme

has the meaning given in article 3(1) of the *Regulated Activities Order*.

personal pension scheme

has the meaning given in article 3(1) of the *Regulated Activities Order*.

private residential property

means freehold, heritable or leasehold property (or the equivalent in another country), including land, which was, is, or is intended to become the *depositor's* only or main residence.

single customer view

means a single, consistent view of a *depositor's* aggregate *eligible deposits* with a *firm* which contains the information required by 12.9, but excludes from view those accounts included in the *exclusions view*.

SCV effectiveness report

means a report from a *firm's* board of directors confirming that the *firm's SCV system* satisfies the *SCV requirements*.

SCV requirements

means the requirements on *firms* set out in Chapter 12.

SCV system

means a *firm's* system for satisfying the *SCV requirements*.

small self-administered scheme

means an *occupational pension scheme* of a kind described in article 4(4) and 4(5) of the Financial Services and Markets Act 2000 (Carrying on Regulated Activities by Way of Business) Order 2001 (SI 2001/1177).

stakeholder pension scheme

has the meaning given in article 3(1) of the *Regulated Activities Order*.

statement of business

means the information required under 44.2.

target level

means the amount of *available financial means* which the *deposit guarantee scheme* is required to reach, which is 0.8% of the amount of *covered deposits* (excluding *temporary high balances*) of *DGS members*.

temporary high balance

means, in relation to a *depositor* who is an individual, that part of an *eligible deposit* in excess of the coverage level set out in 4.2 which meets the additional criteria set out in 10.2.

[Note: Art. 6(2) of the DGSD]

transferable eligible deposit

means the portion of an *eligible deposit* up to and including the coverage level provided for in 4.2, identified in accordance with Chapter 13 and 12.9.

unavailable deposit

means a *deposit* that is due and payable but has not been paid by a *DGS member* under the applicable legal or contractual conditions where either:

- (1) (in accordance with the *deposit guarantee scheme regulations*) the *PRA*, or the *FSCS* in the case of a *credit union* or a *Northern Ireland credit union*, has determined that in its view the *DGS member* appears to be unable for the time being, for reasons which are directly related to its financial circumstances, to repay the *deposit* and has no current prospect of being able to do so; or
- (2) a judicial authority has made a ruling for reasons which are directly related to the *DGS member's* financial circumstances and the ruling has had the effect of suspending the rights of *depositors* to make claims against it.

[Note: Art. 2(1)(8) of the DGSD]

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

2 ELIGIBILITY

- 2.1 This Chapter applies only to the *FSCS*.
- 2.2 The provisions in this rule determine whether a *deposit* is an *eligible deposit*:
- (1) A *deposit* is an *eligible deposit* only if it is held by:
 - (a) a *UK establishment* of a *DGS member*, or
 - (b) a *branch* of a *DGS member* established in another *EEA state* under an *EEA Right*.
 - (2) A *deposit* is held by a *UK establishment* or a *branch* if it is assigned by the *firm* to an account of that *UK establishment* or that *branch*.

- (3) A *deposit* is, subject to the other rules in this Chapter, an *eligible deposit* if it is held by a *firm* which:
- (a) had a *Part 4A permission* to accept such *deposits* at the time the *deposit* was accepted but no longer has permission to accept *eligible deposits*, or is subject to a requirement preventing it from doing so; and
 - (b) is not now a member of a *non-UK scheme* which protects such *deposits*.
- (4) The following are not *eligible deposits*:
- (a) a *deposit* made by another *credit institution* on its own behalf or for its own account;
 - (b) *own funds*;
 - (c) a *deposit* arising out of a transaction in connection with which there has been a criminal conviction for *money laundering*;
 - (d) a *deposit* by a *financial institution*;
 - (e) a *deposit* by an *investment firm*;
 - (f) a *deposit* the holder and any beneficial owner (as defined in regulation 6 of the Money Laundering Regulations 2007) of which have not, at the *compensation date* had their identity verified in accordance with regulation 9 of the Money Laundering Regulations 2007 (or equivalent *EEA* requirements);
 - (g) a *deposit* by an *insurance undertaking* or a *reinsurance undertaking*;
 - (h) a *deposit* by a collective investment undertaking;
 - (i) a *deposit* by a pension or retirement fund (but excluding *deposits* by *personal pension schemes*, *stakeholder pension schemes* and *occupational pension schemes* of *micro, small and medium-sized enterprises*);
 - (j) a *deposit* by a public authority;
 - (k) a debt security issued by the *DGS member* and any liabilities arising out of own acceptances and promissory notes.

[Note: Art. 4(3), 4(6), 5(1), 5(2)(a) and 14(1) of the DGSD]

3 CIRCUMSTANCES IN WHICH FSCS PAYS COMPENSATION IN RESPECT OF ELIGIBLE DEPOSITS

- 3.1 This Chapter applies only to the *FSCS*.
- 3.2 The *FSCS* must pay compensation in accordance with this Part in respect of an *eligible deposit* if it is satisfied that the *eligible deposit* is a *deposit* with either:
- (1) a *DGS member* which is *in default*; or
 - (2) a *firm* which is *in default* and which:

- (a) had a *Part 4A permission* to accept such *deposits* at the time the *deposit* was accepted but no longer has permission to accept *eligible deposits*, or is subject to a requirement preventing it from doing so; and
- (b) is not a member of a *non-UK scheme* which covers such *deposits*.

4 LIMITS ON COMPENSATION PAYABLE

- 4.1 This Chapter applies only to the *FSCS*.
- 4.2 The maximum compensation sum payable for the aggregate *eligible deposits* of each *depositor* is £85,000, save that additional compensation may be payable in cases to which 4.3 applies.

[Note: Art. 6(1) of the *DGSD*]

- 4.3 The maximum compensation sum payable for a *temporary high balance* is £1,000,000, save that no limit shall apply to the compensation payable for a *temporary high balance* arising from a payment in connection with personal injury or incapacity.

[Note: Art. 6(2) of the *DGSD*]

5 CALCULATING COMPENSATION

- 5.1 This Chapter applies only to the *FSCS*.
- 5.2 Compensation shall be calculated by reference to *eligible deposits* held on the *compensation date*.

[Note: Art. 7(4) of the *DGSD*]

- 5.3 The limit provided for in 4.2 applies to the aggregate *eligible deposits* placed by a *depositor* with the same *credit institution*, irrespective of the number of accounts, the currency, or the location within the *EEA*.

[Note: Art. 7(1) of the *DGSD*]

- 5.4 The share of each *depositor* of a *joint account* shall be considered separately in calculating the limits provided for in 4.2 and 4.3, except where 5.5 applies. In the absence of contrary provision, the *joint account* shall be divided equally among the *depositors* to the nearest penny.

[Note: Art. 7(2) of the *DGSD*]

- 5.5 *Deposits* in an account to which two or more *persons* are entitled as members of a business partnership, association or grouping of a similar nature, without legal personality, must be aggregated and treated as if made by a single *depositor* for the purpose of calculating the limits provided for in 4.2 and 4.3.

[Note: Art. 7(2) of the *DGSD*]

- 5.6 Where several *persons* are absolutely entitled to a beneficial interest in a *deposit*, the share of each, under the arrangements subject to which the *deposit* is managed, shall be considered separately in calculating the amount payable to each of them.

[Note: Art. 7(3) of the *DGSD*]

- 5.7 Where several *persons* are absolutely entitled to a beneficial interest in a *deposit*, and some of them are *persons* whose own *deposits* would not be *eligible deposits*, the *FSCS* must adjust the amount of the overall *deposit* to eliminate the part of it which, in the *FSCS*'s view, relates to those beneficiaries' interest in the overall *deposit*.
- 5.8 Liabilities of the *depositor* against the *DGS member* shall not be taken into account when calculating the compensation sum.

[Note: Art. 7(4) of the *DGSD*]

- 5.9 Except where the compensation sum arises from a *temporary high balance*, the *FSCS* shall reimburse interest owed on *eligible deposits* which had accrued, but has not been credited, at the *compensation date*. The limit provided for in 4.2 shall not be exceeded by the payment of any such interest.

[Note: Art. 7(7) of the *DGSD*]

6 PAYING COMPENSATION

- 6.1 This Chapter applies to the *FSCS*.
- 6.2 The *FSCS* must pay any compensation to the *depositor*, with the following exceptions:
- (1) where the *FSCS* is required to make payments on behalf of a *non-UK scheme* in accordance with the *deposit guarantee scheme regulations*;
 - (2) where the *FSCS* must instruct a *non-UK scheme* to make payments on its behalf in accordance with 27.3;
 - (3) where the *FSCS* is required to make payments to a *person* other than the *depositor* in accordance with section 214B or section 214D of *FSMA* or section 61 of the Banking Act 2009;
 - (4) where the *depositor* directs that any compensation be paid to another *person*, the *FSCS* may pay the compensation as directed by the *depositor*;
 - (5) where the *depositor* is not absolutely entitled to the *eligible deposit*:
 - (a) if another *person* is absolutely entitled to the *eligible deposit*, that *person* is the *person* entitled to compensation in respect of the *deposit*, and accordingly the *FSCS* must pay any compensation to the *person* who is absolutely entitled to the *eligible deposit*, provided that the *person* has been identified or is identifiable before the *compensation date*; and
 - (b) if no *person* is absolutely entitled to the *eligible deposit*, the *FSCS* must pay any compensation in accordance with such of 6.3, 6.4, 6.5 and 6.6 as applies.

[Note: Art. 7(3) of the *DGSD*]

- 6.3 If a *person* is:
- (1) a trustee (other than a bare trustee); or
 - (2) the operator of, or the *person* carrying on the *regulated activity* of winding up, a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or *personal pension scheme*,

the FSCS must treat that person's entitlement to compensation in this capacity as separate from the entitlement to compensation in any other capacity, as if the two entitlements were held by different *persons*.

6.4 If a *deposit* is held:

- (1) for the trustees of a *small self-administered scheme*, an *occupational pension scheme* of *micro, small and medium sized enterprise*, or the trustee or operator of, or the *person* carrying on the *regulated activity* of winding up, a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or *personal pension scheme*;
- (2) for one or more members of a pension scheme (or, where relevant, the beneficiary of any member) whose benefits are *money-purchase benefits*,

the FSCS must treat the member or members (or, where relevant, the beneficiary of any member) separately as *persons* entitled to receive compensation.

6.5 If any group of *persons* are:

- (1) co-trustees (other than bare co-trustees); or
- (2) *operators* of, or *persons* carrying on the *regulated activity* of winding up, a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or a *personal pension scheme*

(or any combination thereof), the FSCS must treat them as a single and continuing *person* distinct from the *persons* who may from time to time be the trustees, or the *operators* or *persons* winding up the relevant pension scheme.

6.6 Where the same person is:

- (1) trustee for different trusts or for different *stakeholder pension schemes* (which are not *occupational pension schemes*) or *personal pension schemes*; or
- (2) the *operator* of, or the *person* carrying on the *regulated activity* of winding up, different *stakeholder pension schemes* (which are not *occupational pension schemes*) or *personal pension schemes*,

the FSCS shall treat that *person's* entitlement to compensation in respect of each of these trusts or schemes as if they were entitlements of a different *person*.

6.7 Where any of the provisions of 6.3, 6.5 or 6.6 apply, the FSCS must try to ensure that any amount paid to:

- (1) the trustee; or
- (2) the *operator* of, or the *person* carrying on the *regulated activity* of winding up, a *stakeholder pension scheme* (which is not an *occupational pension scheme*) or *personal pension scheme*

is, in each case:

- (3) for the benefit of members or beneficiaries whose own *deposits* would be *eligible deposits*; and
- (4) no more than the amount of the loss suffered by those members or beneficiaries.

6.8 Where a *person* holds a *deposit* as the personal representative of another or on behalf of another, the *FSCS* must treat the personal representative or the person acting on behalf of another in respect of that *deposit* as if they were standing in the shoes of that other *person*.

6.9 In applying this Chapter to *deposits* held with a *branch* outside the *UK* of a *DGS member*, the *FSCS* must interpret references to:

- (1) *persons* entitled as personal representatives, trustees, bare trustees, *operators* of *pension schemes* or *persons* carrying on the *regulated activity* of winding up *pension schemes*; or
- (2) *persons* having a *joint account* or joint interest in a *deposit* or carrying on business in partnership,

as references to *persons* entitled, under the law of the relevant country or territory, in a capacity appearing to the *FSCS* to correspond as nearly as may be to that capacity.

7 FORM AND METHOD OF COMPENSATION

7.1 This Chapter applies only to the *FSCS*.

7.2 The *FSCS* may pay compensation in any form and by any method (or any combination of them) that it determines is appropriate including, without limitation:

- (1) by paying the compensation (on such terms as the *FSCS* considers appropriate) to a *DGS member* or an *incoming firm* which agrees to become liable to the *compensation recipient* in a like sum;
- (2) by paying compensation directly into an existing deposit account of (or for the benefit of) the *compensation recipient*, with a *DGS member* or an *incoming firm* (but before doing so the *FSCS* must take such steps as it considers appropriate to verify the existence of such an account and to give notice to the *depositor* of its intention to exercise this power);
- (3) where two or more *persons* are absolutely entitled to a *deposit*, by accepting communications from and/or paying compensation to any one of those *persons* where this is in accordance with the terms and conditions for communications and withdrawals of the *eligible deposit*.

7.3 This Chapter is subject to:

- (1) Chapter 6;
- (2) section 214B and section 214D of *FSMA*; and
- (3) section 61 of the Banking Act 2009.

8 CURRENCY OF COMPENSATION

8.1 This Chapter applies only to the *FSCS*.

8.2 Subject to 8.3, the *FSCS* must make compensation payments in respect of *eligible deposits* in pounds sterling. Where the account in which the *eligible deposit* was held was maintained in a different currency, the *FSCS* must use the exchange rate applying on the *compensation date*.

- 8.3 Where the *FSCS* is instructing a *non-UK scheme* to make a payment under 27.3, the *FSCS* must instruct the relevant *non-UK scheme* to make such payments in the currency of that *host Member State*.

[Note: Art. 6(4) of the *DGSD*]

9 TIME LIMITS

- 9.1 This Chapter applies only to the *FSCS*.
- 9.2 The *FSCS* must pay compensation in respect of *eligible deposits* within the applicable time period and as soon as reasonably practicable after:
- (1) it is satisfied that the conditions in 3.2 have been met; and
 - (2) it has calculated the amount of compensation due to the *compensation recipient*.
- 9.3 The applicable time period referred to in 9.2 is the period starting on the day following the *compensation date* and ending:
- (1) until 31 December 2018: twenty *business days* later;
 - (2) from 1 January 2019 until 31 December 2020: fifteen *business days* later;
 - (3) from 1 January 2021 until 31 December 2023: ten *business days* later;
 - (4) from 1 January 2024: seven *business days* later;
- unless 6.2(5) applies, or the *FSCS* reasonably believes that it may, in which case it ends three months later.

[Note: Art. 8(1), (2) and (3) of the *DGSD*]

- 9.4 The *FSCS* may decide to defer the payment of compensation beyond the time period set out in 9.3 where:
- (1) it is uncertain whether a *person* is entitled to receive compensation;
 - (2) the *deposit* is subject to a legal dispute;
 - (3) the *deposit* is subject to restrictive measures imposed by national governments or international bodies;
 - (4) there has been no transaction on the account within the last 24 months;
 - (5) the amount to be repaid is deemed to be part of a *temporary high balance*, in which case 10.8 applies;
 - (6) the amount to be repaid is to be paid out by the *host state scheme*; or
 - (7) the *depositor* or the *compensation recipient* has been charged with an offence arising out of or in relation to *money laundering*.

[Note: Art. 8(5) and (8) of the *DGSD*]

- 9.5 The *FSCS* may decide not to pay compensation where there has been no transaction on the account in which the *deposit* is held within the 24 months prior to the *compensation*

date and the amount of the *deposit* is lower than the administrative costs that would be incurred by the *FSCS* in paying compensation.

[Note: Art. 8(9) of the *DGSD*]

9.6 (1) From 1 June 2016 until 31 December 2023, in cases to which 9.3 applies, where the *FSCS* cannot pay compensation within seven *business days* starting on the day following the *compensation date*, the *FSCS* shall, provided the *FSCS* receives sufficient information to enable it to make a payment, ensure that within five *business days* of receipt of a request from a *depositor*:

(a) the *depositor* who is an individual, has access to an appropriate amount of their *covered deposits* to cover the cost of living; and

(b) the *depositor* which is not a *large company* has access to an appropriate amount of their *covered deposits* to cover necessary business expenses.

[Note: Art 8(4) of the *DGSD*]

(2) From 3 July 2015 until 1 December 2016, in cases to which 9.3 applies, the *FSCS* shall ensure that a depositor which is a *large company* has access to their *covered deposits* within fifteen *business days* of receipt of a request from the *depositor* which contains sufficient information to enable the *FSCS* to make a payment.

(3) In 9.6 the following definition shall apply:

large company

means a *body corporate* which does not qualify as a small company under section 382 of the Companies Act 2006.

10 TEMPORARY HIGH BALANCES

10.1 This Chapter applies only to the *FSCS*.

10.2 In order to qualify as a *temporary high balance*, a part of an *eligible deposit* in excess of the coverage limit provided for in 4.2 must meet at least one of the following additional criteria:

(1) it comprises:

- (a) monies deposited in preparation for the purchase of a *private residential property* (or an interest in a *private residential property*) by the *depositor*;
- (b) monies which represent the proceeds of sale of a *private residential property* (or an interest in a *private residential property*) of the *depositor*; or
- (c) monies which represent the proceeds of an equity release by the *depositor* in a *private residential property*;

(2) it comprises sums paid to the *depositor* in respect of:

- (a) benefits payable under an insurance policy;
- (b) a claim for compensation for personal (including criminal) injury;
- (c) State benefits paid in respect of a disability or incapacity;

- (d) a claim for compensation for wrongful conviction;
 - (e) a claim for compensation for unfair dismissal;
 - (f) their redundancy (whether voluntary or compulsory);
 - (g) their marriage or civil partnership;
 - (h) their divorce or dissolution of their civil partnership; or
 - (i) benefits payable on retirement;
- (3) it comprises sums paid to the *depositor* in respect of:
- (a) benefits payable on death;
 - (b) a claim for compensation in respect of a person's death; or
 - (c) a legacy or other distribution from the estate of a deceased person;
- (4) it is held in an account on behalf of the personal representatives of a deceased person for the purpose of realising and administering the deceased's estate; or
- (5) it otherwise serves a social purpose provided for, or of the type provided for, in the law of a part of the *United Kingdom*, which is linked to the marriage, civil partnership, divorce, dissolution of civil partnership, retirement, incapacity, death of an individual, or to the buying or selling of a *depositor's* only or main residence that is not freehold, heritable or leasehold property.
- 10.3 Following the *compensation date*, the *FSCS* must review the *single customer view* of each *depositor* with the *DGS member* and provide written notice to an individual with aggregate *eligible deposits* in excess of the coverage levels set out in 4.2 of the following:
- (1) that the *depositor* may be entitled to additional compensation if all or part of the *eligible deposit* in excess of the coverage levels provided for in 4.2 qualifies as a *temporary high balance*;
 - (2) that in order to claim such additional compensation, the *depositor* must provide the *FSCS* with a written application and evidence supporting the *depositor's claim* that all or part of the *eligible deposit* in excess of the coverage levels provided for in 4.2 qualifies as a *temporary high balance*;
 - (3) that the *depositor* may make more than one *claim* for a *temporary high balance* if there are multiple events giving rise to a *temporary high balance*; and
 - (4) the date by which such written application and supporting evidence should be submitted to the *FSCS*.
- 10.4 The *FSCS* must pay compensation to a *depositor* in respect of a *temporary high balance* in accordance with 4.3 if it is satisfied that there is a sufficient link between an event giving rise to a *temporary high balance* and the part of the *eligible deposit* in excess of the coverage levels provided for in 4.2, taking into account the following considerations:
- (1) the written application and evidence provided by the *depositor* under 10.3; and
 - (2) any other information that the *FSCS* considers relevant.

- 10.5 The *FSCS* must pay compensation to a *depositor* in accordance with 4.3 in respect of each *temporary high balance* that the *depositor* has with any one *DGS member*.
- 10.6 The *FSCS* may pay compensation in respect of a *temporary high balance* to a *person* who makes a *claim* on behalf of another *person* if the *FSCS* is satisfied that the *person* on whose behalf the *claim* is made would have been paid compensation by the *FSCS* in respect of that *temporary high balance* had the person been able to make the *claim* themselves, or to pursue their application for compensation further.
- 10.7 The protection for *temporary high balances* under 4.3 shall run for a period of six months from the later of:
- (1) the first date on which a *temporary high balance* is credited to a depositor's account, or to a client account on a person's behalf; and
 - (2) the first date on which the *temporary high balance* becomes legally transferable to the depositor.

[Note: Art. 6(2) of the *DGSD*]

- 10.8 The *FSCS* must, within three months of the *compensation date*, pay to the *depositor* a sum representing the amount due to the *depositor* in respect of the *temporary high balance* unless one or more of 10.9 to 10.11 applies.

[Note: Art. 8(5)(d) of the *DGSD*]

- 10.9 The *FSCS* may defer payment in respect of a *temporary high balance* for a period in excess of the period specified in 10.8 where:
- (1) the *depositor* provides the written application and evidence referred to in 10.3 to the *FSCS* more than two *months* following the date of the written notice from the *FSCS* under 10.3;
 - (2) the *FSCS* has informed the *depositor* that the *FSCS* is contacting a third party to ask for additional information necessary to determine the *claim*; or
 - (3) one or more of the circumstances set out in 9.4 (1)-(7) arise.
- 10.10 If the *FSCS* considers that the written application and evidence provided by a *depositor* under 10.3 does not demonstrate a sufficient link between an event giving rise to a *temporary high balance* and the *eligible deposit* being in excess of the coverage levels provided for in 4.2, the *FSCS* must write promptly to that *depositor* to:
- (1) request any additional information that the *FSCS* considers necessary to determine the *claim* (within such time as the *FSCS* may specify); or
 - (2) confirm that the *FSCS* has determined that the deposit is not a *temporary high balance* and that it rejects the *claim*.
- 10.11 If the written application or evidence provided by the *depositor* under 10.3 contains any material inaccuracy or omission, the *FSCS* may reject the *claim* for compensation unless this is considered by the *FSCS* to be wholly unintentional.
- 10.12 Where all or part of a *temporary high balance* is transferred to another *DGS member* after the start of the coverage period referred to in 10.7, the *FSCS* must pay compensation if it considers that the transferred *deposit* is sufficiently linked to the *temporary high balance*.

The coverage period in 10.7 shall be calculated by reference to the point at which the *temporary high balance* was credited to the first account.

10.13 Where the FSCS rejects a *claim* made under this Chapter, it must give:

- (1) written reasons for its decision;
- (2) a summary of any right to request an internal FSCS review of the decision; and
- (3) a summary of any right to appeal the decision.

11 MARKING AND INFORMATION REQUIREMENTS

11.1 A *firm* must mark *eligible deposits* in a way that allows for the immediate identification of such *deposits*.

[Note: Art. 5(4) of the DGSD]

11.2 A *firm* must mark accounts (including client accounts and trust accounts) which are held on behalf of beneficiaries and which contain or may contain *eligible deposits* in a way that allows immediate identification of such accounts.

[Note: Art 5(4) and 7(3) of the DGSD]

11.3 A *firm* must be able to provide the FSCS with the aggregated amount of *eligible deposits* of every *depositor*.

11.4 Upon receipt of a request by the FSCS, a *firm* must provide the information in 11.3 to the FSCS.

[Note: Art 7(6) of the DGSD]

11.5 A *firm* must be able to provide the FSCS with all information necessary to enable the FSCS to prepare for the payment of compensation in accordance with this Part.

[Note: Art 4(8) and 8(6) of the DGSD]

11.6 Upon receipt of a request by the FSCS, a *firm* must provide the information in 11.5 so as to enable the FSCS to prepare for and pay compensation in accordance with this Part.

[Note: Art 4(8) and 8(6) of the DGSD]

11.7 A *firm* must take reasonable steps to ensure the accuracy of the data it holds to satisfy the requirements of this Chapter.

11.8 The information required by 11.1 and 11.2 must be electronically stored.

12 SINGLE CUSTOMER VIEW REQUIREMENTS

12.1 A *firm* must provide to the FSCS all *single customer views* and *exclusions views* within 24 hours of the relevant *deposits* becoming *unavailable deposits*.

12.2 A *firm* must provide all *single customer views* and *exclusions views* to the PRA or FSCS within 24 hours of a request by the PRA or FSCS.

12.3 If a *firm* does not have any accounts or balances which are required to be included within the *exclusions view*, the *firm* must provide confirmation of this to the FSCS.

[Note: Art. 4(8), 7(6) and 8(6) of the DGSD]

- 12.4 A *firm* must provide the information required by 12.1 and 12.2 by secure electronic transmission and in a format which is readily transferable to and compatible with the FSCS's systems.
- 12.5 A *firm* must provide the FSCS with *single customer views* and *exclusions views* within three *months* of receiving a *Part 4A permission to accept deposits*.
- 12.6 The FSCS must, within six *months* of receiving the information required by 12.2 or 12.5, advise the PRA whether the information provided by a *firm's SCV system* is capable of being submitted to the FSCS and whether it is compatible with the FSCS's systems to enable it to pay compensation within the time limits contained in 9.2.
- 12.7 A *firm* must ensure that its *SCV system*:
- (1) automatically identifies the amount of *covered deposits* payable to each *depositor*, and
 - (2) includes a facility which identifies any portion of an *eligible deposit* that is over the coverage level provided for in 4.2.
- 12.8 A *firm* must take reasonable steps to ensure the accuracy of the data it holds in order to satisfy the requirements of this Chapter.
- 12.9 A *firm* must ensure that each *single customer view* and *exclusions view* contains all the information set out in the table below.

	Field identifier	Field descriptor	Notes
	Customer details		
1.	<i>Single customer view</i> record number	Unique customer identifier.	Maximum number of characters in field: 200
2.	Title	Title [if applicable and where held by the <i>firm</i>].	Maximum number of characters in field: 20
3.	Customer first forename	First forename [if applicable].	Maximum number of characters in field: 50
4.	Customer second forename	Second forename [if applicable and where held by the <i>firm</i>].	Maximum number of characters in field: 50
5.	Customer third forename	Third forename [if applicable and where held by the <i>firm</i>].	Maximum number of characters in field: 50
6.	Customer Surname [or company name or name of account holder]	Surname [or company name or name of account holder].	Maximum number of characters in field: 100
7.	Previous Name	Any former name of the account holder [where held by the <i>firm</i>].	Maximum number of characters in field: 200
8.	National Insurance number	National Insurance number [if applicable and where held by the <i>firm</i>].	Maximum number of characters in field: 9
9.	Passport number	Passport number [if applicable and where held by the <i>firm</i>].	Maximum number of characters in field: 200
10.	Other national identifier	The type of national identifier being provided [if applicable and where held by the <i>firm</i>].	Maximum number of characters in field: 50

11.	Other national identity number	The national identity number [if applicable and where held by the <i>firm</i>].	Maximum number of characters in field: 50
12.	Company number	Company registration number or other business registration number [if applicable].	Maximum number of characters in field: 50
13.	Customer date of birth	Date of birth [if applicable and where held by the <i>firm</i>].	DDMMYYYY Maximum number of characters in field: 8
Contact details			
14.	<i>Single customer view</i> record number	Unique customer identifier.	Maximum number of characters in field: 200
15.	Address line 1	First line of address.	Maximum number of characters in field: 100
16.	Address line 2	Second line of address.	Maximum number of characters in field: 100
17.	Address line 3	Third line of address [if applicable].	Maximum number of characters in field: 100
18.	Address line 4	Fourth line of address [if applicable].	Maximum number of characters in field: 100
19.	Address line 5	Fifth line of address [if applicable].	Maximum number of characters in field: 100
20.	Address line 6	Sixth line of address [if applicable].	Maximum number of characters in field: 100
21.	Postcode	Postcode [except where not used by a country].	Maximum number of characters in field: 30
22.	Country	Country [for countries outside the <i>UK</i>].	Maximum number of characters in field: 30
23.	Email address	Email address [where held by the <i>firm</i>].	Maximum number of characters in field: 50
24.	Main phone number	Daytime phone or main phone number [where held by the <i>firm</i>].	Numeric Maximum number of characters in field: 40
25.	Evening phone number	Phone number 2 [where held by the <i>firm</i>].	Numeric Maximum number of characters in field: 40
26.	Mobile phone number	Phone number 3 [where held by the <i>firm</i>].	Numeric Maximum number of characters in field: 30
Details of account(s)			
27.	<i>Single customer view</i> record number	Unique customer identifier.	Maximum number of characters in field: 200
28.	Account title	Surname, first name, any other initials or middle name identifier or company name or name of account holder.	Maximum number of characters in field: 50
29.	Account number	Unique number for this account.	Maximum number of characters in field: 35
30.	BIC	Business Identifier Code for the customer [if applicable and where held by the <i>firm</i>].	ISO 9362 or alternative code if ISO 9362 is unavailable Maximum number of

			characters in field: 11
31.	IBAN	International Bank Account Number [if applicable].	ISO 13616 or alternative code if ISO 13616 is unavailable Maximum number of characters in field: 34
32.	Sort code	If applicable.	Numeric Maximum number of characters in field: 6
33.	Product type	<i>Firms</i> must allocate products to one of the following categories: <ul style="list-style-type: none"> • Instant Access Accounts (including current accounts); • Individual Savings Accounts (ISAs); • notice accounts; • fixed term <i>deposits</i> with a term of less than one year; • fixed term <i>deposits</i> with a term of one year or more but less than two years; • fixed term <i>deposits</i> with a term of two years or more but less than four years; • fixed term <i>deposits</i> with a term of four years or more; • other. 	Values: <ul style="list-style-type: none"> • IAA • ISA • NA • FD1 • FD2 • FD4 • FP4P • Other Maximum number of characters in field: 5
34.	Product name	The name of the product held.	Maximum number of characters in field: 50
35.	Account holder indicator	This field applies to joint or multiple accounts. It must identify how many account holders there are in relation to the account.	If the account has one account holder, the "Account Holder Indicator = 001". If the account has two owners, the "Account Holder Indicator = 002" for both account holders. Maximum number of characters in field: 3
36.	Account status code	If applicable, this field should set out any flags that the <i>firm</i> has against an account, including (but not limited to): <ul style="list-style-type: none"> • whether the <i>depositor</i> has any special communication requirements (e.g., Braille) 	Maximum number of characters in field: 50
37.	Exclusion type	If applicable, where the file is an <i>exclusions view</i> , an	Values: a) BEN

		<p>indication of why the account falls within an <i>exclusions view</i>.</p> <p>Identify all of the following which apply:</p> <p>a) The <i>depositor</i> is not absolutely entitled to the sums held in the account;</p> <p>b) The account is a <i>dormant account</i>;</p> <p>c) The account is an account for which the <i>firm</i> has received formal notice of a legal dispute or competing claims to the proceeds of the account;</p> <p>d) The account appears on the "Consolidated list of financial sanctions targets in the United Kingdom" that is maintained by HM Treasury or is otherwise subject to restrictive measures imposed by national governments or international bodies.</p>	<p>b) LEGDOR</p> <p>c) LEGDIS</p> <p>d) HMTS</p> <p>Maximum number of characters in field: 6</p>
38.	Recent transactions.	Has there been any transaction relating to the <i>deposit</i> within the 24 months prior to production of the <i>single customer view</i> or <i>exclusions view, as applicable</i> ?	<p>Values: Yes / No</p> <p>Maximum number of characters in field: 3</p>
39.	Account branch jurisdiction.	If the account is held in a branch outside the United Kingdom, please state in which jurisdiction the account is held [if applicable].	<p>ISO 3166-1 Alpha-3 or alternative code if ISO 3166-1 is unavailable</p> <p>Maximum number of characters in field: 3</p>
40.	<i>BRRD</i> marking	Is the account marked under 13.2? [if applicable].	<p>Value: Yes / No</p> <p>Maximum number of characters in field: 3</p>
41.	Structured deposit accounts	State whether or not the account is a structured deposit account where the account balance is calculated in accordance with 12.11.	<p>Value: Yes / No</p> <p>Maximum number of characters in field: 3</p>
42.	Account balance in sterling	<p>Account balance including any interest, at end of business on:</p> <ul style="list-style-type: none"> the date on which the <i>deposit</i> becomes an <i>unavailable deposit</i>, 	Do not include any non-numeric symbols such as commas, currency symbols (e.g., £).

		<ul style="list-style-type: none"> or the date of request from <i>FSCS</i> or <i>PRA</i> as applicable. 	<p>All balances must be rounded up to two decimal places.</p> <p>Maximum number of characters in field: 15</p>
43.	Currency of account	Currency in which the account is held.	<p>ISO 4217 or alternative code if ISO 4217 is unavailable</p> <p>Maximum number of characters in field: 3</p>
44.	Account balance in original currency	The original balance in the original currency, including any interest at the end of business before conversion to sterling [if applicable].	<p>Do not include any non-numeric symbols such as commas, currency symbols (e.g., £). All balances must be rounded up to two decimal places.</p> <p>Maximum number of characters in field: 15</p>
45.	Exchange rate	The exchange rate used to calculate the sterling balance, and the date on which the calculation was undertaken [if applicable].	<p>Do not include any non-numeric symbols such as commas, currency symbols (e.g., £). All balances must be rounded up to nine decimal places.</p> <p>Maximum number of characters in field: 29</p>
46.	Original account balance before interest	Account balance in original currency before interest accrued applied.	<p>Do not include any non-numeric symbols such as commas, currency symbols (e.g., £). All balances must be rounded up to two decimal places.</p> <p>Maximum number of characters in field: 15</p>
47.	<i>Transferable eligible deposit</i>	If the file is a <i>single customer view</i> , the amount of the <i>transferable eligible deposit</i> [if applicable].	<p>Do not include any non-numeric symbols such as commas, currency symbols (e.g., £). All balances must be rounded up to two decimal places.</p> <p>Maximum number of characters in field: 15</p>
Aggregate balance			
48.	<i>Single customer</i>	Unique customer identifier.	Maximum number of

	view record number		characters in field: 200
49.	Aggregate balance in sterling	Aggregate balance across all accounts at end of business on: <ul style="list-style-type: none"> the date the <i>deposit</i> becomes an <i>unavailable deposit</i>, or the date of request from <i>FSCS</i> or <i>PRA</i> as applicable. 	Do not include any non-numeric symbols such as commas, currency symbols (e.g., £). All balances must be rounded up to two decimal places. Maximum number of characters in field: 15
50.	Compensatable amount in sterling	The amount to be compensated subject to the limit check that must be performed by the <i>firm</i> pursuant to 12.7(2) (this could be lower than the aggregate balance across all accounts if this exceeds the coverage level provided for in 4.2). For beneficiary accounts, it may not be possible to calculate this amount and this field may be left blank.	Do not include any non-numeric symbols such as commas, currency symbols (e.g., £). All balances must be rounded up to two decimal places. Maximum number of characters in field: 15

- 12.10 Where a *firm* prepares both a *single customer view* and an *exclusions view* for a *depositor*, the “unique customer identifier” on both the *single customer view* and the *exclusions view* must be identical.
- 12.11 Where the account is a structured deposit account where the return cannot be calculated until the maturity date because the return is based on growth of an index as determined at a future date, the figure in the account balance (Field 42) must be the total of the principal, any attributable contractual minimum return and any interest accrued prior to the product start date.
- 12.12 Where a *depositor* holds more than one account, the section of the *single customer view* and *exclusions view* which sets out “Details of account(s)” must be completed for each account held.
- 12.13 The amount inserted into each *single customer view* and *exclusions view* as the account balance (Field 42) and aggregate balance across all accounts (Field 49) must be the total of principal plus any interest or premium attributable up to the *compensation date* (or the date on which the *PRA* or *FSCS* requests the *firm* to provide the *single customer view* and *exclusions view* in accordance with 12.2).
- 12.14 A *firm* must ensure that the amount inserted into each *single customer view* and *exclusions view* as the account balance (Field 42), original account balance before interest (Field 46) and aggregate balance across all accounts (Field 49) includes any payment made to the *depositor* for which value has been credited to the *depositor’s* account regardless of whether the *firm* has received the value itself. A *firm* must ensure that the amount inserted into each *single customer view* and *exclusions view* as the account balance (Field 42), original account balance before interest (Field 46) and aggregate

balance across all accounts (Field 49) excludes any payment sent by the *depositor* which has been debited from the *depositor's* account regardless of whether the *firm* has sent value itself.

- 12.15 At the end of the file containing the *single customer view* and *exclusions view* for all *depositors*, the *firm* must include a file footer indicating that the file is complete. The file footer must contain the figure "9" repeated 20 times. The file footer must appear at the end of the complete file containing the *single customer view* or *exclusions view* for all *depositors* after the last record.

13 BRRD MARKING AND CONTINUITY OF ACCESS

- 13.1 This Chapter does not apply to the *FSCS*, *credit unions* or *Northern Ireland credit unions*.

- 13.2 A *firm* must mark accounts which hold:

- (1) *eligible deposits* from natural persons and *micro, small and medium-sized enterprises*; and
- (2) *deposits* that would be *eligible deposits* from natural persons or *micro, small and medium-sized enterprises* if the *deposit* had not been made through a *branch* of the *firm* located outside the EEA

in a way that allows for the immediate identification of such accounts.

- 13.3 A *firm* must, at least annually, take reasonable steps to confirm that a *depositor* that it has classified as a *micro, small and medium-sized enterprise* continues to be a *micro, small and medium-sized enterprise* using the exchange rate prevailing on the 3 July immediately preceding the date on which any confirmation is undertaken.

- 13.4 A *firm* must ensure that its *SCV system*:

- (3) automatically identifies the *transferable eligible deposit* for each *depositor*, including the account or accounts in which the *transferable eligible deposit* is held; and
- (4) automatically identifies any account held by a *depositor* which contains both the *transferable eligible deposit* (or a portion of the *transferable eligible deposit*) and also other *deposits* of the *depositor* which do not form part of the *transferable eligible deposit*.

- 13.5 A *firm* must identify the *transferable eligible deposit* for each *depositor* by applying the amount of the maximum payment for an *eligible deposit* to the accounts included in the *single customer view* in accordance with the hierarchy set out in the table below:

1.	Instant Access Accounts (including current accounts)
2.	ISAs
3.	Notice accounts
4.	Fixed term deposits with a term of less than one year
5.	Fixed term deposits with a term of one year or more but less than two years
6.	Fixed term deposits with a term of two years or more but less than four years
7.	Fixed term deposits with a term of four years or more
8.	Other

- 13.6 A *firm* must have systems in place that enable it to transfer any *eligible deposits* which do not form part of the *transferable eligible deposit* into a separate account.

- 13.7 A *firm* must transfer any *eligible deposits* which do not form part of the *transferable eligible deposits* into a separate account within 48 hours of the *transferable eligible deposits* becoming *unavailable deposits*, or upon receipt of a request of the *PRA*.
- 13.8 A *firm* must have systems in place which enables it to freeze any account which is not marked in accordance with 11.1 and any account included in an *exclusions view* within 5 hours of the *transferable eligible deposits* becoming *unavailable deposits*, or on a request of the *PRA*.
- 13.9 A *firm* must take reasonable steps to ensure the accuracy of the data it holds in order to satisfy the requirements of this Chapter.
- 13.10 The information required by 13.2 must be electronically stored.

14 SINGLE CUSTOMER VIEW AND EXCLUSIONS VIEW REPORTING

- 14.1 This Chapter does not apply to the *FSCS*.
- 14.2 A *firm* must provide the *PRA* and *FSCS* with an *SCV effectiveness report* within three months of receiving a *Part 4A permission to accept deposits*.
- 14.3 A *firm* must notify the *PRA* and *FSCS* of a material change in the *firm's SCV system* within 3 months of the change.
- 14.4 The notification in 14.3 must be accompanied by a statement signed on behalf of the *firm's governing body* confirming that the *firm's SCV system* satisfies the *SCV requirements*.
- 14.5 A *firm* must provide an *SCV effectiveness report* to the *PRA* or *FSCS* promptly upon request by the *PRA* or *FSCS*.
- 14.6 A *firm* must update its *SCV effectiveness report* annually.
- 14.7 A description of a *firm's SCV system* and how it has been implemented must include an explanation of any code or keys used internally by the *firm* so that the *FSCS* can easily identify:
- (1) *eligible deposits* and accounts which are held on behalf of beneficiaries and which contain or may contain *eligible deposits*; and
 - (2) the accounts referred to in 13.2.
- 14.8 A *firm's SCV effectiveness report* must contain:
- (1) a description of:
 - (a) the *firm's SCV system* and how it has been implemented;
 - (b) how the *firm* proposes to transfer to the *FSCS single customer views* including specifying the transfer method and format;
 - (c) the testing undertaken with respect to the robustness of the *firm's SCV system* (including information on preparation of the *single customer view* in stressed scenarios, frequency of testing and reconciliation with core systems);
 - (d) the number of *single customer views* and *exclusions views* in the *firm's SCV system*;

- (e) the *firm's* plan for the ongoing maintenance of the *firm's* SCV system;
 - (f) how the *firm's governing body* will ensure that they remain satisfied that the *firm's* SCV system continues to satisfy the SCV requirements;
 - (g) how the facility required by 12.7(2) is applied;
 - (h) any other factors relevant to the design of the *firm's* SCV system or to an assessment of whether the *firm's* SCV system satisfies the PRA's SCV requirements;
 - (i) any dependencies in creating *single customer views* and *exclusions views* (such as reliance on group systems);
 - (j) treatment of accounts which are *dormant accounts*;
 - (k) how *exclusions views* are created; and
 - (l) a description of the procedures and controls that a *firm* has in place regarding the production of *single customer views* and *exclusions views* (such as secure storage and an indication of how key person dependencies are managed).
- (2) a statement signed on behalf of the *firm's governing body* confirming that the *firm's* SCV system satisfies the SCV requirements;
 - (3) the date when the *firm's* SCV system last produced a *single customer view* and *exclusions view* for each *depositor*;
 - (4) a statement of whether the *firm's* SCV effectiveness report has been reviewed by external auditors, and if so a statement of the findings of that review; and
 - (5) a statement of whether there has been a material change to the *firm's* SCV system since the date of the *firm's* previous SCV effectiveness report.

15 MARKING AND CONTINUITY OF ACCESS REPORTING

- 15.1 This Chapter does not apply to the FSCS.
- 15.2 A *firm* must provide the PRA with a report on its systems to comply with 11.1 and 11.2 and its *continuity of access systems* within three months of receiving a Part 4A permission to accept deposits.
- 15.3 A *firm* must notify the PRA and FSCS of a material change in the *firm's* systems to comply with 11.1 and 11.2 and its *continuity of access systems* within 3 months of the change.
- 15.4 The notification in 15.3 must be accompanied by a statement signed on behalf of the *firm's governing body* confirming that the *firm's* systems to comply with 11.1 and 11.2 and its *continuity of access systems* satisfy the requirements in 11.1, 11.2, 11.8 and 13.4 to 13.9.
- 15.5 A *firm* must provide the report to the PRA promptly upon request by the PRA.
- 15.6 A *firm* must update the report annually.
- 15.7 The report that a *firm* provides under 15.2 must contain:

- (1) a description of:
 - (a) the *firm's* systems to comply with 11.1 and 11.2 and *continuity of access systems* and how those systems have been implemented;
 - (b) the testing undertaken with respect to its systems to comply with 11.1 and 11.2 and *continuity of access systems*;
 - (c) the *firm's* plan for the ongoing maintenance of its systems to comply with 11.1 and 11.2 and *continuity of access systems*;
 - (d) how the *firm's governing body* will ensure that they remain satisfied that its systems to comply with 11.1 and 11.2 and *continuity of access systems* continue to satisfy the requirements of 13.4 to 13.9;
 - (e) any other factors relevant to the design of its systems to comply with 11.1 and 11.2 and *continuity of access systems* or to an assessment of whether those systems satisfy the requirements of 13.4 to 13.9;
 - (f) any dependencies in operating its systems to comply with 11.1 and 11.2 and *continuity of access systems* (such as reliance on group systems);
- (2) a statement signed on behalf of the *firm's governing body* confirming that the *firm's* systems to comply with 11.1 and 11.2 and *continuity of access systems* satisfy the requirements of 13.4 to 13.9;
- (3) a statement of whether the *firm's* systems to comply with 11.1 and 11.2 and *continuity of access systems* have been reviewed by internal or external auditors, and, if so, a statement of the findings of that review; and
- (4) a statement of whether there has been a material change to the *firm's* systems to comply with 11.1 and 11.2 and *continuity of access systems* since the date of the *firm's* previous report.

16 FIRMS' DISCLOSURE OBLIGATIONS – INFORMATION SHEET AND EXCLUSIONS

- 16.1 This Chapter does not apply to the *FSCS*.
- 16.2 A *firm* must:
- (1) prepare an 'information sheet', containing the categories of information set out in the template in Annex 1 to this Part and prepare an 'exclusions list' in the form set out in Annex 3 to this Part;
 - (2) ensure that the *information sheet* is kept up-to-date;
 - (3) before entering into a contract on *deposit-taking* with the intending *depositor*:
 - (a) provide the *exclusions list* to;
 - (b) provide the *information sheet* to; and
 - (c) obtain an acknowledgement of receipt of the *information sheet* from, each intending *depositor*.

- (4) before entering into a contract on *deposit-taking*, inform each intending *depositor* of the exclusions from *deposit guarantee scheme* protection that fall within 2.2(4)(b) and 2.2(4)(k), if applicable.

[Note: Art. 16(1), (2), (3) and (4) of the DGSD]

16.3 Where the *depositor* holds *eligible deposits* through a *UK* establishment, the information sheet must be in English, or, if different, in the language that was agreed between the *depositor* and the *firm* when the account was opened. A *firm* which accepts *eligible deposits* through a branch established in another *EEA* State may provide the information sheet in the official language of that *EEA* State.

[Note: Art. 16(4) of the DGSD]

17 FIRMS' DISCLOSURE OBLIGATIONS - STATEMENTS OF ACCOUNT

17.1 A *firm* must:

- (1) confirm that *deposits* are *eligible deposits* on a *depositor's* statements of account;
- (2) include a reference to the *information sheet* and a reference to the *exclusions list* in a *depositor's* statement of account;
- (3) at least annually, in a *depositor's* statement of account:
 - (a) provide to the *depositor*:
 - (i) the *information sheet*; and
 - (ii) the *exclusions list*; and
 - (b) if applicable, inform the *depositor* of the exclusions from *deposit guarantee scheme* protection that fall within 2.2(4)(b) and 2.2(4)(k); and
- (4) include the following information in a *depositor's* statement of account:

For further information about the compensation provided by the FSCS, refer to the FSCS website at www.FSCS.org.uk.

[Note: Art. 16(1) and (3) of the DGSD]

18 REFERENCES TO THE DEPOSIT GUARANTEE SCHEME IN ADVERTISING

18.1 A *firm* must not, in advertising materials, provide any further information about the *deposit guarantee scheme* beyond referring to the fact that the product advertised is or is not covered by the *deposit guarantee scheme*, and to any further factual information required by law including by this Part.

[Note: Art. 16(5) of the DGSD]

19 DISCLOSURE OF TRANSFER OF DEPOSITS

19.1 In the case of a merger, conversion of *subsidiaries* into *branches*, transfer or similar operations, a *firm* must:

- (1) inform *depositors* at least one month before the operation takes legal effect, save where the *PRA* allows a shorter deadline on grounds of commercial secrecy or financial stability; and
- (2) give *depositors* a three month period following notification in accordance with (1), to withdraw or transfer to another *institution*, without incurring any penalty, such part of their *eligible deposits*, together with any accrued interest and other benefits, as exceed the coverage level pursuant to 4.2 (or, if applicable in the case of a *non-UK scheme*, other transposition of Article 6(1) of the *DGSD*) at the time of the operation.

[Note: Art. 16(6) of the *DGSD*]

20 DISCLOSURE OF WITHDRAWAL OR EXCLUSION FROM THE DEPOSIT GUARANTEE SCHEME

20.1 A *firm* must inform *depositors* within one month if it withdraws from or is excluded from the *deposit guarantee scheme* or any *non-UK scheme*.

[Note: Art. 16(7) of the *DGSD*]

21 METHOD OF COMMUNICATION

21.1 A *firm* may discharge all its information-providing obligations in this Part:

- (1) to *depositors* who use internet banking facilities, by way of electronic communications;
- (2) to *depositors* who receive only paper statements, in writing in paper form; and
- (3) to *depositors* who neither receive paper statements nor use internet banking, in a way that brings it to the attention of the *depositor*,

but it must provide the information on paper if so requested by the *depositor*.

[Note: Art. 16(8) of the *DGSD*]

22 NOTIFICATION REQUIREMENTS ON TRANSFER TO A NON-UK SCHEME

22.1 If a *firm* which is a *DGS member* intends to transfer to become a member of a *non-UK scheme*, and cease to be a *DGS member*, it shall give at least six months' notice to the *FSCS* and the *PRA* of its intention to make such a transfer. During the six month period, the *firm* shall remain a *DGS member*.

[Note: Art. 14(4) of the *DGSD*]

23 DEPOSIT COMPENSATION INFORMATION - BRANCHES AND WEBSITES

23.1 This Chapter does not apply to the *FSCS*.

- 23.2 In this Chapter, references to “compensation sticker” and “compensation poster” are references to the sticker and poster set out in Annex 2 to this Part.
- 23.3 In this Chapter, references to “compensation leaflet” are:
- (1) in the case of a *DGS member*, references to the *FSCS*’s standard leaflet with respect to its protection of *deposits*; and
 - (2) in the case of an *incoming firm* that it is a *credit institution*, references to a leaflet with respect to the protection of *deposits* by the compensation scheme of its *home member state* where such a leaflet is provided electronically and in English by the *home state scheme* or, where a leaflet is not available, a link to the *home state scheme*’s website.
- 23.4 A *firm* that *accepts deposits* under a single brand or trading name must prominently display the compensation sticker and compensation poster in each *branch* in the following ways:
- (1) displaying the compensation sticker or compensation poster in the *branch* window; and
 - (2) displaying:
 - (a) the compensation sticker at each cashier window or desk; and
 - (b) the compensation poster inside the *branch*.
- 23.5 A *firm* that *accepts deposits* under multiple brands or trading names must prominently display the compensation sticker and compensation poster in each *branch* in the following ways:
- (1) displaying the compensation poster in the *branch* window; and
 - (2) displaying:
 - (a) the compensation sticker at each cashier window or desk; and
 - (b) the compensation poster inside the *branch*.
- 23.6 Where the physical design of the *branch* means that it is not possible to comply with any of the requirements of 23.4 and 23.5, a *firm* must display the compensation sticker or the compensation poster in an alternative place in the *branch* that has equal prominence.
- 23.7 A *firm* that *accepts deposits* under a single brand or trading name must, in a way that best brings the information to depositors’ attention:
- (1) display prominently (in electronic form) the compensation sticker; and
 - (2) provide from the compensation sticker an electronic link to the compensation leaflet.
- 23.8 A *firm* that *accepts deposits* under multiple brands or trading names must, in a way that best brings the information to *depositors*’ attention:
- (1) display prominently (in electronic form) the compensation poster; and
 - (2) provide from the compensation poster an electronic link to the compensation leaflet.

- 23.9 A *firm* must immediately provide the compensation leaflet to any *person* that requests further information about deposit protection.
- 23.10 A *firm* that accepts *eligible deposits* through a *branch* or *branches* established in other *EEA States* may provide the information required by this Chapter in the official language(s) of the *EEA State* (which may be either the compensation sticker, compensation poster or compensation leaflet in that language or the *firm's* own translation of that compensation sticker, compensation poster or compensation leaflet).

24 DUTIES OF THE FSCS

- 24.1 This Chapter applies to the *FSCS*.
- 24.2 The *FSCS* must administer the *deposit guarantee scheme*:
- (1) in accordance with the rules in this Part and any other rules prescribed by law;
 - (2) in a manner that is procedurally fair; and
 - (3) in accordance with the *European Convention on Human Rights*.
- 24.3 The *FSCS* must publish for *depositors* on its website all necessary information:
- (1) on the operation of the *deposit guarantee scheme*; and
 - (2) on the process, eligibility, exclusions from protection and conditions for payment of compensation,
- including all information specified in the *information sheet* as being available on its website.

[Note: Art.16(1) and Art. 16(3) of the *DGSD*]

- 24.4 The *FSCS* may agree to pay the reasonable costs of a *depositor* bringing or continuing insolvency proceedings against a *DGS member* in respect of *eligible deposits* (whenever instituted), if the *FSCS* is satisfied that those proceedings would help it to discharge its functions under this Part.
- 24.5 The *FSCS* must have regard to the need to use its resources in an efficient and economic way in carrying out its functions under this Part.
- 24.6 The *FSCS* must perform stress tests of its systems relating to the payment of compensation in respect of *eligible deposits* at least once every three years and more frequently where the *FSCS* considers it necessary, with the first such stress test taking place by 3 July 2017.

[Note: Art. 4(10) of the *DGSD*]

- 24.7 The *FSCS* shall use the information necessary to perform stress tests of its systems relating to the payment of compensation in respect of *eligible deposits* only for the performance of those tests and shall keep such information no longer than is necessary for that purpose.

[Note: Art. 4(11) of the *DGSD*]

24.8 The *FSCS* must take appropriate steps to ensure that *depositors* are informed of the process for receiving compensation as soon as a possible after the *compensation date*.

24.9 The *FSCS* must inform the *PRA* immediately if it becomes aware of any instance of a *firm* not complying with its obligations as set out in this Part.

[Note: Art. 4(4) of the *DGSD*]

24.10 The *FSCS* must correspond with a *depositor* in any one of:

- (1) English; or
- (2) any other official Union language or Welsh if that language is used by the *firm* which holds the *eligible deposit* when communicating with that *depositor*.

[Note: Art. 8(7) of the *DGSD*]

24.11 The *FSCS* must have in place sound and transparent governance practices.

[Note: Art. 4(12) of the *DGSD*]

25 CLAIMS AGAINST THE FSCS AND CHALLENGING FSCS DECISIONS

25.1 The *FSCS* must ensure that a *person* who would be, or considers that they would be, affected by an *FSCS* decision in relation to compensation, has an opportunity to make representations in respect of that potential decision before it is finalised.

25.2 The *FSCS* may provide that *depositors* may only submit claims for compensation in respect of *deposits* within a specified period of time (not less than three months) from the expiry of the applicable time period for payment of compensation as specified in 9.2 or the decision of the *FSCS* under 9.3 or 9.4.

25.3 The *FSCS* must, if requested by the *depositor* and subject to other applicable laws, give reasons to the *depositor* for any decision not to pay compensation in relation to some or all of their *deposits*.

25.4 The procedure established by the *FSCS* under this Chapter must satisfy the minimum requirements of procedural fairness and comply with *the European Convention on Human Rights* for the handling of any complaints of maladministration relating to any aspect of the operation of the *deposit guarantee scheme*.

[Note: Art. 9(1) and (3) of the *DGSD*]

26 CONFIDENTIALITY, INFORMATION SHARING AND CO-OPERATION

26.1 The *FSCS* must ensure the confidentiality and the protection of the data pertaining to *depositors'* accounts. The processing of such data must be carried out in accordance with the Data Protection Act 1998.

[Note: Art. 4(9) of the *DGSD*]

26.2 The *FSCS* must exchange with *host state schemes* (in relation to a *DGS member*), information:

- (1) relating to the *DGS member's* compliance with this Part;
- (2) necessary to prepare for a repayment of *depositors*, including markings made under Chapter 11;
- (3) communicated to the *FSCS* by the *PRA* that the *PRA* has detected problems with a *DGS member* that are likely to give rise to the intervention of the *deposit guarantee scheme*.

[Note: Art. 14(4) of the *DGSD*]

26.3 The *FSCS* must have appropriate procedures in place to enable it to share information and communicate effectively with *non-UK schemes*, the members of such schemes, and bodies outside the *UK*. The *FSCS* shall inform the *PRA* of any cooperation agreement it enters into with a *non-UK scheme*.

[Note: Art. 14(6) of the *DGSD*]

26.4 In order to facilitate effective co-operation, the *FSCS* shall have written co-operation agreements in place with *non-UK schemes*. Such agreements shall take account of 26.1.

[Note: Art. 14(5) of the *DGSD*]

27 PAYMENTS IN RESPECT OF UK BRANCHES OF INCOMING FIRMS AND EEA BRANCHES OF DGS MEMBERS

27.1 This Chapter applies only to the *FSCS*.

27.2 Where the *FSCS* is required under the *deposit guarantee scheme regulations* to pay compensation on behalf of a *non-UK scheme*, the *FSCS* must inform the *depositors* concerned that the relevant *credit institution* is *in default* and of their right to compensation on behalf of the *non-UK scheme*. The *FSCS* may receive correspondence from those depositors on behalf of the *non-UK scheme*.

[Note: Art. 14(2) of the *DGSD*]

27.3 Where the *FSCS* is required, under this Part, to pay compensation to a *depositor* in respect of *deposits* held with a branch of a *DGS member* in an *EEA state* other than the *UK*, the *FSCS* must instruct the relevant *non-UK scheme* to make such payments on its behalf. The *FSCS* must provide the necessary funding prior to payout by the *non-UK scheme* and must compensate the *non-UK scheme* for costs incurred by the *non-UK scheme* with regard to acts done by the *non-UK scheme* in accordance with the instructions given by the *FSCS*.

[Note: Art. 14(2) of the *DGSD*]

28 SUBROGATION

28.1 This Chapter applies to the *FSCS*.

28.2 The *FSCS* may determine that the payment of compensation by the *FSCS* shall have all or any of the following effects:

- (1) the *FSCS* shall immediately and automatically be subrogated, subject to such conditions as the *FSCS* determines are appropriate, to all or any part (as determined by the *FSCS*) of the rights and claims in the *UK* and elsewhere of the *compensation recipient* against the *DGS member* and/or any third party (whether such rights are legal, equitable or of any other nature whatsoever and in whatever capacity the *DGS member* or third party is acting) in respect of or arising out of the *compensation recipient's deposits being unavailable*;
- (2) the *FSCS* may claim and take legal or any other proceedings or steps in the *United Kingdom* or elsewhere to enforce such rights in its own name or in the name of, and on behalf of, the *compensation recipient* or in both names against the *relevant credit institution* and/or any third party;
- (3) the subrogated rights and claims conferred on the *FSCS* shall be rights of recovery and claims against the *relevant credit institution* and/or any third party which are equivalent (including as to amount and priority and whether or not the relevant *DGS member* is insolvent) to and not exceed the rights and claims that the *compensation recipient* would have had; and/or
- (4) such rights and/or obligations (as determined by the *FSCS*) as between the *firm* and the *compensation recipient* arising out of the *compensation recipient's deposit being unavailable*, shall be transferred to, and subsist between, another *firm* and the *compensation recipient* provided that the *firm* has consented (but the transferred rights and/or obligations shall be treated as existing between the *firm* and the *FSCS* to the extent of any subrogation, transfer or assignment for the purposes of (1) to (3) and 28.3).

[Note: Art. 9(2) of the *DGSD*]

28.3

- (1) The *FSCS* may determine that, if it is necessary or desirable in conjunction with the exercise of the *FSCS's* powers under 28.2, that the *compensation recipient* shall be treated as having irrevocably and unconditionally appointed the chairman of the *FSCS* for the time being to be their attorney and agent and on their behalf and in their name or otherwise to do such things and execute such deeds and documents as may be required under such laws of the *UK*, another *EEA State* or any other state or law-country to create or give effect to such assignment or transfer or otherwise give full effect to those powers.
- (2) The execution of any deed or document under (1) shall be as effective as if made in writing by the *compensation recipient* or by his agent lawfully authorised in writing or by will.

28.4

- (1) The powers conferred on the *FSCS* in 28.2 and 28.3 to make a determination must be exercised in writing.
- (2) An instrument by which the *FSCS* makes a determination must specify the provision under which it is made, the date and the time from which it takes effect and the *DGS member* and the *eligible deposits* or classes of *eligible deposit* in respect of which it applies.

- (3) The *FSCS* must take appropriate steps to publish the determination as soon as possible after it is made. Such publication must be accompanied by a statement explaining the effect of 28.2 and the *FSCS*'s determination.
- (4) Failure to comply with any requirement under this rule does not affect the validity of the determination.
- (5) A determination by the *FSCS* under 28.2 may be amended, remade or revoked at any time and subject to the same conditions.

28.5

- (1) The production of a copy of the determination purporting to be made by the *FSCS* under this Chapter:
 - (a) on which is endorsed a certificate, signed by a member of the *FSCS*'s staff authorised by it for that purpose; and
 - (b) which contains the required statements;
 is evidence (or in Scotland sufficient evidence) of the facts stated in the certificate.
- (2) The required statements are:
 - (a) that the determination was made by the *FSCS*; and
 - (b) that the copy is a true copy of the determination.
- (3) A certificate purporting to be signed as mentioned in (1) is to be taken to have been properly signed unless the contrary is shown.
- (4) A *person* who wishes in any legal proceedings to rely on a determination may require the *FSCS* to endorse a copy of the determination with a certificate of the kind mentioned in (1).

29 DUTIES ON FSCS TO PURSUE RECOVERIES

- 29.1 If the *FSCS* takes a transfer of rights from the *compensation recipient* or is otherwise subrogated to the rights of the *compensation recipient*, it must pursue all and only such recoveries as it considers are likely to be both reasonably possible and cost effective to pursue.
- 29.2 If the *FSCS* decides not to pursue such recoveries and a *compensation recipient* wishes to pursue those recoveries and so requests in writing, the *FSCS* must comply with that request and assign the rights back to the *compensation recipient*.

30 RECOVERIES OF ELIGIBLE DEPOSITS: RETURN OF SURPLUS TO COMPENSATION RECIPIENT

30.1 If the *FSCS*, in relation to a *claim for eligible deposits*, makes recoveries from the *credit institution* or any third party in respect of that *eligible deposit* the *FSCS* must:

- (1) retain from those recoveries a sum equal to the "FSCS retention sum"; and
- (2) as soon as reasonably possible after it makes the recoveries, pay to the *compensation recipient* (or, if not the *depositor*, as directed by the *depositor*), a sum equal to the "top up payment".

30.2 The *FSCS* must calculate the "FSCS retention sum" and the "top up payment" as follows:

- (1) calculate the "recovery ratio", being the ratio of:
 - (a) the amount recovered by the *FSCS* through rights assigned or transferred or otherwise subrogated (less any deduction from that amount the *FSCS* may make to cover part or all of its reasonable costs of recovery and distribution); to
 - (b) the compensation recipient's *claim for eligible deposits* against the *credit institution* less any liability of a *home state scheme*;
- (2) subtract the sum paid by the *FSCS* as compensation and any amount paid or payable by a *home state scheme* to the *compensation recipient* from the total value of the *compensation recipient's* overall *claim for eligible deposits*, to give the "compensation shortfall";
- (3) apply the recovery ratio to the sum paid by the *FSCS* as compensation to the *compensation recipient*, to give the "FSCS retention sum"; and
- (4) apply the recovery ratio to the compensation shortfall, to give the "top up payment".

31 FUNDING - AVAILABLE FINANCIAL MEANS

31.1 This Chapter applies only to the *FSCS*.

31.2 The *FSCS* must have in place adequate systems to determine the potential liabilities of the *deposit guarantee scheme* and ensure that the *available financial means* of the *deposit guarantee scheme* are proportionate to those liabilities.

[Note: Art. 10(1)(first paragraph) of the *DGSD*]

31.3 The *FSCS* must primarily use the *available financial means* of the *deposit guarantee scheme* to repay *depositors* pursuant to the *deposit guarantee scheme*.

[Note: Art. 11(1) of the *DGSD*]

32 FUNDING - USE OF EXISTING MANDATORY CONTRIBUTIONS

32.1 This Chapter applies only to the *FSCS*.

32.2 If the PRA determines, in accordance with the *deposit guarantee scheme regulations*, that the FSCS is unable to raise a *DGS compensation costs levy* from *DGS members* to meet the liabilities of the *deposit guarantee scheme*, the FSCS may borrow an amount equal to the amount of such *mandatory contributions* in order to meet the liabilities of the *deposit guarantee scheme*.

[Note: Art. 10(4) (third paragraph) of the DGSD]

32.3 The FSCS must impose a *DGS compensation costs levy* on *DGS members* sufficient to repay any amounts equal to *mandatory contributions* borrowed in accordance with Article 10 (4) of the DGSD within a reasonable time and in accordance with repayment deadlines under the applicable loan agreement and 34.3.

[Note: Art. 10(4) (third paragraph) and Article 10(2) (second paragraph) of the DGSD]

33 FUNDING - FSCS'S POWER TO LEVY AND LIMITS ON LEVIES

33.1 This Chapter applies only to the FSCS.

33.2 The FSCS may, at any time, impose on *DGS members* a:

- (1) *DGS compensation costs levy*;
- (2) *DGS management expenses levy*; or
- (3) *legacy costs levy*.

33.3 The maximum aggregate amount of *DGS compensation costs*, *legacy costs* and *DGS specific costs* for which the FSCS can levy *class A* in any one financial year of the *deposit guarantee scheme* is limited to £1,500,000,000 less whatever *DAS compensation costs* and *DAS specific costs* the FSCS has imposed on *class J* in the same year.

33.4 The maximum amount of *DGS compensation costs* for which the FSCS can levy *DGS members* per calendar year must not exceed 0.5% of total *covered deposits* (excluding *temporary high balances*) of all *DGS members*. The FSCS may in exceptional circumstances and with the prior consent of the PRA impose higher levies.

[Note: Art. 10(8) of the DGSD]

34 FUNDING - DGS COMPENSATION COSTS LEVY

34.1 This Chapter applies only to the FSCS.

34.2 The FSCS must raise *available financial means* by imposing a *DGS compensation costs levy* on *DGS members* at least once in each financial year for expenditure incurred or expected in the period of 12 months following 1 July in that year.

[Note: Art. 10(1)(second paragraph) of the DGSD]

34.3

- (1) If, after the *available financial means* of the *deposit guarantee scheme* have reached the *target level* for the first time, the *available financial means* have been reduced to less

than two-thirds of the *target level*, the *FSCS* must impose regular *DGS compensation cost levies* on *DGS members* at a level allowing the *target level* to be reached again within six years.

(2) The regular levies imposed under (1) shall take due account of the phase of the business cycle and the impact that procyclical contributions may have when setting annual contributions.

[Note: Art. 10(2) (third and fourth paragraphs) of the *DGSD*]

34.4 *DGS compensation cost levies* imposed on *DGS members* to raise the *available financial means* of the *deposit guarantee scheme* must be based on the amount of *covered deposits* (excluding *temporary high balances*) incurred by the respective *DGS member*.

[Note: Art. 13(1) of the *DGSD*]

34.5 The *FSCS* may decide that a *DGS member* must pay a minimum contribution under a *DGS compensation costs levy*, irrespective of the amount of its *covered deposits*.

[Note: Art. 13(1) (fifth paragraph) of the *DGSD*]

34.6 The *FSCS* may only impose a *DGS compensation costs levy* on *DGS members* if the *FSCS* has reasonable grounds for believing that the funds available to it to meet relevant expenses are, or will be, insufficient, taking into account expenditure already incurred, actual and expected recoveries and the level of the *FSCS*'s expected expenditure in respect of *DGS compensation costs* in the 12 *months* immediately following the levy.

34.7 The *FSCS* may include in a *DGS compensation costs levy* the costs of compensation paid by the *FSCS* in error, provided that the payout was not made in bad faith.

35 FUNDING - DGS MANAGEMENT EXPENSES LEVY

35.1 This Chapter applies only to the *FSCS*.

35.2 The *FSCS* may only impose a *DGS management expenses levy* on *DGS members* if it has reasonable grounds for believing that the funds available to it to meet relevant expenses are, or will be, insufficient, taking into account expenditure already incurred, actual and expected recoveries and the level of the *FSCS*'s expected expenditure in respect of those expenses in the financial year of the *deposit guarantee scheme* in relation to which the levy is imposed.

35.3 The *FSCS* must apply any amount collected from a *DGS management expenses levy* to the payment of *management expenses* and, as such, must not treat such funds as available financial means of the *deposit guarantee scheme*.

36 FUNDING - LEGACY COSTS LEVY

36.1 This Chapter applies only to the *FSCS*.

36.2 The *FSCS* must not impose a *legacy costs levy* on *Northern Ireland credit unions* in respect of *legacy costs* incurred before 31 March 2012.

- 36.3 The FSCS must apply any amount collected from a *legacy costs levy* to the payment of *legacy costs* and, as such, must not treat such funds as *available financial means* of the *deposit guarantee scheme*.
- 36.4 The FSCS must allocate any *legacy costs levy* to *DGS members* subject to the levy limit for *class A* under 33.3.
- 36.5 The FSCS must calculate each *DGS member's* share of a *legacy costs levy* by:
- (1) identifying the *legacy costs* allocated to *class A*;
 - (2) calculating the *DGS member's class A tariff base* as a proportion of the total *class A tariff base* of all *DGS members* (excluding *Northern Ireland credit unions*), using the *statement of business* most recently supplied;
 - (3) applying the proportion calculated in (2) to the figure in (1).
- 36.6 *Legacy cost levies* must be based on the amount of *covered deposits* (excluding *temporary high balances*) incurred by the respective *DGS member*.
- 36.7 A *firm* which becomes a *DGS member* part way through a financial year of the *deposit guarantee scheme* will not be liable to pay a share of a *legacy costs levy* made in that year.
- 36.8 41.5 applies to the calculation of a *DGS member's legacy costs levy* and its *class A tariff base* as it applies to the calculation of its *DGS specific costs levy*.

37 FUNDING - MANAGEMENT OF FUNDS LEVIED

- 37.1 This Chapter applies only to the FSCS.
- 37.2 If the FSCS invests any *available financial means* of the *deposit guarantee scheme*, it must invest it in a low-risk and sufficiently diversified manner.

[Note: Art. 10(7) of the DGSD]

- 37.3 The FSCS must hold any amount collected from a *DGS specific costs levy*, *DGS compensation costs levy* or *legacy costs levy* to the credit of *class A*.
- 37.4 Interest earned by the FSCS in the management of funds held to the credit of *class A* must be credited to that *class*, and must be set off against the *DGS management expenses*, *DGS compensation costs* and *legacy costs* allocated to that *class*.
- 37.5 The FSCS must keep accounts which include:
- (1) the funds held to the credit of *class A*; and
 - (2) the liabilities of *class A*.

38 FUNDING - ADJUSTMENTS TO LEVY SHARES

- 38.1 This Chapter applies only to the FSCS.

- 38.2 If a *DGS member's* share of a *DGS levy* or an additional administrative fee or interest under 45.3 would be so small that, in the opinion of the *FSCS*, the costs of collection would be disproportionate to the amount payable, the *FSCS* may treat the *DGS member* as if its share of the levy or additional administrative fee amounted to zero.
- 38.3 The calculation of *DGS levies* must take into account previous levies, where funds raised in anticipation of meeting liabilities prove either more or less than the amount actually required.
- 38.4 The *FSCS* may adjust the calculation of a *DGS member's* share of any *DGS levy* to take proper account of:
- (1) any excess, not already taken into account, between previous levies of that type imposed in relation to previous periods and the relevant costs actually incurred in that period; or
 - (2) amounts that the *FSCS* has not been able to recover from *DGS members* as a result of 33.3 or 33.4; or
 - (3) amounts that the *FSCS* has not been able to recover from *DGS members* after having taken reasonable steps; or
 - (4) payments deferred under 46.2, the calculation of levies after an acquisition of deposit business under Chapter 39 or Chapter 40, calculations under 41.6; or
 - (5) anything else that the *FSCS* believes on reasonable grounds should be taken into account.
- 38.5 The *FSCS* must not adjust the calculation of a *DGS member's* share of any *DGS levy* under 38.4 on the grounds that it would be inequitable for that *firm* to pay that share or part of it or on the grounds that it would be inequitable for the *FSCS* to retain that share or part of it. Any such claim should be dealt with under Chapter 46.

39 FUNDING - BUSINESS ACQUISITIONS FROM DGS MEMBERS

- 39.1 This Chapter applies only to the *FSCS*.
- 39.2 If:
- (1) a *DGS member* (A) assumes a liability to repay *deposits* held by another *DGS member* (B);
 - (2) B is no longer liable to pay a *DGS levy* to the *FSCS*; and
 - (3) the assumption of liability takes place after the date to which, or as of which, A's most recent *statement of business* is drawn up,
- the *FSCS* must require A to pay an additional amount equal to the levy that would have been payable by B in relation to the relevant business and *class A* if the acquisition had not taken place and B had remained liable to pay *DGS levies*. The amount is based on the B's most recent *statement of business*.

39.3 This Chapter only applies with respect to those financial years of the *FSCS* for which A's levies are calculated on the basis of a *statement of business* drawn up to a date, or as of a date, before the assumption of liability took place.

40 FUNDING - BUSINESS ACQUISITIONS FROM NON-DGS MEMBERS

40.1 This Chapter applies only to the *FSCS*.

40.2 If a *DGS member* (A) assumes a liability to repay *deposits* held by a non-*DGS member* (B) and the assumption of liability takes place after the date to which, or as of which, A's most recent *statement of business* is drawn up, the *FSCS* must not require A to pay an additional amount as a result of that acquisition.

40.3 This Chapter only applies with respect to those financial years of the *FSCS* for which A's levies are calculated on the basis of a *statement of business* drawn up to a date, or as of a date, before the assumption of liability took place.

41 FUNDING - MANAGEMENT EXPENSES

41.1 A *DGS member's* share of a *DGS management expenses levy* consists of one or more of: (1) a share of a *DGS base costs levy* and (2) a share of a *DGS specific costs levy*.

41.2 The *FSCS* must ensure that each *DGS member's* share of a *DGS management expenses levy* separately identifies the *firm's* share of the *DGS base costs levy* and *DGS specific costs levy*.

41.3 The *FSCS* must allocate any *DGS specific costs levy* to *class A* up to the levy limit for *class A* under 33.3.

41.4 The *FSCS* must calculate a *DGS member's* share of a *DGS specific costs levy* by:

- (1) identifying *DGS specific costs* which the *FSCS* has incurred, or expects to incur, in the relevant financial year of the *deposit guarantee scheme* allocated to *class A*, but not yet levied;
- (2) calculating the *DGS member's class A tariff base* as a proportion of the total *class A tariff base*, using the *statement of business* most recently supplied; and
- (3) applying the proportion calculated in (2) to the figure in (1).

41.5 The *FSCS* must not require a *firm* (A) which becomes a *DGS member* part way through a financial year of the *deposit guarantee scheme* to pay a share of a *DGS specific costs levy* until the financial year of the *FSCS* following the *FSCS* financial year in which A became a *DGS member*, at which time A's share of a *DGS specific costs levy* must be calculated under 41.6.

41.6

- (1) Unless otherwise provided in (2), A's *class A tariff base* is calculated, where necessary, using a projected valuation of the business to which the tariff relates.
- (2)

- (a) If A's *class A tariff base* is calculated using data from a period that begins on or after it became a *DGS member*, that data must be used to calculate A's *class A tariff base*
- (b) If A's *class A tariff base* satisfies the following conditions, it must be calculated under (c)
 - (i) A became a *DGS member* between 1 April and 31 December inclusive; and
 - (ii) A's *class A tariff base*, but for this rule, is calculated by reference to the financial year ended in the calendar year ending 31 December or the twelve *months* ending 31 December before the *FSCS* financial year.
- (c) If A satisfies the conditions in (b) it must calculate its *class A tariff base* as follows:
 - (i) it must use actual data in relation to the business to which the tariff relates rather than projected valuations;
 - (ii) the tariff is calculated by reference to the period beginning on the date it became a *DGS member* and ending on the 31 December before the start of the *FSCS* financial year; and
 - (iii) the figures are annualised by increasing them by the same proportion as the period of 12 *months* bears to the period starting from when the *DGS member* became a *DGS member* to the 31 December, as the case may be.
- (d) Where A is required to use the method in (c) it must notify the *FSCS* of its intention to do so by the date specified in 44.2.
- (e) Where A is required to use actual data under this rule, Chapter 43 is disappplied, to the extent it is incompatible, in relation to the calculation of that *DGS member's* valuation date in its second financial year.

42 FUNDING - DGS COMPENSATION COSTS

- 42.1 This Chapter applies only to the *FSCS*.
- 42.2 The *FSCS* must allocate any *DGS compensation costs levy* to *DGS members* in accordance with the amount of *DGS compensation costs* arising from, or expected to arise from claims in respect of *covered deposits* up to the levy limit of *class A* under 33.3.
- 42.3 The *FSCS* must calculate each *DGS member's* share of a *DGS compensation costs levy* by:
- (1) identifying the *DGS compensation costs* allocated to *class A*;
 - (2) calculating, in relation to *class A*, the *DGS member's* tariff base as a proportion of the total tariff base of all *DGS members* in *class A*, using the *statement of business* most recently supplied;

- (3) applying the proportion calculated in (2) to the figure in (1).
- 42.4 When calculating a *DGS member's* share of a *DGS compensation costs levy* or *DGS specific costs levy* allocated to *class A*, the *FSCS* must use the *class A tariff base*.
- 42.5 A *firm* which becomes a *DGS member* part way through a financial year of the *deposit guarantee scheme* will not be liable to pay a share of a *DGS compensation costs levy* made in that year.
- 42.6 41.5 applies to the calculation of a *DGS member's DGS compensation costs levy* and its tariff base as it applies to the calculation of its *specific costs levy*.

43 FUNDING - CLASS A TARIFF BASE CALCULATION

- 43.1 The *Class A tariff base* is *covered deposits* (excluding *temporary high balances*) as at 31 December except that, where the *covered deposit* is a *dormant account*, the applicable tariff base is *dormant account* multiplied by 0.2 as at 31 December.
- 43.2 The *class A tariff base* calculation must be made on the basis of the information that the *firm* would have to include in its *single customer views*. The information must be of the extent and standard required if the *firm* was preparing the *single customer view* in accordance with the *SCV requirements* as at the valuation date for the tariff base.
- 43.3 A *firm* must also include in its *class A tariff base* calculation the total balance of any *deposits* in any:
- (1) *not active* account; or
 - (2) account which holds funds to which the account holder is not absolutely entitled.

44 FUNDING - REPORTING REQUIREMENTS

- 44.1 This Chapter does not apply to the *FSCS*.
- 44.2 A *firm* must provide the *FSCS* by end of February each year (or, if it has become a *DGS member* part way through the financial year, by the date requested by the *PRA*) with a statement of the total amount of business (measured in accordance with the *class A tariff base*) which it conducted, in respect of the most recent valuation period ending before the relevant year in relation to *class A*.
- The relevant year means the year in which the month of February (referred to above) falls.
- The valuation period will be 31 December.
- 44.3 A new *DGS member* must calculate its *class A tariff base* in accordance with 41.6.
- 44.4 If a *firm* does not submit a complete *statement of business* by the date on which it is due in accordance with 44.2 and any prescribed submission procedures:
- (1) the *firm* must pay an administrative fee of £250 (but not if it is already subject to an administrative fee by the *PRA* for the same financial year); and

- (2) the *DGS compensation costs levy* and any *DGS specific costs levy* will be calculated using (where relevant) the valuation or valuations of business applicable to the previous period, multiplied by the factor of 1.10 (or, if it has become a *DGS member* part way through a financial year, on the basis of the information provided to the *PRA* for the purposes of FEES 4.4.2 R or on any other reasonable basis, making such adjustments as seem appropriate in subsequent levies once the true figures are known).

45 FUNDING - OBLIGATION TO PAY

- 45.1 This Chapter does not apply to the *FSCS*.
- 45.2 A *firm* must pay to the *FSCS* its share of each:
- (1) *DGS management expenses levy*; and
 - (2) *DGS compensation costs levy* and *legacy costs levy* allocated to *class A*.
- 45.3 If a *firm* does not pay the total amount of its share of a *DGS levy*, before the end of the date on which it is due, it must pay an additional amount as follows:
- (1) if the *DGS levy* was not paid in full before the end of the due date, an administrative fee of £250; and
 - (2) interest on any unpaid part of the *DGS levy* or administrative fee at the rate of 5% per annum above the Official Bank Rate from time to time in force, accruing on a daily basis from the date on which the amount concerned became due.

46 FUNDING - OVERPAYMENTS AND DEFERRAL OF PAYMENTS

- 46.1 The *FSCS* may reduce, remit or refund any overpaid amounts paid by a *DGS member* in respect of a particular period, due to a mistake of law or fact by the *DGS member* provided that the claim is made by the *DGS member* not more than two years after the beginning of the period to which the overpayment relates.
- 46.2 The *PRA* may defer, in whole or in part, a *DGS member's* obligation to pay a *DGS compensation costs levy* or a *legacy costs levy* if the *PRA* considers that such contributions would jeopardise the liquidity or solvency of the *firm*. Such deferral shall not be granted for a longer period than six months but may be renewed upon request of the *firm*.
- 46.3 Any contributions deferred pursuant to 46.2 shall be paid when the payment no longer jeopardises the liquidity and solvency of the *firm*.

[Note: Art. 10(8) of the *DGSD*]

47 FUNDING - PAYMENT OF LEVIES

- 47.1 This Chapter does not apply to the *FSCS*.

- 47.2 A *firm* must pay its share of a *DGS levy* in one payment.
- 47.3 A *firm's* share of a *DGS levy* is due on, and payable within, 30 days of the date when the invoice is issued.
- 47.4 A *firm* must pay its share of a *DGS levy* by either direct debit, credit transfer (e.g. BACS or CHAPS), cheque, Maestro, Visa Debit or by credit card (Visa/Mastercard/American Express only).
- 47.5 If a *firm* ceases to be a *DGS member* part way through a financial year of the *deposit guarantee scheme*:
- (1) it will remain liable for any unpaid levies which the *FSCS* has already made on the *firm*; and
 - (2) the *FSCS* may make one or more levies upon it (which may be before or after the *firm* has ceased to be a *DGS member* but must be before it ceases to be a *firm*) for the costs which it would have been liable to pay had the *FSCS* made a levy on all *DGS members* in the financial year it ceased to be a *DGS member*.

48 FUNDING - TRANSFER OF LEVIES

- 48.1 This Chapter applies only to the *FSCS*.
- 48.2 If a *firm* ceases to be a *DGS member* and joins a *non-UK scheme*, the *FSCS* must transfer the contributions paid by that *firm* to the *available financial means* of the *deposit guarantee scheme* during the 12 months preceding the end of the membership to the relevant *non-UK scheme*.
- 48.3 48.2 does not apply if the *firm* has been excluded from the *deposit guarantee scheme* pursuant to Article 4(5) of the *DGSD*.
- 48.4 If some of the activities of a *DGS member* are transferred to another *Member State* and become subject to a *non-UK scheme*, the contributions paid by that *firm* during the 12 months preceding the transfer shall be transferred to the relevant *non-UK scheme* in proportion to the amount of *covered deposits* transferred.

[Note: Art. 14(3) of the *DGSD*]

49 TRANSITIONAL PROVISIONS – MARKING EFFECTIVENESS REPORT

- 49.1 This Chapter does not apply to the *FSCS*.
- 49.2 In this Chapter, the following definition shall apply:
- marking effectiveness report*
- means a report from a *firm's governing body* confirming that the *firm* satisfies the *marking requirements* and containing the information required by 49.7; and
- marking requirements*
- means the requirements in 11.1 and 11.2.

- 49.3 A *firm* must provide the *PRA* with a *marking effectiveness report* within three months of receiving a *Part 4A permission to accept deposits*.
- 49.4 A *firm* must notify the *PRA* and *FSCS* of a material change in the *firm's* systems to satisfy the *marking requirements* within 3 months of the change.
- 49.5 The notification in 49.4 must be accompanied by a statement signed on behalf of the *firm's governing body* confirming that the *firm's* systems satisfy the *marking requirements*.
- 49.6 A *firm* must provide a *marking effectiveness report* to the *PRA* or *FSCS* promptly upon request by the *PRA* or *FSCS*.
- 49.7 A *firm's marking effectiveness report* must contain:
- (1) a description of:
 - (a) the *firm's* systems or to satisfy the *marking requirements* and how they have been implemented (the *firm's* systems include any manual systems used by the *firm* and any code or keys used internally by the *firm* to mark *eligible deposits* and accounts which are held on behalf of beneficiaries and which contain or may contain *eligible deposits*);
 - (b) the testing undertaken with respect to the robustness of the *firm's* systems;
 - (c) the number of marked accounts that contain *eligible deposits*;
 - (d) the *firm's* plan for the ongoing maintenance of its systems;
 - (e) how the *firm's governing body* will ensure that they remain satisfied that the *firm's* systems continue to satisfy the *marking requirements*; and
 - (f) any other factors or dependencies relevant to the design and operation of the *firm's* systems or to an assessment of whether the systems satisfy the *marking requirements*;
 - (2) a statement signed on behalf of the *firm's governing body* confirming that the *firm* satisfies the *marking requirements*;
 - (3) a statement of whether the *firm's marking effectiveness report* has been reviewed by external auditors, and if so, a statement of the findings of that review; and
 - (4) a statement of whether there has been a material change to the *firm's* systems since the date of the *firm's* previous *marking effectiveness report*.

50 TRANSITIONAL PROVISIONS – SINGLE CUSTOMER VIEW

- 50.1 This Chapter does not apply to the *FSCS*.
- 50.2 This Chapter does not apply in relation to an *eligible deposit*:
- (1) of a *large company*;
 - (2) contained in an account that is *not active*; or
 - (3) contained in an account that holds funds to which a *depositor* is not absolutely entitled.
- 50.3 In this Chapter, the following definitions shall apply:

large company

means a *body corporate* which does not qualify as a small company under section 382 of the Companies Act 2006

single customer view

means a single, consistent view of a *depositor's* aggregate *eligible deposits* with a *firm* which contains the information required by 50.11;

50.4 A *firm* must be able to provide to the *PRA* or the *FSCS* its *single customer views* within 72 hours of a request being made by the *PRA* or *FSCS*.

50.5 A *firm* must be able to provide the *single customer view* by secure electronic transmission and in a format which is readily transferable to and compatible with the *FSCS's* systems.

50.6 A *firm* must ensure that the electronic systems which produce *the single customer view* must:

- (1) be capable of automatically identifying the amount of *covered deposits* payable to each *depositor*; and
- (2) include a check facility which allows the *firm* to identify any portion of an *eligible deposit* that exceeds the coverage level provided for in 4.2.

50.7 A *firm* that operates fewer than 5,000 accounts which contain *eligible deposits* on 3 July 2015 may:

- (1) elect that 50.5 and 50.6 do not apply; and
- (2) revoke any such election.

50.8 A *firm* that revokes an election, may not make a further election under 50.7.

50.9 A *firm* that operates 5,000 or more accounts which contain *eligible deposits* on 3 July 2015 may not make an election under 50.7 if, on a future date, it operates less than 5,000 accounts which contain *eligible deposits*.

50.10 The election or revocation of the election takes effect only where the *firm* provides written notice to the *PRA* of the election or revocation.

50.11 A *firm* must ensure that a *single customer view* contains all the information set out in the table below.

Field identifier	Field descriptor
Customer details	
<i>Single customer view</i> record number	Unique customer identifier
Title	Title [if applicable and where held by the <i>firm</i>]
Customer 1st Forename	1st Forename [if applicable]
Customer 2nd Forename	2nd Forename [if applicable and where held by the <i>firm</i>]
Customer 3rd Forename	3rd Forename [if applicable and where held by the <i>firm</i>]

Field identifier	Field descriptor
Customer Surname [or company name or name of account holder]	Surname [or company name or name of account holder] ³
Previous Name	Any former name of account holder [where held by the <i>firm</i>]
National Insurance number	National Insurance number, where held by the <i>firm</i>
Contact details	
EITHER Format A	
<i>Single customer view record number</i>	Unique customer identifier
House number	House number/Premise name
Street	Street
Locality	Locality [where held by the <i>firm</i>]
County	County [where held by the <i>firm</i>]
Postcode	Postcode [where used by a country]
Country	Country [for countries outside the <i>UK</i>]
OR Format B	
Single customer view record number	Unique customer identifier
ADDRESS LINE 1	As required
ADDRESS LINE 2	As required
ADDRESS LINE 3	As required
ADDRESS LINE 4	As required
ADDRESS LINE 5	As required
ADDRESS LINE 6	As required
Postcode	Postcode [where used by a country]
Country	Country [for countries outside the <i>UK</i>]
Details of account(s)	
<i>Single customer view record number</i>	Unique customer identifier
Account title	Surname, first name, any other initials or middle name identifier or company name or name of account holder
Account number	Unique number for this account
Product type	Type of product or service - instant access/term
Account holder indicator	This field applies to joint or multiple accounts. It must identify whether the customer is the primary account holder or secondary account holder (or other such status)
Account status code	Active accounts only to be included
Account balance in the original currency	Account balance including any interest or premium attributable, at end of business on:

Field identifier	Field descriptor
	(a) the <i>compensation date</i> ; or (b) the date of request from the <i>FSCS</i> or the <i>PRA</i>
Aggregate balance	
<i>Single customer view</i> record number	Unique customer identifier
Aggregate balance across all accounts in sterling	Account balance including any interest or premium attributable, at end of business on: (a) the <i>compensation date</i> ; or (b) the date of request from the <i>PRA</i> or <i>FSCS</i>
Compensatable amount	The amount to be compensated subject to the limit check that must be performed by the <i>firm</i> under 50.6(2) (this could be lower than the aggregate balance across all accounts if this exceeds the coverage level provided for in 4.2.

50.12 Where a *depositor* holds more than one account, the section in the *single customer view* which sets out “Details of account(s)” must be completed for each account held.

50.13 The amount inserted into the *single customer view* as the account balance and aggregate balance across all accounts must be the total of the principal plus any interest or premium attributable up to the *compensation date* (or in the absence of a *compensation date*, the date on which the *FSCS* or *PRA* makes a request to the *firm* to provide the *single customer view*).

50.14 If the account is a structured deposit account where the return cannot be calculated until the maturity date because the return is based on growth of an index as determined at a future date, the figure inserted into the *single customer view* as the account balance must be the total of the principal, any attributable contractual minimum return and any interest accrued prior to the product start date.

50.15 A *firm* must take reasonable steps to ensure the accuracy of the data it holds to satisfy the requirements of this Chapter.

51 TRANSITIONAL PROVISIONS – SINGLE CUSTOMER VIEW EFFECTIVENESS REPORT

51.1 This Chapter does not apply in relation to an *eligible deposit*.

- (1) of a *large company*;
- (2) contained in an account that is *not active*; or
- (3) contained in an account that holds funds to which a *depositor* is not absolutely entitled.

51.2 In this Chapter, the following definitions shall apply:

large company

means a *body corporate* which does not qualify as a small company under section 382 of the Companies Act 2006

SCV effectiveness report

means a report from a *firm's governing body* confirming that the *firm's* systems satisfy the requirements in Chapter 50 with respect to *single customer views* and containing the information required by 51.7.

single customer view

means a single, consistent view of a *depositor's* aggregate *eligible deposits* with a *firm* which contains the information required by 50.11;

51.3 A *firm* must provide the *PRA* with an *SCV effectiveness report* within three months of receiving a *Part 4A permission to accept deposits*.

51.4 A *firm* must notify the *PRA* and *FSCS* of a material change in the *firm's* systems to satisfy the requirements in Chapter 50 with respect to *single customer views*, within 3 months of the change.

51.5 The notification in 51.4 must be accompanied by a statement signed on behalf of the *firm's governing body* confirming that the *firm's* systems satisfy the requirements in Chapter 50 with respect to *single customer views*.

51.6 A *firm* must provide a *SCV effectiveness report* to the *PRA* or *FSCS* promptly upon request by the *PRA* or *FSCS*.

51.7 A *firm's SCV effectiveness report* must contain, to the extent applicable:

- (1) a description of:
 - (a) the *firm's* systems to satisfy the requirements in Chapter 50 with respect to *single customer views* and how they have been implemented (the *firm's* systems include any manual systems used by the *firm* and any code or keys used internally by the *firm* so that the *FSCS* can easily identify *eligible deposits* and accounts which are held on behalf of beneficiaries and which contain or may contain *eligible deposits*);
 - (b) how the *firm* proposes to transfer to the *PRA* or *FSCS* a *single customer view* for each *depositor* with *eligible deposits* including specifying the transfer method and format;
 - (c) the testing undertaken with respect to the robustness of the *firm's* systems (including information on preparation of the *single customer views* in stressed scenarios, frequency of testing and where relevant, reconciliation with core systems);
 - (d) the number of *single customer views*;
 - (e) the *firm's* plan for the ongoing maintenance of its systems;
 - (f) how the *firm's governing body* will ensure that they remain satisfied that the *firm's* systems continue to satisfy the requirements in Chapter 50 with respect to *single customer views*;
 - (g) how the check facility required by 50.6(2) is applied;

- (h) any other factors relevant to the design of the *firm's* systems or to an assessment of whether the systems satisfy the requirements in Chapter 50 with respect to *single customer views*;
 - (i) any dependencies in creating the *single customer views* (such as reliance on group systems); and
 - (j) the procedures and controls that a *firm* has in place regarding the production of the *single customer views* (such as secure storage and an indication of how key person dependencies are managed);
- (2) a statement signed on behalf of the *firm's governing body* confirming that the *firm* satisfies the requirements in Chapter 50 with respect to *single customer views*;
 - (3) the date when the *firm's* systems last produced:
 - (a) a *single customer view* for each *depositor*; and
 - (b) a sample of *single customer views* and the sample size;
 - (4) a statement of whether the *firm's SCV effectiveness report* has been reviewed by external auditors, and if so, a statement of the findings of that review; and
 - (5) a statement of whether there has been a material change to the systems since the date of the *firm's* previous *SCV effectiveness report*.

51.8 A *firm* to which 50.5 and 50.6 applies must provide the *FSCS* with a representative sample of 10% of its *single customer views* or 10,000 of its *single customer views* (whichever is the smaller number) within three months of receiving a *Part 4A permission to accept deposits*.

51.9 The representative sample must include all types of account which contain *eligible deposits* (where the *firm* operates under more than one trading name the sample must include all types of account which contain *eligible deposits* for each trading name).

51.10 The *FSCS* must advise the *PRA*, within six months of receiving the information required by 51.6 whether the information provided by the *firm's* systems to satisfy the requirements in Chapter 50 with respect to *single customer views* is suitable to be submitted to the *FSCS* and is compatible with the *FSCS's* systems.

52 TRANSITIONAL PROVISIONS – CLASS A TARIFF BASE CALCULATION

52.1 In this Chapter, the following definition shall apply:

large company

means a *body corporate* which does not qualify as a small company under section 382 of the Companies Act 2006

52.2 Until 1 December 2016:

- (1) the *class A tariff base* in 43.1 excludes from *covered deposits* any *eligible deposit* of a *large company*; and
- (2) in 43.2, the reference to *single customer view* is a reference to a *single customer view* compiled in accordance with the requirements in Chapter 50 and which contains the

information set out in 50.11 and the definitions of *single customer view* and *SCV requirements* in 1.4 are modified accordingly.

53 TRANSITIONAL PROVISIONS – APPLICATION OF COMP

53.1 In this Chapter the following definitions shall apply:

COMP

means the Compensation Sourcebook of the *PRA Handbook* in force immediately before 3 July 2015

relevant person

has the definition in the *Glossary* in force immediately before 3 July 2015

in default

has the definition in the *Glossary* in force immediately before 3 July 2015

protected deposit

has the definition in the *Glossary* in force immediately before 3 July 2015

claim

has the definition in the *Glossary* in force immediately before 3 July 2015

53.2 The rules *in COMP continue to apply to the FSCS in relation to a protected deposit claim in respect of a relevant person in default before 3 July 2015.*

ANNEX 1

INFORMATION SHEET (CHAPTER 16)

Basic information about the protection of your eligible deposits	
Eligible deposits in [insert name of <i>firm</i>] are protected by:	the Financial Services Compensation Scheme ("FSCS") ¹
Limit of protection:	£85,000 per depositor per bank / building society / credit union ² [where applicable]The following trading names are part of your bank / building society / credit union: [insert all trading names which operate under the same licence]
If you have more eligible deposits at the same bank / building society / credit union:	All your eligible deposits at the same bank / building society / credit union are "aggregated" and the total is subject to the limit of £85,000. ²
If you have a joint account with other person(s):	The limit of £85,000 applies to each depositor separately. ³
Reimbursement period in case of bank, building society or credit union's failure:	20 working days ⁴
Currency of reimbursement:	Pound sterling (GBP, £) or, for branches of UK banks operating in other EEA Member States, the currency of that State.
To contact [insert name of <i>firm</i>] for enquiries relating to your account:	[insert name of <i>firm</i> and contact details]
To contact the FSCS for further information on compensation:	Financial Services Compensation Scheme 10th Floor Beaufort House 15 St Botolph Street London EC3A 7QU Tel: 0800 678 1100 or 020 7741 4100 Email: ICT@fscs.org.uk
More information:	http://www.fscs.org.uk
Acknowledgement of receipt by the depositor:	

Additional information (all or some of the below)

¹Scheme responsible for the protection of your eligible deposit

Your eligible deposit is covered by a statutory Deposit Guarantee Scheme. If insolvency of your bank, building society or credit union should occur, your eligible deposits would be repaid up to £85,000 by the Deposit Guarantee Scheme.

²General limit of protection

If a covered deposit is unavailable because a bank, building society or credit union is unable to meet its financial obligations, depositors are repaid by a Deposit Guarantee Scheme. This repayment covers at maximum £85,000 per bank, building society or credit union. This means that all eligible deposits at the same bank, building society or credit union are added up in order to determine the coverage level. If, for instance a depositor holds a savings account with £80,000 and a current account with £20,000, he or she will only be repaid £85,000.

[only where applicable] This method will also be applied if a bank, building society or credit union operates under different trading names. [insert name of the account holding bank, building society or credit union] also trades under [insert all other trading names of the same bank, building society or credit union]. This means that all eligible deposits with one or more of these trading names are in total covered up to £85,000.

In some cases eligible deposits which are categorised as “temporary high balances” are protected above £85,000 for six months after the amount has been credited or from the moment when such eligible deposits become legally transferable. These are eligible deposits connected with certain events including:

- (a) certain transactions relating to the depositor’s current or prospective only or main residence or dwelling;
- (b) a death, or the depositor’s marriage or civil partnership, divorce, retirement, dismissal, redundancy or invalidity;
- (c) the payment to the depositor of insurance benefits or compensation for criminal injuries or wrongful conviction.

More information can be obtained under <http://www.fscs.org.uk>

³Limit of protection for joint accounts

In case of joint accounts, the limit of £85,000 applies to each depositor.

However, eligible deposits in an account to which two or more persons are entitled as members of a business partnership, association or grouping of a similar nature, without legal personality, are aggregated and treated as if made by a single depositor for the purpose of calculating the limit of £85,000.

⁴Reimbursement

The responsible Deposit Guarantee Scheme is the Financial Services Compensation Scheme, 10th Floor Beaufort House, 15 St Botolph Street, London, EC3A 7QU, Tel: 0800 678 1100 or 020 7741 4100, Email: ICT@fscs.org.uk. It will repay your eligible deposits (up to £85,000) within 20 working days until 31 December 2018; within 15 working days from 1 January 2019 until 31 December 2020; within 10 working days from 1 January 2021 to 31 December 2023; and within 7 working days from 1 January 2024 onwards, save where specific exceptions apply.

Where the FSCS cannot make the repayable amount available within 7 working days, it will, from 1 June 2016 until 31 December 2023, ensure that you have access to an appropriate amount of your covered deposits to cover the cost of living (in the case of a depositor which is an individual) or to

cover necessary business expenses (in the case of a depositor which is not an individual or a large company) within 5 working days of a request. Again, there are specific exceptions to this obligation.

In the case of a depositor which is a large company, where the FSCS cannot make the repayable amount available within 7 working days, it will, from 3 July 2015 until 1 December 2016, ensure that you have access to your covered deposits within fifteen working days of a request containing sufficient information to enable it to make a payment, save where specific exceptions apply.

If you have not been repaid within these deadlines, you should contact the Deposit Guarantee Scheme since the time to claim reimbursement may be barred after a certain time limit. Further information can be obtained under <http://www.fscs.org.uk>.

Other important information

In general, all retail depositors and businesses are covered by Deposit Guarantee Schemes. Exceptions for certain deposits are stated on the website of the responsible Deposit Guarantee Scheme. Your bank, building society or credit union will also inform you of any exclusions from protection which may apply. If deposits are eligible, the bank, building society or credit union shall also confirm this on the statement of account.

ANNEX 2

CONTENT OF COMPENSATION STICKER AND POSTER (CHAPTER 23)

1	The compensation stickers must contain the following statements only:
	<p><i>UK banks</i></p> <p><i>building societies</i></p> <p><i>credit unions</i></p> <p><i>Northern Ireland credit unions</i></p> <p>An overseas firm that:</p> <p>(a) is not an <i>incoming firm</i>; and</p> <p>(b) has a <i>Part 4A permission</i> that includes <i>accepting deposits</i></p>
(1)	<p>"Your eligible deposits with [insert name of firm] are protected up to a total of £85,000 by the Financial Services Compensation Scheme, the UK's deposit guarantee scheme. Any deposits you hold above the £85,000 limit are unlikely to be covered. Please ask/click here [delete as appropriate] for further information or visit www.fscs.org.uk."</p> <p>As an alternative, for <i>credit unions</i> or <i>Northern Ireland credit unions</i> that <i>accept deposits</i> under a single brand or trading name:</p> <p>"Your eligible deposits are protected up to a total of £85,000 by the Financial Services Compensation Scheme, the UK's deposit guarantee scheme. Any deposits you hold above the £85,000 limit are unlikely to be covered. Please ask/click here [delete as appropriate] for further information or visit www.fscs.org.uk."</p>
	Incoming firm that is a <i>credit institution</i>
(2)	<p>"Your eligible deposits with [insert name of firm] are protected up to a total of [insert 100,000 euro or home state equivalent] by [insert name of compensation scheme] the [insert home state of compensation scheme] deposit guarantee scheme and are not protected by the UK Financial Services Compensation Scheme. Any deposits you hold above the [insert 100,000 euro or home state equivalent] limit are unlikely to be covered. Please ask/click here [delete as appropriate] for further information or visit [insert website address of scheme]."</p>
2	The compensation posters must contain the following statements only:
	<p><i>UK banks</i></p> <p><i>building societies</i></p>

<p>credit unions</p> <p>Northern Ireland credit unions</p> <p>An overseas firm that:</p> <p>(a) is not an <i>incoming firm</i>; and</p> <p>(b) has a Part 4A permission that includes accepting deposits</p>	
(1)	<p><i>Firms that accept deposits</i> under a single brand or trading name</p> <p>"Your eligible deposits with [insert name of firm] are protected up to a total of £85,000 by the Financial Services Compensation Scheme, the UK's deposit guarantee scheme. Any deposits you hold above the £85,000 limit are unlikely to be covered. Please ask/click here [delete as appropriate] for further information or visit www.fscs.org.uk"</p> <p>As an alternative, for <i>credit unions</i> or <i>Northern Ireland credit unions</i> that <i>accept deposits</i> under a single brand or trading name: "Your eligible deposits are protected up to a total of £85,000 by the Financial Services Compensation Scheme, the UK's deposit guarantee scheme. Any deposits you hold above the £85,000 limit are unlikely to be covered. Please ask/click here [delete as appropriate] for further information or visit www.fscs.org.uk"</p>
(2)	<p><i>Firms that accept deposits</i> under multiple brands or trading names</p> <p>"Your eligible deposits with [insert name of firm] are protected up to a total of £85,000 by the Financial Services Compensation Scheme, the UK's deposit guarantee scheme. This limit is applied to the total of any deposits you have with the following: [insert names of brands as appropriate]. Any total deposits you hold above the £85,000 limit between these brands are unlikely to be covered. Please ask/click here [delete as appropriate] for further information or visit www.fscs.org.uk"</p>
<p>Incoming firm that is a credit institution</p>	
(3)	<p><i>Incoming firm</i> that is a <i>credit institution</i> and <i>accepts deposits</i> under a single brand or trading name</p> <p>"Your eligible deposits with [insert name of firm] are protected up to a total of [insert 100,000 euro or home state equivalent] by [insert name of compensation scheme] the [insert home state of compensation scheme] deposit guarantee scheme and are not protected by the UK Financial Services Compensation Scheme. Any deposits you hold above the [insert 100,000 euro or home state equivalent] limit are unlikely to be covered. Please ask/click here [delete as appropriate] for further information or visit [insert website address of scheme]."</p>
(4)	<p><i>Incoming firm</i> that <i>accepts deposits</i> under multiple brands or trading names</p>

	<p>"Your eligible deposits with [insert name of firm] are protected up to a total of [insert 100,000 euro or home state equivalent] by [insert name of compensation scheme] the [insert home state of compensation scheme] deposit guarantee scheme and are not protected by the UK Financial Services Compensation Scheme. This limit is applied to the total of any deposits you have with the following: [insert names of brands as appropriate]. Any total deposits above the [insert 100,000 euro or home state equivalent] limit are unlikely to be covered. Please ask/click here [delete as appropriate] for further information or visit [insert website address of scheme]."</p>
3	Each of the statements in 1 and 2 must appear as written with the first and second statements on separate lines. The second statement must appear in smaller font.

ANNEX 3

EXCLUSIONS LIST (CHAPTER 16)

A deposit is excluded from protection if:

- (1) The holder and any beneficial owner of the deposit have never been identified in accordance with money laundering requirements. For further information, contact your bank, bank building society or credit union.
- (2) The deposit arises out of transactions in connection with which there has been a criminal conviction for money laundering.
- (3) It is a deposit made by a depositor which is one of the following:
 - credit institution
 - financial institution
 - investment firm
 - insurance undertaking
 - reinsurance undertaking
 - collective investment undertaking
 - pension or retirement fund¹
 - public authority

For further information about exclusions, refer to the FSCS website at www.FSCS.org.uk

¹ Deposits by personal pension schemes, stakeholder pension schemes and occupational pension schemes of micro, small and medium sized enterprises are not excluded

**PRA RULEBOOK: NON AUTHORISED PERSONS: FSCS MANAGEMENT EXPENSES LEVY
LIMIT AND BASE COSTS 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 213 (The compensation scheme); and
 - (2) section 223 (Management expenses).
- 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 Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2015

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

Commencement

- E. This instrument comes into force on 3 July 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: Non Authorised Persons: FSCS Management Expenses Levy Limit and Base Costs Instrument 2015.

By order of the Board of the Prudential Regulation Authority
30 March 2015

Annex

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

Part

FSCS MANAGEMENT EXPENSES LEVY LIMIT AND BASE COSTS

Chapter content

1. APPLICATION AND DEFINITIONS
2. LIMIT ON MANAGEMENT EXPENSES LEVIES
3. BASE COSTS

Links

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to the *FSCS*.

1.2 In this Part, the following definitions shall apply:

contracts of insurance

has the meaning given in Article 3(1) of the *Regulated Activities Order*.

FCA compensation scheme rules

means the rules of the *compensation scheme* that are *FCA* rules.

management expenses levy

means a levy imposed by the *FSCS* to meet *management expenses*.

operating a dormant account fund

means any of the *regulated activities* specified in:

- (1) article 63N(1)(a) of the *Regulated Activities Order* (meeting of repayment claims); or
- (2) article 63N(1)(b) of the *Regulated Activities Order* (managing dormant account funds (including the investment of such funds)).

participant firm

has the meaning given in the *PRA Handbook* for the purposes of the *PRA's* rules in FEES 1 and has the meaning given in the *FCA Handbook* for the purposes of the *FCA's* rules in FEES 1.

policyholder protection scheme

means the *compensation scheme* for claims under *contracts of insurance*.

PRA class

means a *class* to which the *FSCS* allocates levies in accordance with *PRA* rules.

regulatory costs

means the periodic fees payable to the *PRA* or *FCA* by a *participant firm* (and where applicable, the *Society*) in accordance with FEES 4 in the *PRA Handbook* and FEES 4 in the *FCA Handbook*.

1.3 Unless otherwise defined, an italicised expression used in this Part and in the Depositor Protection Part, has the same meaning as in the Depositor Protection Part.

1.4 Unless otherwise defined, an italicised expression used in this Part and in the Dormant Account Scheme Part, has the same meaning as in the Dormant Account Scheme Part.

2 LIMIT ON MANAGEMENT EXPENSES LEVIES

- 2.1 The total of all *management expenses levies* attributable to the period 1 April 2015 to 31 March 2016 of the *deposit guarantee scheme*, the *dormant account scheme* or the *policyholder protection scheme* may not exceed £74,429,000 less whatever *management expenses levies* the *FSCS* has imposed in accordance with *FCA compensation scheme rules* attributable to that period.

3 BASE COSTS

- 3.1 The *FSCS* must calculate a share of a *base costs levy* for a *firm*, a *dormant account fund operator* and, where applicable, the *Society* by:
- (1) identifying the *base costs* which the *FSCS* has incurred, or expects to incur, in the relevant financial year of the *compensation scheme* but has not yet levied and allocating 50% of those *base costs* as the sum to be levied on participants in *PRA classes*;
 - (2) calculating the amount of the *regulatory costs* of the *firm* or *dormant fund operator* (or, where applicable, the *Society*) as a proportion of the total *regulatory costs* of all *participant firms* (and, where applicable, the *Society*) for the relevant financial year; and
 - (3) applying the proportion calculated in (2), if any to the sum in (1).

PRA RULEBOOK: CRR FIRMS, NON CRR FIRMS, SOLVENCY II FIRMS, NON SOLVENCY II FIRMS AND NON AUTHORISED PERSONS: MANAGEMENT EXPENSES IN RESPECT OF RELEVANT SCHEMES 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 224F (Rules about relevant schemes); and
- (2) section 213 (The compensation scheme).

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 and Non Authorised Persons: Management Expenses in respect of Relevant Schemes Instrument 2015

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

Commencement

E. This instrument comes into force on 3 July 2015.

Citation

F. This instrument may be cited as the PRA Rulebook: CRR Firms, Non CRR Firms, Solvency II Firms, Non Solvency II Firms and Non Authorised Persons: Management Expenses in respect of Relevant Schemes Instrument 2015.

By order of the Board of the Prudential Regulation Authority

30 March

Annex

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

Part

MANAGEMENT EXPENSES IN RESPECT OF RELEVANT SCHEMES

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. MANAGEMENT EXPENSES IN RESPECT OF RELEVANT SCHEMES LEVY**
- 3. OBLIGATION TO PAY**
- 4. PAYMENTS**

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) the *FSCS*;
- (2) a *firm*;
- (3) a *dormant account fund operator*; and
- (3) the *Society*.

1.2 In this Part, the following definitions shall apply:

dormant account fund operator

means a person with a *Part 4A permission* for operating a *dormant account fund*.

MERS levy

means a levy imposed by the *FSCS* on a *firm*, a *dormant account fund operator* or, where applicable, the *Society*, to meet *relevant expenses* incurred by the *FSCS* in connection with acting on behalf of the *manager of the relevant scheme* in accordance with Part 15A of *FSMA*.

manager of the relevant scheme

has the meaning given in section 224B(3) of *FSMA*.

operating a dormant account fund

means any of the *regulated activities* specified in:

- (1) article 63N(1)(a) of the *Regulated Activities Order* (meeting of repayment claims); or
- (2) article 63N(1)(b) of the *Regulated Activities Order* (managing dormant account funds (including the investment of such funds)).

relevant expenses

means management expenses as defined in section 224F(7) of *FSMA*.

relevant scheme

means a scheme or arrangement (other than the *Financial Services Compensation Scheme*) for the payment of compensation (in certain cases) to customers (including customers outside the *United Kingdom*) in respect of *deposits* or under contracts of insurance or in respect of similar financial services.

2 MANAGEMENT EXPENSES IN RESPECT OF RELEVANT SCHEMES LEVY

2.1 This Chapter applies only to the *FSCS*.

2.2 The *FSCS* may at any time impose a *MERS levy* on a *firm*, a *dormant account fund operator* or, where applicable, the *Society* provided that the *FSCS* has reasonable grounds for

believing that the funds available to it to meet *relevant expenses* are, or will be insufficient, taking into account *relevant expenses* already incurred or expected to be incurred in the 12 *months* immediately following the date of the levy.

- 2.3 The FSCS can impose a *MERS levy* only if the FSCS has tried its best and has failed to obtain reimbursement of those expenses from the *manager of the relevant scheme*.
- 2.4 The FSCS must calculate a share of a *MERS levy* for a *firm*, a *dormant account fund operator* or, where applicable, the *Society*, on a reasonable basis.

3 OBLIGATION TO PAY

- 3.1 A *firm* or a *dormant account fund operator* (and, where applicable, the *Society*) must pay to the FSCS its share of each *MERS levy*.

4 PAYMENTS

- 4.2 A *firm* or a *dormant account provider* (and, where applicable, the *Society*) must pay its share of a *MERS levy* in one payment.
- 46.3 A share of a *MERS levy* is due on, and payable within, 30 days of the date when the invoice is issued.
- 46.4 A *firm* or a *dormant account fund operator* (and, where applicable, the *Society*) must pay its share of a *MERS levy* by either direct debit, credit transfer (e.g. BACS or CHAPS), cheque, Maestro, Visa Debit or by credit card (Visa/Mastercard/American Express only).
- 4.2 The FSCS may reduce, remit or refund any overpaid amounts paid in respect of a *MERS levy* in respect of a particular period, due to a mistake of law or fact by a *firm*, a *dormant account fund operator* or, where applicable, the *Society*, provided that the claim is made by the *firm*, *dormant account provider* or, where applicable, the *Society* not more than two years after the beginning of the period to which the overpayment relates.
- 4.5 If a *firm* or a *dormant account fund operator* (and, where applicable, the *Society*), does not pay the total amount of its share of a *MERS levy*, before the end of the date on which it is due, it must pay an additional amount as follows:
- (1) if the *MERS levy* was not paid in full before the end of the due date, an administrative fee of £250; and
 - (2) interest on any unpaid part of the *MERS levy* or administrative fee at the rate of 5% per annum above the Official Bank Rate from time to time in force, accruing on a daily basis from the date on which the amount concerned became due.

PRA RULEBOOK: CRR FIRMS: INTERNAL GOVERNANCE 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);
 - (2) section 137H (General rules about remuneration);
 - (3) section 137P (Control of information rules); and
 - (4) 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 the proposed rules and had regard to representations made.

PRA Rulebook: CRR Firms: Internal Governance Instrument 2015

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

Part	Annex
General Organisational Requirements	A
Skills, Knowledge and Expertise	B
Compliance and Internal Audit	C
Risk Control	D
Outsourcing	E
Record Keeping	F

Commencement

- E. This instrument comes into force on 2 April 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Internal Governance Instrument 2015.

By order of the Board of the Prudential Regulation Authority

30 March 2015

Annex A

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

Part

GENERAL ORGANISATIONAL REQUIREMENTS

Chapter content

1. APPLICATION AND DEFINITIONS
2. GENERAL REQUIREMENTS
3. PERSONS WHO EFFECTIVELY DIRECT THE BUSINESS
4. RESPONSIBILITY OF SENIOR PERSONNEL
5. MANAGEMENT BODY
6. NOMINATION COMMITTEE

Links

1 APPLICATION AND DEFINITIONS

- 1.1 Unless otherwise stated, this Part applies to a *CRR firm*;
- (1) with respect to the carrying on of the following from an establishment in the *UK*:
 - (a) *regulated activities*;
 - (b) activities that constitute *dealing in investments as principal*, disregarding the exclusion in article 15 of *Regulated Activities Order*;
 - (c) *ancillary activities*;
 - (d) in relation to *MiFID business*, *ancillary services*; and
 - (e) *unregulated activities* in a *prudential context*; and
 - (2) with respect to the carrying on of *passported activities* by it from a *branch* in another *EEA state*;
 - (3) in a *prudential context* with respect to activities wherever they are carried on; and
 - (4) taking into account any activity of other members of a *group* of which the *firm* is a member.

- 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 *SUP 10B.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*.

2 GENERAL REQUIREMENTS

- 2.1 A *firm* must have robust governance arrangements, which include a clear organisational structure with well defined, transparent and consistent lines of responsibility, effective processes to identify, manage, monitor and report the risks it is or might be exposed to, and internal control mechanisms, including sound administrative and accounting procedures and effective control and safeguard arrangements for information processing systems.

[Note: Art. 74(1) of the *CRD*, Art. 13(5) second paragraph of *MiFID*]

- 2.2 The arrangements, processes and mechanisms referred to in 2.1 must be comprehensive and proportionate to the nature, scale and complexity of the risks inherent in the business

model and of the *firm's* activities and must take into account the specific technical criteria described in 2.6, Skills, Knowledge and Expertise 3.2, Risk Control and (for a *firm* to which SYSC 19A applies), SYSC 19A of the *PRA Handbook*.

2.3 A *firm* must, taking into account the nature, scale and complexity of the business of the *firm*, and the nature and range of the financial services and activities undertaken in the course of that business establish, implement and maintain:

- (1) decision-making procedures and an organisational structure which clearly and in a documented manner specifies reporting lines and allocates functions and responsibilities;
- (2) adequate internal control mechanisms designed to secure compliance with decisions and procedures at all levels of the *firm*; and
- (3) effective internal reporting and communication of information at all relevant levels of the *firm*.

[Note: Arts. 5(1) final paragraph, 5(1)(a), 5(1)(c) and 5(1)(e) of the *MiFID implementing Directive*]

2.4 A *firm* must establish, implement and maintain systems and procedures that are adequate to safeguard the security, integrity and confidentiality of information, taking into account the nature of the information in question.

[Note: Art. 5(2) of the *MiFID implementing Directive*]

2.5 A *firm* must take reasonable steps to ensure continuity and regularity in the performance of its *regulated activities*. To this end the *firm* must employ appropriate and proportionate systems, resources and procedures.

[Note: Art. 13(4) of *MiFID*]

2.6 A *firm* must establish, implement and maintain an adequate business continuity policy aimed at ensuring, in the case of an interruption to its systems and procedures, that any losses are limited, the preservation of essential data and functions, and the maintenance of its *regulated activities*, or, where that is not possible, the timely recovery of such data and functions and the timely resumption of those activities.

[Note: Art. 5(3) of the *MiFID implementing Directive* and Art 85(2) of the *CRD*]

2.7 A *firm* must establish, implement and maintain accounting policies and procedures that enable it, at the request of the *PRA*, to deliver in a timely manner to the *PRA* financial reports which reflect a true and fair view of its financial position and which comply with all applicable accounting standards and rules.

[Note: Art. 5(4) of the *MiFID implementing Directive*]

2.8 A *firm* must monitor and, on a regular basis, evaluate the adequacy and effectiveness of its systems, internal control mechanisms and arrangements established in accordance with 2.3 to 2.7 and take appropriate measures to address any deficiencies.

[Note: Art. 5(5) of the *MiFID implementing Directive*]

2.9 (1) A *firm* must have in place appropriate procedures for its employees to report breaches internally through a specific, independent and autonomous channel.

- (2) The channel in (1) may be provided through arrangements provided for by social partners.

[Note: Art. 71 (3) of the CRD]

3 PERSONS WHO EFFECTIVELY DIRECT THE BUSINESS

- 3.1 The *senior personnel* of a *firm* must be of sufficiently good repute and sufficiently experienced as to ensure the sound and prudent management of the *firm*.

[Note: Art. 9(1) of MiFID, Art. 13(1) of the CRD]

- 3.2 A *firm* must ensure that its management is undertaken by at least two persons meeting the requirements laid down in 3.1.

[Note: Art. 9(4) first paragraph of MiFID and Art. 13(1) of the CRD]

4 RESPONSIBILITY OF SENIOR PERSONNEL

- 4.1 A *firm*, when allocating functions internally, must ensure that *senior personnel* and, where appropriate, the *supervisory function*, are responsible for ensuring that the *firm* complies with its obligations under the *regulatory system*. In particular, *senior personnel* and, where appropriate, the *supervisory function* must assess and periodically review the effectiveness of the policies, arrangements and procedures put in place to comply with the *firm's* obligations under the *regulatory system* and take appropriate measures to address any deficiencies.

[Note: Art. 9(1) of the MiFID implementing Directive]

- 4.2 A *firm* must ensure that:

- (1) its *senior personnel* receive on a frequent basis, and at least annually, written reports on the matters covered by Compliance and Internal Audit 2.2 to 2.4 and 3.1, and Risk Control 2.1, 2.2 and 2.4 to 2.6, indicating in particular whether the appropriate remedial measures have been taken in the event of any deficiencies; and
- (2) the *supervisory function*, if any, receives on a regular basis written reports on the same matters.

[Note: Art. 9(2) and Art. 9(3) of the MiFID implementing Directive]

5 MANAGEMENT BODY

- 5.1 A *firm* must ensure that the *management body* defines, oversees and is accountable for the implementation of governance arrangements that ensure effective and prudent management of the *firm*, including the segregation of duties in the organisation and the prevention of conflicts of interest. The *firm* must ensure that the *management body*:

- (1) has overall responsibility for the *firm*;
- (2) approves and oversees implementation of the *firm's* strategic objectives, risk strategy and internal governance;

- (3) ensures the integrity of the *firm's* accounting and financial reporting systems, including financial and operational controls and compliance with the *regulatory system*;
- (4) oversees the process of disclosure and communications;
- (5) has responsibility for providing effective oversight of *senior management*; and
- (6) monitors and periodically assesses the effectiveness of the *firm's* governance arrangements and takes appropriate steps to address any deficiencies.

[Note: Art. 88(1) of the CRD]

5.2 A *firm* must ensure that the members of the *management body* of the *firm*:

- (1) are of sufficiently good repute;
- (2) possess sufficient knowledge, skills and experience to perform their duties;
- (3) possess adequate collective knowledge, skills and experience to understand the *firm's* activities, including the main risks;
- (4) reflect an adequately broad range of experiences;
- (5) commit sufficient time to perform their functions in the *firm*; and
- (6) act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of *senior management* where necessary and to effectively oversee and monitor management decision-making.

[Note: Art. 91(1)-(2) and (7)-(8) of the CRD]

5.3 A *firm* must devote adequate human and financial resources to the induction and training of members of the *management body*.

[Note: Art. 91(3) of the CRD]

5.4 A *firm* must ensure that the members of the *management body* of the *firm* do not hold more directorships than is appropriate taking into account individual circumstances and the nature, scale and complexity of the *firm's* activities.

[Note: Art. 91(3) of the CRD]

- 5.5 (1) A *firm* that is significant must ensure that the members of the *management body* of the *firm* do not hold more than one of the following combinations of directorship in any organisation at the same time:
 - (a) one executive directorship with two non-executive directorships; and
 - (b) four non-executive directorships.
- (2) Paragraph (1) does not apply to members of the *management body* that represent the *UK*.

[Note: Art. 91(3) of the CRD]

5.6 For the purposes of 5.4 and 5.5:

- (1) directorships in organisations which do not pursue predominantly commercial objectives shall not count; and
- (2) the following shall count as a single directorship:
 - (a) executive or non-executive directorships held within the same *group*; or
 - (b) executive or non-executive directorships held within:
 - (i) *firms* that are members of the same institutional protection scheme provided that the conditions set out in Article 113(7) of the *CRR* are fulfilled; or
 - (ii) *undertakings* (including non-financial entities) in which the *firm* holds a *qualifying holding*.

[Note: Art. 91(4) and (5) of the CRD]

- 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*.

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

- 5.8 A *firm* that maintains a website must explain on the website how it complies with the requirements of this Chapter.

[Note: Art. 96 of the CRD]

6 NOMINATION COMMITTEE

- 6.1 A *firm* that is significant must:
- (1) establish a nomination committee composed of members of the *management body* who do not perform any executive function in the *firm*;
 - (2) ensure that the nomination committee is able to use any forms of resources the nomination committee deems appropriate, including external advice; and
 - (3) ensure that the nomination committee receives appropriate funding.

[Note: Art. 88(2) of the CRD]

- 6.2 A *firm* that has a nomination committee must ensure that the nomination committee:
- (1) engage a broad set of qualities and competences when recruiting members to the *management body* and for that purpose puts in place a policy promoting diversity on the *management body*;
 - (2) identifies and recommends for approval, by the *management body* or by general meeting, candidates to fill *management body* vacancies, having evaluated the balance of knowledge, skills, diversity and experience of the *management body*;
 - (3) prepares a description of the roles and capabilities for a particular appointment, and assesses the time commitment required;

- (4) decides on a target for the representation of the underrepresented gender in the *management body* and prepares a policy on how to increase the number of the underrepresented gender in the *management body* in order to meet that target;
- (5) periodically, and at least annually, assesses the structure, size, composition and performance of the *management body* and makes recommendations to the *management body* with regard to any changes;
- (6) periodically, and at least annually, assesses the knowledge, skills and experience of individual members of the *management body* and of the *management body* collectively, and reports this to the *management body*;
- (7) periodically reviews the policy of the *management body* for selection and appointment of *senior management* and makes recommendations to the *management body*; and
- (8) in performing its duties, and to the extent possible, on an ongoing basis, takes account of the need to ensure that the *management body's* decision making is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interest of the *firm* as a whole.

[Note: Art. 88(2) and Art. 91(10) of the CRD]

- 6.3 A *firm* that does not have a nomination committee must engage a broad set of qualities and competences when recruiting members to the *management body*. For that purpose a *firm* that does not have a nomination committee must put in place a policy promoting diversity on the *management body*.

[Note: Art. 91(10) of the CRD]

- 6.4 A *firm* that maintains a website must explain on the website how it complies with the requirements of this Chapter.

[Note: Art. 96 of the CRD]

Part

GENERAL ORGANISATIONAL REQUIREMENTS

Externally defined glossary terms

Term	Definition source
<i>EEA State</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>group</i>	<i>s421 FSMA</i>
<i>person</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>qualifying holding</i>	<i>Art. 4(1)(36) of the CRR</i>
<i>regulated activity</i>	<i>s22 FSMA</i>

Annex B

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

Part

SKILLS, KNOWLEDGE AND EXPERTISE

Chapter content

1. APPLICATION
2. SKILLS, KNOWLEDGE AND EXPERTISE
3. SEGREGATION OF FUNCTIONS
4. AWARENESS OF PROCEDURES
5. GENERAL

Links

1 APPLICATION

- 1.1 Unless otherwise stated, this Part applies to a *CRR firm*
- (1) with respect to the carrying on of the following from an establishment in the *UK*:
 - (a) *regulated activities*;
 - (b) activities that constitute *dealing in investments as principal*, disregarding the exclusion in article 15 of *Regulated Activities Order*;
 - (c) *ancillary activities*;
 - (d) in relation to *MiFID business, ancillary services*; and
 - (e) *unregulated activities in a prudential context*; and
 - (2) with respect to the carrying on of *passported activities* by it from a *branch* in another *EEA state*;
 - (3) in a *prudential context* with respect to activities wherever they are carried on; and
 - (4) taking into account any activity of other members of a *group* of which the *firm* is a member.

2 SKILLS, KNOWLEDGE AND EXPERTISE

- 2.1 A *firm* must employ personnel with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them.

[Note: Art. 5(1)(d) of the *MiFID implementing Directive*]

3 SEGREGATION OF FUNCTIONS

- 3.1 A *firm* must ensure that the performance of multiple functions by its *relevant persons* does not and is not likely to prevent those *persons* from discharging any particular functions soundly, honestly and professionally.

[Note: Art. 5(1)(g) of the *MiFID implementing Directive*]

- 3.2 The *senior personnel* of a *firm* must define arrangements concerning the segregation of duties within the *firm* and the prevention of conflicts of interest.

[Note: Art. 88 of the *CRD*]

4 AWARENESS OF PROCEDURES

- 4.1 A *firm* must ensure that its *relevant persons* are aware of the procedures which must be followed for the proper discharge of their responsibilities.

[Note: Art. 5(1)(b) of the *MiFID implementing Directive*]

5 GENERAL

- 5.1 The systems, internal control mechanisms and arrangements established by a *firm* in accordance with this Part must take into account the nature, scale and complexity of its

business and the nature and range of financial services and activities undertaken in the course of that business.

[Note: Art. 5(1) final paragraph of the *MiFID implementing Directive*]

- 5.2 A *firm* must monitor and, on a regular basis, evaluate the adequacy and effectiveness of its systems, internal control mechanisms and arrangements established in accordance with this Part, and take appropriate measures to address any deficiencies.

[Note: Art. 5(5) of the *MiFID implementing Directive*]

Part

SKILLS, KNOWLEDGE AND EXPERTISE

Externally defined glossary terms

Term	Definition source
<i>EEA State</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>group</i>	<i>s421 FSMA</i>
<i>person</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>regulated activity</i>	<i>s22 FSMA</i>

Annex C

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

Part

COMPLIANCE AND INTERNAL AUDIT

Chapter content

1. APPLICATION AND DEFINITIONS
2. COMPLIANCE
3. INTERNAL AUDIT

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *CRR firm*

- (1) with respect to the carrying on of the following from an establishment in the *UK*:
 - (a) *regulated activities*;
 - (b) activities that constitute *dealing in investments as principal*, disregarding the exclusion in article 15 of *Regulated Activities Order*;
 - (c) *ancillary activities*;
 - (d) in relation to *MiFID business, ancillary services*; and
 - (e) *unregulated activities in a prudential context*; and
- (2) with respect to the carrying on of *passported activities* by it from a *branch* in another *EEA state*;
- (3) in a *prudential context* with respect to activities wherever they are carried on; and
- (4) taking into account any activity of other members of a *group* of which the *firm* is a member.

1.2 In this Part, the following definitions shall apply:

competent authority

means the authority, designated by each *EEA State* in accordance with Article 48 of *MiFID*, unless otherwise specified in *MiFID*.

[Note: Art. 4(1)(22) of *MiFID*]

host Member State

has the meaning given in Article 4(1)(21) of *MiFID*.

[Note: Art. 2(6) of the *MiFID implementing Directive*]

2 COMPLIANCE

2.1 A *firm* must establish, implement and maintain adequate policies and procedures sufficient to ensure compliance of the firm including its managers, *employees* and *appointed representatives* (or where applicable, *tied agents*) with its obligations under the *regulatory system* and for countering the risk that the firm might be used to further *financial crime*.

[Note: Art. 13(2) of *MiFID*]

2.2 A *firm* must, taking into account the nature, scale and complexity of its business, and the nature and range of financial services and activities undertaken in the course of that business, establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the *firm* to comply with its obligations under the *regulatory system*, as well as associated risks, and put in place adequate measures and procedures designed to minimise such risks and to enable the *PRA* to exercise its powers effectively under the *regulatory*

system and to enable any other *competent authority* to exercise its powers effectively under *MiFID*.

[Note: Art. 6(1) of the *MiFID implementing Directive*]

2.3 A *firm* must maintain a permanent and effective compliance function which operates independently and which has the following responsibilities:

- (1) to monitor and, on a regular basis, to assess the adequacy and effectiveness of the measures and procedures put in place in accordance with 2.2 and the actions taken to address any deficiencies in the *firm's* compliance with its obligations; and
- (2) to advise and assist the *relevant persons* responsible for carrying out *regulated activities* to comply with the *firm's* obligations under the *regulatory system*.

[Note: Art. 6(2) of the *MiFID implementing Directive*]

2.4 In order to enable the compliance function to discharge its responsibilities properly and independently, a *firm* must ensure that the following conditions are satisfied:

- (1) the compliance function must have the necessary authority, resources, expertise and access to all relevant information;
- (2) a compliance officer must be appointed and must be responsible for the compliance function and for any reporting as to compliance required by General Organisation Requirements 4.2;
- (3) the *relevant persons* involved in the compliance functions must not be involved in the performance of services or activities they monitor;
- (4) the method of determining the remuneration of the *relevant persons* involved in the compliance function must not compromise their objectivity and must not be likely to do so.

[Note: Art. 6(3) first paragraph of the *MiFID implementing Directive*]

2.5 A *firm* need not comply with 2.4(3) or (4) if it is able to demonstrate that in view of the nature, scale and complexity of its business, and the nature and range of financial services and activities, the requirements under those rules are not proportionate and that its compliance function continues to be effective.

[Note: Art. 6(3) second paragraph of the *MiFID implementing Directive*]

- 2.6 (1) This rule applies to a *firm* conducting *investment services and activities* from a *branch* in another *EEA State*.
- (2) References to the *regulatory system* in 2.1, 2.2 and 2.3 apply in respect of a *firm's branch* as if *regulatory system* includes a *host Member State's* requirements under *MiFID* and the *MiFID implementing Directive* which are applicable to the *investment services and activities* conducted from the *firm's branch*.

[Note: Art. 13(2) of *MiFID*]

3 INTERNAL AUDIT

3.1 A *firm* must, where appropriate and proportionate in view of the nature, scale and complexity of its business and the nature and range of its financial services and activities, undertaken in

the course of that business, establish and maintain an internal audit function which is separate and independent from the other functions and activities of the *firm* and which has the following responsibilities:

- (1) to establish, implement and maintain an audit plan to examine and evaluate the adequacy and effectiveness of the firm's systems, internal control mechanisms and arrangements;
- (2) to issue recommendations based on the result of work carried out in accordance with (1);
- (3) to verify compliance with those recommendations; and
- (4) to report in relation to internal audit matters in accordance with General Organisational Requirements 4.2.

[Note: Art. 8 of the *MiFID implementing Directive*]

Part

COMPLIANCE AND INTERNAL AUDIT

Externally defined glossary terms

Term	Definition source
<i>EEA State</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>group</i>	<i>s421 FSMA</i>
<i>financial crime</i>	<i>s1H FSMA</i>
<i>person</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>regulated activity</i>	<i>s22 FSMA</i>

Annex D

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

Part

RISK CONTROL

Chapter content

1. APPLICATION
2. RISK CONTROL
3. RISK COMMITTEE

Links

1 APPLICATION

- 1.1 Unless otherwise stated, this Part applies to a *CRR firm*
- (1) with respect to the carrying on of the following from an establishment in the *UK*:
 - (a) *regulated activities*;
 - (b) activities that constitute *dealing in investments as principal*, disregarding the exclusion in article 15 of *Regulated Activities Order*;
 - (c) *ancillary activities*;
 - (d) in relation to *MiFID business, ancillary services*; and
 - (e) *unregulated activities in a prudential context*; and
 - (2) with respect to the carrying on of *passported activities* by it from a *branch* in another *EEA state*;
 - (3) in a *prudential context* with respect to activities wherever they are carried on; and
 - (4) taking into account any activity of other members of a *group* of which the *firm* is a member.

2 RISK CONTROL

- 2.1 A *firm* must establish, implement and maintain adequate risk management policies and procedures, including effective procedures for risk assessment, which identify the risks relating to the *firm's* activities, processes and systems, and where appropriate, set the level of risk tolerated by the *firm*.
- [Note: Art. 7(1)(a) of the MiFID implementing Directive, Art. 13(5) second paragraph of MiFID]**
- 2.2 A *firm* must adopt effective arrangements, processes and mechanisms to manage the risk relating to the *firm's* activities, processes and systems, in light of that level of risk tolerance.
- [Note: Art. 7(1)(b) of the MiFID implementing Directive]**
- 2.3 The *management body* of a *firm* must approve and periodically review the strategies and policies for taking up, managing, monitoring and mitigating the risks the *firm* is or might be exposed to, including those posed by the macroeconomic environment in which it operates in relation to the status of the business cycle.
- [Note: Art. 76(1) of the CRD]**
- 2.4 A *firm* must monitor the following:
- (1) the adequacy and effectiveness of the *firm's* risk management policies and procedures;
 - (2) the level of compliance by the *firm* and its *relevant persons* with the arrangements, processes and mechanisms adopted in accordance with 2.2;
 - (3) the adequacy and effectiveness of measures taken to address any deficiencies in those policies, procedures, arrangements, processes and mechanisms, including

failures by the *relevant persons* to comply with such arrangements or processes and mechanisms or follow such policies and procedures.

[Note: Art. 7(1)(c) of the MiFID implementing Directive]

- 2.5 A *firm* must, where appropriate and proportionate in view of the nature, scale and complexity of its business and the nature and range of the *investment services and activities* undertaken in the course of that business, establish and maintain a risk management function that operates independently and carries out the following tasks:
- (1) implementation of the policies and procedures referred to in 2.1 to 2.4; and
 - (2) provision of reports and advice to *senior personnel* in accordance with General Organisational Requirements 4.2.

[Note: Art. 7(2) first paragraph of the MiFID implementing Directive]

- 2.6 Where a *firm* is not required under 2.5 to maintain a risk management function that functions independently, it must nevertheless be able to demonstrate that the policies and procedures which it has adopted in accordance with 2.1 to 2.4 satisfy the requirements of those rules and are consistently effective.

[Note: Art. 7(2) second paragraph of the MiFID implementing Directive]

- 2.7
- (1) The *management body* of a *firm* has overall responsibility for risk management. It must devote sufficient time to the consideration of risk issues.
 - (2) The *management body* of a *firm* must be actively involved in and ensure that adequate resources are allocated to the management of all material risks addressed in the rules implementing the *CRD* and in the *CRR* as well as in the valuation of assets, the use of external ratings and internal models related to those risks.
 - (3) A *firm* must establish reporting lines to the *management body* that cover all material risks and risk management policies and changes thereof.

[Note: Art. 76(2) of the CRD]

3 RISK COMMITTEE

- 3.1
- (1) A *firm* that is significant must establish a risk committee composed of members of the *management body* who do not perform any executive function in the firm. Members of the risk committee must have appropriate knowledge, skills and expertise to fully understand and monitor the risk strategy and the risk appetite of the *firm*.
 - (2) The risk committee must advise the *management body* on the institution's overall current and future risk appetite and assist the *management body* in overseeing the implementation of that strategy by *senior management*.
 - (3) The risk committee must review whether prices of liabilities and assets offered to clients take fully into account the *firm's* business model and risk strategy. Where prices do not properly reflect risks in accordance with the business model and risk strategy, the risk committee must present a remedy plan to the *management body*.

[Note: Art. 76(3) of the CRD]

- 3.2 (1) A *firm* must ensure that the *management body* in its *supervisory function* and, where a risk committee has been established, the risk committee have adequate access to information on the risk profile of the firm and, if necessary and appropriate, to the risk management function and to external expert advice.
- (2) The *management body* in its *supervisory function* and, where one has been established, the risk committee must determine the nature, the amount, the format, and the frequency of the information on risk which it is to receive.

[Note: Art. 76(4) of the CRD]

- 3.3 In order to assist in the establishment of sound remuneration policies and practices, the risk committee must, without prejudice to the tasks of the remuneration committee, examine whether incentives provided by the remuneration system take into consideration risk, capital, liquidity and the likelihood and timing of earnings.

[Note: Art. 76(4) of the CRD]

- 3.4 (1) A *firm's* risk management function (2.5) must be independent from the operational functions and have sufficient authority, stature, resources and access to the *management body*.
- (2) The risk management function must ensure that all material risks are identified, measured and properly reported. It must be actively involved in elaborating the *firm's* risk strategy and in all material risk management decisions and it must be able to deliver a complete view of the whole range of risks of the *firm*.
- (3) A *firm* must ensure that the risk management function is able to report directly to the *management body* in its supervisory function, independent from *senior management* and that it can raise concerns and warn the *management body*, where appropriate, where specific risk developments affect or may affect the *firm*, without prejudice to the responsibilities of the *management body* in its supervisory and/or managerial functions pursuant to the *CRD* and the *CRR*.

[Note: Art. 76(5) of the CRD]

- 3.5 The head of the risk management function must be an independent senior manager with distinct responsibility for the risk management function. Where the nature, scale and complexity of the activities of the *firm* do not justify a specially appointed *person*, another senior person within the *firm* may fulfil that function, provided there is no conflict of interest. The head of the risk management function must not be removed without prior approval of the *management body* and must be able to have direct access to the *management body* where necessary.

[Note: Art. 76(5) of the CRD]

Part

RISK CONTROL

Externally defined glossary terms

Term	Definition source
<i>EEA State</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>group</i>	<i>s421 FSMA</i>
<i>person</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>regulated activity</i>	<i>s22 FSMA</i>

Annex E

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

Part

OUTSOURCING

Chapter content

1. APPLICATION AND DEFINITIONS
2. OUTSOURCING

Links

1 APPLICATION AND DEFINITIONS

- 1.1 Unless otherwise stated, this Part applies to a *CRR firm*
- (1) with respect to the carrying on of the following from an establishment in the *UK*:
 - (a) *regulated activities*;
 - (b) activities that constitute *dealing in investments as principal*, disregarding the exclusion in article 15 of *Regulated Activities Order*;
 - (c) *ancillary activities*;
 - (d) in relation to *MiFID business*, *ancillary services*; and
 - (e) *unregulated activities* in a *prudential context*; and
 - (2) with respect to the carrying on of *passport activities* by it from a *branch* in another *EEA state*;
 - (3) in a *prudential context* with respect to activities wherever they are carried on; and
 - (4) taking into account any activity of other members of a *group* of which the *firm* is a member.

- 1.2 In this Part, the following definitions shall apply:

authorisation

means *authorisation* as an *authorised person* for the purposes of *FSMA*.

control

means control as defined in Article 1 of the Seventh Council Directive 83/349/EEC (The Seventh Company Law Directive).

listed activities

means an activity listed in Annex 1 to the *CRD*.

relevant services and activities

means *regulated activities*, *listed activities* or *ancillary services*.

2 OUTSOURCING

- 2.1 A *firm* must:
- (1) when relying on a third party for the performance of operational functions which are critical for the performance of *relevant services and activities* on a continuous and satisfactory basis, ensure that it takes reasonable steps to avoid undue additional operational risk;
 - (2) not undertake the *outsourcing* of important operational functions in such a way as to impair materially:
 - (a) the quality of its internal control; and

- (b) the ability of the *PRA* to monitor the *firm's* compliance with all obligations under the *regulatory system* and, if different, of a *competent authority* to monitor the *firm's* compliance with all obligations under *MiFID*.

[Note: Art. 13(5) first paragraph of *MiFID*]

- 2.2 For the purposes of this Part an operational function is regarded as critical or important if a defect or failure in its performance would materially impair the continuing compliance of a *firm* with the conditions and obligations of its *authorisation* or its other obligations under the *regulatory system*, or its financial performance, or the soundness or the continuity of its *relevant services and activities*.

[Note: Art. 13(1) of the *MiFID implementing Directive*]

- 2.3 Without prejudice to the status of any other function, the following functions will not be considered as critical or important for the purposes of this Part:
- (1) the provision to the *firm* of advisory services, and other services which do not form part of the *relevant services and activities* of the *firm*, including the provision of legal advice to the *firm*, the training of personnel of the *firm*, billing services and the security of the *firm's* premises and personnel; and
 - (2) the purchase of standardised services, including market information services and the provision of price feeds.

[Note: Art. 13(2) of the *MiFID implementing Directive*]

- 2.4 If a *firm* outsources critical or important operational functions or any *relevant services and activities*, it remains fully responsible for discharging all of its obligations under the *regulatory system* and must comply, in particular, with the following conditions:
- (1) the *outsourcing* must not result in the delegation by *senior personnel* of their responsibility;
 - (2) the relationship and obligations of the *firm* towards its clients under the *regulatory system* must not be altered;
 - (3) the conditions with which the *firm* must comply in order to be *authorised*, and to remain so, must not be undermined;
 - (4) none of the other conditions subject to which the *firm's authorisation* was granted must be removed or modified.

[Note: Art. 14(1) of the *MiFID implementing Directive*]

- 2.5 A *firm* must exercise due skill and care and diligence when entering into, managing or terminating any arrangement for the *outsourcing* to a service provider of critical or important operational functions or of any *relevant services and activities*.

[Note: Art. 14(2) first paragraph of the *MiFID implementing Directive*]

- 2.6 A *firm* must in particular take the necessary steps to ensure that the following conditions are satisfied:
- (1) the service provider must have the ability, capacity, and any *authorisation* required by law to perform the *outsourced* functions, services or activities reliably and professionally;

- (2) the service provider must carry out the *outsourced* services effectively, and to this end the *firm* must establish methods for assessing the standard of performance of the service provider;
- (3) the service provider must properly supervise the carrying out of the *outsourced* functions, and adequately manage the risks associated with the *outsourcing*;
- (4) appropriate action must be taken if it appears that the service provider may not be carrying out the functions effectively and in compliance with applicable laws and regulatory requirements;
- (5) the *firm* must retain the necessary expertise to supervise the *outsourced* functions effectively and to manage the risks associated with the *outsourcing*, and must supervise those functions and manage those risks;
- (6) the service provider must disclose to the *firm* any development that may have a material impact on its ability to carry out the *outsourced* functions effectively and in compliance with applicable laws and regulatory requirements;
- (7) the *firm* must be able to terminate the arrangement for the *outsourcing* where necessary without detriment to the continuity and quality of its provision of services to *clients*;
- (8) the service provider must co-operate with the *PRA* and any other relevant *competent authority* in connection with the *outsourced* activities;
- (9) the *firm*, its auditors, the *PRA* and any other relevant *competent authority* must have effective access to data related to the *outsourced* activities, as well as to the business premises of the service provider; and the *PRA* and any other relevant *competent authority* must be able to exercise those rights of access;
- (10) the service provider must protect any confidential information relating to the *firm* and its *clients*;
- (11) the *firm* and the service provider must establish, implement and maintain a contingency plan for disaster recovery and periodic testing of backup facilities where that is necessary having regard to the function, service or activity that has been *outsourced*.

[Note: Art. 14(2) second paragraph of the MiFID implementing Directive]

- 2.7 A *firm* must ensure that the respective rights and obligations of the *firm* and of the service provider are clearly allocated and set out in a written agreement.

[Note: Art. 14(3) of the MiFID implementing Directive]

- 2.8 If a *firm* and the service provider are members of the same *group*, the *firm* may, for the purpose of complying with 2.5 to 2.9, take into account the extent to which the *firm* controls the service provider or has the ability to influence its actions.

[Note: Art. 14(4) of the MiFID implementing Directive]

- 2.9 A *firm* must make available on request to the *PRA* and any other relevant *competent authority* all information necessary to enable the *PRA* and any other relevant *competent authority* to supervise the compliance of the performance of the *outsourced* activities with the requirements of the *regulatory system*.

[Note: Art. 14(5) of the *MiFID implementing Directive*]

Part

OUTSOURCING

Externally defined glossary terms

Term	Definition source
<i>authorised person</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>EEA State</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>group</i>	<i>s421 FSMA</i>
<i>person</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>regulated activity</i>	<i>s22 FSMA</i>

Annex F

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

Part

RECORD KEEPING

Chapter content

1. APPLICATION
2. RECORD KEEPING

Links

1 APPLICATION

1.1 Unless otherwise stated, this Part applies to a *CRR firm*

- (1) with respect to the carrying on of the following from an establishment in the *UK*:
 - (a) *regulated activities*;
 - (b) activities that constitute *dealing in investments as principal*, disregarding the exclusion in article 15 of *Regulated Activities Order*;
 - (c) *ancillary activities*;
 - (d) in relation to *MiFID business, ancillary services*; and
 - (e) *unregulated activities in a prudential context*; andunless another applicable rule which is relevant to the activity has a wider territorial scope, in which case this Part applies with that wider scope in relation to the activity described in that rule
- (2) with respect to the carrying on of *passport activities* by it from a *branch* in another *EEA state*;
- (3) in a *prudential context* with respect to activities wherever they are carried on; and
- (4) taking into account any activity of other members of a *group* of which the *firm* is a member.

2 RECORD KEEPING

2.1 A *firm* must arrange for orderly records to be kept of its business and internal organisation, including all services and transactions undertaken by it, which must be sufficient to enable the *PRA* or any other relevant competent authority under *MiFID* to monitor the *firm's* compliance with the requirements under the *regulatory system*, and in particular to ascertain that the *firm* has complied with all obligations with respect to *clients*.

[Note: Art. 13(6) of *MiFID*, and Art. 5(1)(f) of the *MiFID implementing Directive*]

2.2 A *firm* must retain all records kept by it under this Part in relation to its *MiFID business* for a period of at least five years.

[Note: Art. 51 (1) of the *MiFID implementing Directive*]

2.3 In relation to its *MiFID business*, a *firm* must retain records in a medium that allows the storage of information in a way accessible for future reference by the *PRA* or any other relevant *competent authority* under *MiFID*, and so that the following conditions are met:

- (1) the *PRA* or any other relevant *competent authority* under *MiFID* must be able to access them readily and to reconstitute each key stage of the processing of each transaction;
- (2) it must be possible for any corrections or other amendments, and the contents of the records prior to such corrections and amendments, to be easily ascertained; and

(3) it must not be possible for the records otherwise to be manipulated or altered.

[Note: Art. 51(2) of the *MiFID implementing Directive*]

RECORD KEEPING

Externally defined glossary terms

Term	Definition source
<i>EEA State</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>group</i>	<i>s421 FSMA</i>
<i>regulated activity</i>	<i>s22 FSMA</i>

PRA RULEBOOK: GLOSSARY 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 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 the proposed rules and directions and had regard to representations made.

PRA Rulebook: Glossary Instrument 2015

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

Commencement

- E. This instrument comes into force on 2 April 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: Glossary Instrument 2015.

By order of the Board of the Prudential Regulation Authority

30 March 2015

Annex

PRA RULEBOOK – GLOSSARY

Insert the following new definitions into the Glossary Part of the PRA Rulebook:

accounting reference date

- (1) in relation to a company incorporated in the *UK* under the Companies Acts, means the accounting reference date of that company determined in accordance with section 391 of the Companies Act 2006; and
- (2) in relation to any other body, means the last day of its financial year.

ancillary service

means any of the services listed in Section B of Annex 1 to *MiFID*.

appointed representative

has the meaning given in s39(2) *FSMA*.

associate

means (in relation to a *person* ("A")):

- (1) an *affiliated company* of A;
- (2) an *appointed representative* of A, or a *tied agent* of A, or of any *affiliated company* of A; and
- (3) any other whose business or domestic relationship with A or A's *associate* might reasonably be expected to give rise to a community of interest between them which may involve a conflict of interest in dealings with third parties.

branch

means

- (1) (in relation to a *credit institution*):
 - (a) a place of business which forms a legally dependent part of a *credit institution* and which carries out directly all or some of the transactions inherent in the business of *credit institutions*;
 - (b) for the purposes of the *CRD* and in accordance with Article 38 of the *CRD*, any number of places of business set up in the same *EEA State* by a *credit institution* with headquarters in another *EEA State* are to be regarded as a single branch; or
- (2) (in relation to an *investment firm*) has the meaning given in Article 4(1)(26) of *MiFID*.

client

has the meaning given in the *FCA Handbook* other than for the purposes of the part of the *FCA Handbook* in Specialist sourcebooks that has the title Professional Firms.

contract of insurance

has the meaning given in Article 3(1) of the *Regulated Activities Order*.

cross border services

means:

- (1) (in relation to a *UK firm*) services provided within an *EEA State* other than the *UK* under the freedom to provide services; and
- (2) (in relation to an *incoming EEA firm* or an *incoming Treaty firm*) services provided within the *UK* under the freedom to provide services.

EEA

means the *European Economic Area*.

European Economic Area

means the area established by the Agreement on the European Economic Area signed at Oporto on 2 May 1992, as it has effect for the time being and which consists of the *EEA States*.

FCA Handbook

means the *FCA's Handbook* of rules and guidance as amended from time to time.

financial instruments

mean the instruments specified in Section C of Annex I of *MiFID*.

home Member State

has the meaning given in Article 4(1)(43) of the *CRR*.

IMD insurance intermediary

has the meaning given in article 2(1) of the *Insurance Mediation Directive*.

Insurance Directives

means the *Consolidated Life Directive* and the *First Non-Life Directive*, *Second Non-Life Directive* and *Third Non-Life Directive*.

Insurance Mediation Directive

means the European Parliament and Council Directive of 9 December 2002 on insurance mediation (No 2002/92/EC).

investment firm

means any *person* whose regular occupation or business is the provision of one or more *investment services* to third parties and/or the performance of one or more *investment activities* on a professional basis.

investment services and/or activities

means any of the services and activities listed in Section A of Annex I to *MiFID*.

MiFID

means the European Parliament and Council Directive on markets in financial instruments (No. 2004/39/EC).

MiFID business

means *investment services and activities* and, where relevant, *ancillary services* carried on by a *MiFID investment firm*.

MiFID implementing Directive

means Commission Directive No. 2006/73/EC implementing Directive 2004/39/EC of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive.

MiFID investment firm

means a *firm* to which *MiFID* applies.

mutual

means an *insurer* which:

- (1) if it is a *body corporate* has no share capital (except a wholly owned subsidiary with no share capital but limited by guarantee); or
- (2) is a *friendly society*; or
- (3) is a society registered or deemed to be registered under Co-operative and Benefit Societies Act 2014 or the Industrial and Provident Societies (Northern Ireland) Act 1969.

non-directive firm

(in accordance with the Financial Services and Markets Act 2000 (Controllers) (Exemption) Order 2009 (SI 2009/774)) a *UK domestic firm* other than:

- (1) a *credit institution* authorised under the Banking Consolidation Directive;
- (2) an *investment firm* authorised under *MiFID*;
- (3) a management company as defined in article 2(1)(b) of the European Parliament and Council Directive of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (No 2009/65/EC), 1 2, 3, 4, as amended (the UCITS Directive), authorised under that directive;
- (4) an undertaking pursuing the activity of direct insurance within the meaning of:
 - (a) article 2 of the *Consolidated Life Directive*, authorised under that directive; or
 - (b) article 1 of the *First Non-Life Directive*, authorised under that directive;

- (5) an undertaking pursuing the activity of *reinsurance* within the meaning of article 2.1(a) of the *Reinsurance Directive*, authorised under that directive.

non-directive friendly society

means:

- (1) a *friendly society* whose *insurance business* is restricted to the provision of benefits which vary according to the resources available and in which the contributions of the members are determined on a flat-rate basis;
- (2) a *friendly society* whose *long-term insurance business* is restricted to the provision of benefits for employed and self-employed *persons* belonging to an undertaking or group of undertakings, or a trade or group of trades, in the event of death or survival or of discontinuance or curtailment of activity (whether or not the commitments arising from such operations are fully covered at all times by mathematical reserves);
- (3) a *friendly society* which undertakes to provide benefits solely in the event of death where the amount of such benefits does not exceed the average funeral costs for a single death or where the benefits are provided in kind;
- (4) a *friendly society* (carrying on *long-term insurance business*):
- (a) whose registered rules contain provisions for calling up additional contributions from members or reducing their benefits or claiming assistance from other *persons* who have undertaken to provide it; and
- (b) whose annual gross premium income (other than from contracts of *reinsurance*) has not exceeded 5 million Euro for each of the three preceding financial years;
- (5) a *friendly society* (carrying on *general insurance business*):
- (a) whose registered rules contain provisions for calling up additional contributions from members or reducing their benefits;
- (b) whose gross premium income (other than from contracts of *reinsurance*) for the preceding financial year did not exceed 5 million Euro; and
- (c) whose members provided at least half of that gross premium income;
- (6)
- (a) a *friendly society* whose liabilities in respect of *general insurance contracts* are fully reinsured with or guaranteed by other *mutuals*; and;
- (b) the *mutuals* providing the *reinsurance* or the guarantee are subject to the rules of the *First Non-Life Directive*.
- and
- (7) in each case whose *insurance business* is limited to that described in any of (1) to (6); and

- (8) for the purposes of (4) and (5), the exchange rate from the Euro to the pound sterling for each year beginning on 31 December is the rate applicable on the last day of the preceding October for which the exchange rates for the currencies of all the European Union member states were published in the Official Journal of the European Union.

outsourcing

means an arrangement of any form between a *firm* and a service provider by which that service provider performs a process, a service or an activity which would otherwise be undertaken by the *firm* itself

partner

means (in relation to a *firm* which is a *partnership*) any *person* appointed to direct its affairs, including:

- (1) a *person* occupying the position of a partner (by whatever name called); and
- (2) a *person* in accordance with whose directions or instructions (not being advice given in a professional capacity) the partners are accustomed to act.

passport activity

means an activity carried on by an *EEA firm*, or by a *UK firm*, under an *EEA right*

policy

has the meaning given in Article 2 of the Financial Services and Markets Act 2000 (Meaning of "Policy" and "Policyholder") Order 2001 (SI 2001/2361).

policyholder

has the meaning given in Article 3 of the Financial Services and Markets Act 2000 (Meaning of "Policy" and "Policyholder") Order 2001 (SI 2001/2361).

prudential context

means, in relation to activities carried on by a *firm*, the context in which the activities have, or might reasonably be regarded as likely to have, a negative effect on:

- (1) the safety and soundness of *firms*; or
- (2) the ability of the *firm* to meet either:
 - (a) the "fit and proper" test in threshold conditions 4E and 5E (Suitability); or
 - (b) the applicable requirements and standards under the *regulatory system* relating to the *firm's* financial resources.

relevant person

means any of the following:

- (1) a *director*, *partner* or equivalent, manager or *appointed representative* (or where applicable, *tied agent*) of the *firm*;

- (2) a *director, partner* or equivalent, or manager of any *appointed representative* (or where applicable, *tied agent*) of the *firm*;
- (3) an *employee* of the *firm* or of an *appointed representative* (or where applicable, *tied agent*) of the *firm*; as well as any other natural person whose services are placed at the disposal and under the control of the *firm* or an *appointed representative* or a *tied agent* of the *firm* and who is involved in the provision by the *firm* of *regulated activities*; or
- (4) a natural person who is directly involved in the provision of services to the *firm* or its appointed representative (or where applicable, *tied agent*) under an *outsourcing* arrangement, for the purpose of the provision by the firm of *regulated activities*.

Second Non-Life Directive

means the Council Directive of 22 June 1988 on the coordination of laws, etc and laying down provisions to facilitate the effective exercise of freedom to provide services and amending Directive 73/239/EEC (No 88/357/EEC).

senior personnel

means those *persons* who effectively direct the business of the *firm*, which could include a *firm's governing body* and other *persons* who effectively direct the business of the *firm*.

standing data

means the information relating to a *firm* held by the *PRA* on the following matters:

- (1) Communications with a *firm*:
 - (a) name;
 - (b) trading name(s);
 - (c) registered office;
 - (d) principal place of business;
 - (e) website address;
 - (f) complaints contact and complaints officer; and
 - (g) the name and email address of the primary compliance contact.
- (2) Other information about a *firm*:
 - (a) name and address of the *firm's* auditor;
 - (b) accounting reference date; and
 - (c) locum.

supervisory function

means any function within a *firm* that is responsible for the supervision of its *senior personnel*.

third country investment firm

a *firm* which would be a *MiFID investment firm* if it had its head office in the *EEA*.

tied agent

means a *person* who, under the full and unconditional responsibility of only one *MiFID investment firm* or *third country investment firm* on whose behalf it acts, promotes *investment services* and/or *ancillary services* to *clients* or prospective *clients*, receives and transmits instructions or orders from the *client* in respect of *investment services* or *financial instruments*, places *financial instruments* and/or provides advice to *clients* or prospective *clients* in respect of those *financial instruments* or *investment services*.

PRA RULEBOOK: GENERAL PROVISIONS 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: General Provisions Instrument 2015

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

Commencement

- E. This instrument comes into force on 2 April 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: General Provisions Instrument 2015.

By order of the Board of the Prudential Regulation Authority

30 March 2015

Annex

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

Part

GENERAL PROVISIONS

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. EMERGENCY**
- 3. DISCLOSURE TO RETAIL CLIENTS**
- 4. REFERRING TO APPROVAL BY THE PRA**
- 5. STATEMENTS ABOUT AUTHORISATION AND REGULATION BY THE PRA**
- 6. DISCLOSURE TO RETAIL CLIENTS ON ACTIVITIES FROM NON-UK ESTABLISHMENTS**
- 7. INSURANCE AGAINST FINANCIAL PENALTIES**

1 APPLICATION AND DEFINITIONS

1.1 Unless stated otherwise, this Part applies to every *firm*.

1.2 In this Part, the following definitions shall apply:

consumer

has the meaning given in the *FCA Handbook* for the purposes of the *FCA*'s rule in *GEN 4.4.1(1)(a)(i)*.

customer

has the meaning given in the *FCA Handbook* for the purposes of the *FCA*'s rules in *GEN 4.4.1R(1)(a)(ii)* and *GEN 4.5.1R(1)*.

eligible counterparty

has the meaning given in the *FCA Handbook* for the purposes other than for the purposes of the part of the *FCA Handbook* in High Level Standards that has the title Principles for Businesses.

equivalent business of a third country investment firm

the business of a *third country investment firm* carried on from an establishment in the *UK* that would be *MiFID business* if that *firm* were a *MiFID investment firm*.

financial penalty

means a financial penalty that the *PRA* has imposed, or may impose, under *FSMA*. It does not include a financial penalty imposed by any other body.

GEN

means the part of the *FCA Handbook* in High Level Standards which has the title General Provisions.

habitual residence

- (1) if the *policyholder* is an individual, the address given by the *policyholder* as his residence if it reasonably appears to be a residential address and there is no evidence to the contrary; or
- (2) if the *policyholder* is not an individual or a *group* of individuals, the State in which the *policyholder* has its place of establishment, or, if it has more than one, its relevant place of establishment.

home finance transaction

has the meaning given in the *FCA Handbook*.

incoming ECA provider

has the meaning given in the *FCA Handbook*.

MiFID or equivalent third country business

MiFID business or the *equivalent business of a third country investment firm*.

MTF

has the meaning given in the *FCA Handbook*.

non-investment insurance contract

has the meaning given in the *FCA Handbook*.

professional client

has the meaning given in the *FCA Handbook*.

regulated market

has the meaning given in the *FCA Handbook*.

retail client

means a *client* who is neither a *professional client* or an *eligible counterparty*.

State of the risk

means references to the *EEA State* in which a risk is situated in accordance with paragraphs 6(3) and 6(4) of Schedule 12 to *FSMA*.

UK domestic firm

means a *firm* that has its registered office (or, if it has no registered office, its head office) in the *UK*.

2 EMERGENCY

2.1 This Chapter applies to every *person* to whom a *PRA* rule applies.

2.2 (1) If any emergency arises which:

- (a) makes it impracticable for a *person* to comply with a particular *PRA* rule;
- (b) could not have been avoided by the *person* taking all reasonable steps; and
- (c) is outside the control of the *person*, its *associates* and agents (and of its and their *employees*),

the *person* will not be in contravention of that rule to the extent that, in consequence of the emergency, compliance with that rule is impracticable.

(2) (1) applies only for so long as:

- (a) the consequences of the emergency continue; and
- (b) the *person* can demonstrate that it is taking all practicable steps to deal with those consequences, to comply with the rule, and to mitigate losses and potential losses to its *clients* (if any).

- (3) The *person* must notify the *PRA* as soon as practicable of the emergency and of the steps the *person* is taking and proposes to take to deal with the consequences of the emergency.

3 DISCLOSURE TO RETAIL CLIENTS

3.1 This Chapter:

- (1) subject to (2), applies to:
- (a) every *firm* and with respect to every *regulated activity*;
 - (b) activities carried on from an establishment maintained by the *firm* (or by its *appointed representative*) in the *UK*;
 - (c) letters delivered by hand, sent by post and sent by fax and also electronic mail;
 - (d) letters sent by any of the *firm's employees*, which includes its *appointed representatives* and their *employees*.
- (2) does not apply to:
- (a) an *incoming ECA provider* when the *firm* is acting as such;
 - (b) an *incoming EEA firm* which has *permission* only for *cross border services* and which does not carry on *regulated activities* in the *UK*;
 - (c) an *incoming firm* not falling under (a) or (b), to the extent that the *firm* is subject to equivalent rules imposed by its *home Member State*;
 - (d) *MiFID* or *equivalent third country business*;
 - (e) *general insurance business* if:
 - (i) the *State of the risk* is an *EEA State* other than the *UK*; or
 - (ii) the *State of the risk* is outside the *EEA* and the *policyholder* is not in the *UK* when the *contract of insurance* is entered into;
 - (f) *long-term insurance business* if:
 - (i) the *policyholder's habitual residence* is in an *EEA State* other than the *UK*; or
 - (ii) the *policyholder's habitual residence* is outside the *EEA* and is not present in the *UK* when the *contract of insurance* is entered into; or
 - (g) text messages, account statements, business cards or compliment slips (used as such).

- 3.2 A *firm* must take reasonable care to ensure that every letter (or electronic equivalent) which it or its *employees* send to a *retail client*, with a view to or in connection with the *firm* carrying on a *regulated activity*, includes the following disclosure:

- (1) for a *UK domestic firm*, "Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority";
- (2) for an *overseas firm* (which is not an *incoming firm*), "[Authorised and regulated by [name of the overseas regulator of the *overseas firm* in the jurisdiction of that *overseas firm's* registered office (or, if it has no registered office, its head office)]]. Authorised by the Prudential Regulation Authority. Subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request."
 - (a) If the *overseas firm* (which is not an *incoming firm*) translates the name of the overseas regulator into English it must ensure that the State in which the regulator is based is clear;
 - (b) An *overseas firm* (which is not an *incoming firm*) is not required to disclose its applicable authorisation or regulation by the overseas regulator if it is not so authorised or regulated.
- (3) for an *incoming firm* without a *top-up permission* either:
 - (a) "Authorised by [name of *home Member State* regulator]"; or
 - (b) "Authorised by [name of *home Member State* regulator] and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our regulation by the Financial Conduct Authority and Prudential Regulation Authority are available from us on request".

If the *incoming firm* without a *top-up permission*:

 - (c) translates the name of the *home Member State* regulator into English it must ensure that the State in which the regulator is based is clear;
 - (d) indicates or implies to a *customer* that is regulated by the *PRA* or the *FCA*, it must make the disclosure in (b).
- (4) for an *incoming firm* with a *top-up permission*, "Authorised by [name of *home Member State* regulator] and the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request";

If the *incoming firm* with a *top-up permission* translates the name of the *home Member State* regulator into English it must ensure that the State in which the regulator is based is clear.
- (5) for an *appointed representative* of a *firm*, "[Name of *appointed representative*] is an *appointed representative* of [name of *firm*] which is [then continue with the required disclosure of the *firm*]".

If the *appointed representative* has more than one principal, the disclosure must relate to the principal or principals responsible for the *regulated activity* or *regulated activities* concerned. The required disclosure of the *firm* is that which would apply were the *firm* to make the disclosure under the rules applicable to the *firm*.

(6) for the *Society*, "Authorised under the Financial Services and Markets Act 2000".

3.3 If a *firm* offers to make details about the extent of its authorisation by the *PRA* or regulation by the *FCA* or *PRA* available on request and a customer requests such details, it must provide those details in a way that is clear, fair and not misleading.

3.4 Any *person* to which this Chapter applies is permitted to add words to the relevant required disclosure statement but only if the *person* has taken reasonable steps to satisfy itself that the presentation of its statutory status will, as a consequence, be fair, clear and not misleading and be likely to be understood by the average member of the group to whom it is directed or by whom it is likely to be received.

4 REFERRING TO APPROVAL BY THE PRA

4.1 This Chapter applies to every *firm* and with respect to the carrying on of both *regulated activities* and activities that are not *regulated activities*.

4.2 (1) Unless required to do so under the *regulatory system*, a *firm* must ensure that neither it nor anyone acting on its behalf claims in any way that any aspect of its affairs have the approval or endorsement of the *PRA* or another competent authority.

(2) (1) does not apply to statements that explain, in a way that is fair, clear and not misleading, that:

- (a) the *firm* is an *authorised person*;
- (b) the *firm* has *permission* to carry on a specific activity;
- (c) the *firm's approved persons* have been approved by the *PRA* for the purposes of section 59 of *FSMA* (Approval for particular arrangements); or
- (d) the *firm* has been given express written approval by the *PRA* in respect of a specific aspect of the *firm's* affairs.

5 STATEMENTS ABOUT AUTHORISATION AND REGULATION BY THE PRA

5.1 This Chapter:

(1) subject to (2), applies to:

- (a) every *firm* and with respect to every *regulated activity*;
- (b) activities carried on from an establishment maintained by the *firm* (or by its *appointed representative*) in the *UK*, provided that, in the case of the *MiFID business* of an *incoming EEA firm*, it only applies to business conducted within the territory of the *UK*;
- (c) communicating with a *customer*.

(2) does not apply to:

- (a) an *incoming ECA provider* when the *firm* is acting as such;
- (b) an *incoming EEA firm* which has *permission* only for *cross border services* and which does not carry on *regulated activities* in the *UK*;

- (c) an *incoming firm* not falling under (a) or (b), to the extent that the *firm* is subject to equivalent rules imposed by its *home Member State*;
- (d) *MiFID* or equivalent *third country business* that is a transaction:
 - (i) between an *MTF* operator and a member of participant in relation to the use of the *MTF*;
 - (ii) concluded under the rules governing an *MTF* between members or participants of the *MTF*, unless the member or participant is, acting on its *client's* behalf, executing the *client's* orders on an *MTF*; or
 - (iii) concluded on a regulated market by members or participants of the *regulated market*, unless the member or participant is, acting on its *client's* behalf, executing the *client's* orders on a *regulated market*.

5.2 A *firm* must not indicate or imply that it is authorised by the *PRA* in respect of business for which it is not so authorised.

5.3 A *firm* must not indicate or imply that it is regulated or otherwise supervised by the *PRA* in respect of business for which it is not regulated by the *PRA*.

6 DISCLOSURE TO RETAIL CLIENTS ON ACTIVITIES FROM NON-UK ESTABLISHMENTS

6.1 This Chapter:

- (1) subject to (2), applies to every *firm* and with respect to every *regulated activity*, in any communication:
 - (a) made to:
 - (i) (in relation to a *non-investment insurance contract*) a *consumer*;
 - (ii) (in relation to a *home finance transaction*) a *customer*; or
 - (iii) (in all other cases) a *retail client*; and
 - (b) in connection with a *regulated activity* carried on from an establishment of the *firm* (or its *appointed representative*) that is not in the *UK*;
- (2) does not apply to:
 - (a) an *incoming ECA provider* when the *firm* is acting as such;
 - (b) an *incoming EEA firm* which has *permission* only for *cross border services* and which does not carry on *regulated activities* in the *UK*;
 - (c) an *incoming firm* not falling under (a) or (b), to the extent that the *firm* is subject to equivalent rules imposed by its *home Member State*;
 - (d) *MiFID* or equivalent *third country business*.

6.2 If the *firm* indicates that it is a *PRA-authorised person* it must also, where relevant, and with equal prominence, indicate in writing that in some or all respects the *regulatory system* applying will be different from that of the *UK*. The *firm* may also indicate the protections and

complaints or compensation arrangements available under another relevant system of regulation.

- 6.3 A *firm* need not provide the information required by 6.2 if it has already provided it in writing to the *customer* to whom the communication is made.

7 INSURANCE AGAINST FINANCIAL PENALTIES

- 7.1 This Chapter applies to every *firm*, but only with respect to business that can be regulated under section 137G of *FSMA*.
- 7.2 No *firm* may pay a *financial penalty* imposed on a present or former *employee*, *director* or *partner* of the *firm* or of an *affiliated company*.
- 7.3 No *firm* may enter into, arrange, claim on or make a payment under a *contract of insurance* that is intended to have, or has or would have, the effect of indemnifying any *person* against all or part of a *financial penalty*.
- 7.4 The *Society* and *managing agents* must not cause or permit any *member*, in the conduct of that *member's insurance business* at the *Society*, to enter into, arrange, claim on or make a payment under a *contract of insurance* that is intended to have, or has or would have, the effect of indemnifying any *person* against all or part of a *financial penalty*.

Part

GENERAL PROVISIONS

Externally defined glossary terms

Term	Definition source
<i>authorised person</i>	<i>s417(1) FSMA</i>
<i>home Member State</i>	<i>Article 4(1)(43) CRR</i>
<i>person</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>PRA-authorised person</i>	<i>s2B(5) FSMA</i>
<i>regulated activity</i>	<i>s22 FSMA</i>

HANDBOOK (RULEBOOK CONSEQUENTIALS 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 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 the proposed rules and had regard to representations made.

Amendments

- D. 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	A
Senior Management Arrangements, Systems and Controls (SYSC)	B
Supervision (SUP)	C
Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)	D
General Provisions (GEN)	E
Fees Manual (FEES)	F
Conduct of Business Sourcebook (COBS)	G

Deletion

- E. Each of the following modules and sections of the PRA’s Handbook is deleted:

BSOCS (Building Societies sourcebook)
BSOG (The Building Societies Regulatory Guide)
SUP 16.10 (Verification of standing data)
SUP 18 (Transfers of business)
GEN 1 (Appropriate regulator approval and emergencies)
GEN 4 (Statutory status disclosure)

GEN 6 (Insurance against financial penalties)

Commencement

F. This instrument comes into force on 2 April 2015.

Citation

G. This instrument may be cited as the Handbook (Rulebook Consequentials No. 2) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

30 March 2015

Annex A

Amendments to the Glossary

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

<i>appropriate regulator</i>	(1)	in <u>In</u> the <i>FCA Handbook</i> , the <i>FCA</i> ; and in the <i>PRA Handbook</i> , the <i>PRA</i> ;
	(2)	(a) ...
		(b) in SUP 18 "appropriate regulator" has the meaning given in section 103A of the Act. [deleted]
...		
<i>common platform firm</i>	(A)	In the <i>PRA Handbook</i> (except SYSC 4-9):
		...
	(AB)	<u>In the <i>PRA Handbook</i> (in SYSC 4-9), has the same meaning as in (A) except that it excludes <i>CRR firms</i>.</u>
...		
<i>competent employees rule</i>	(a)	For a <i>firm</i> which is not a <i>common platform firm</i> or a <i>CRR firm</i> , SYSC 3.1.6R.
	(b)	...
	(c)	<u>for a <i>CRR firm</i>. Skills, Knowledge and Expertise 2.1 of the <i>PRA Rulebook</i>.</u>
...		
<i>contingency funding plan</i>	(1)	...
	(2)	(in BIPRU 12 and BSOGS) a plan for dealing with liquidity crises as required by <i>BIPRU 12.4.10R</i> .
...		
<i>credit institution</i>	(A)	In the <i>PRA Handbook</i> :

	(1)	(except in REC); has the meaning in article 4(1)(1) of the <i>EU CRR</i> ;
	(a)	has the meaning in article 4(1)(1) of the <i>EU CRR</i> ; or [deleted]
		...
	(2)	(in REC and in SUP 11 (Controllers and close links) and SUP 16 (Reporting requirements)):
...		
<i>designated money market fund</i>		(in BIPRU 12 and BSOCS) a <i>collective investment scheme</i> authorised under the <i>UCITS Directive</i> or which is subject to supervision and, if applicable, authorised by an authority under the national law of an <i>EEA State</i> , and which satisfies the following conditions:
...		
<i>IPRU</i>		the Interim Prudential sourcebook, comprising <i>IPRU(BANK)</i> , <i>IPRU(BSOC)</i> , <i>IPRU(FSOC)</i> , <i>IPRU(INS)</i> and <i>IPRU(INV)</i> , or according to the context one of these Interim Prudential sourcebooks.
...		
<i>listed</i>	(A)	In the <i>PRA Handbook</i> :
	(1)	(except in LR , SUP 11, <i>INSPRU</i> and <i>IPRU(INS)</i>) included in an official list.
...		
<i>PD</i>	(1)	...
	(2)	(in GENPRU , and BIPRU and BSOCS) <i>probability of default</i> .
...		
<i>Society</i>	(1)	(except in BSOCS) the The society incorporated by Lloyd's Act 1871 by the name of Lloyd's.
	(2)	(in BSOCS) a building society. [deleted]
...		

<i>subsidiary undertaking</i>	(1)	...
	(2)	...
	(3)	(in LR and BSOCs) as defined in section 1162 of the Companies Act 2006. [deleted]

Delete the following definitions altogether. The deleted text is not shown.

1986 Act

BSOCS

CIS administrator

CIS trustee

composite insurer

discretionary investment manager

early repayment charge

employee

firm type

independent expert

IPRU(BSOC)

non-discretionary investment manager

own account trading firm

qualifying money market fund

scheme report

SDL

society

wholesale only bank

Annex B

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

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

1.1A Application

...

1.1A.1A G Chapters 4 to 9 are not applicable to *CRR firms*. *CRR firms* are subject to the rules in the General Organisational Requirements Part of the *PRA* Rulebook.

...

1 Annex 1 Detailed application of SYSC

...

Part 2		Application of the common platform requirements (SYSC 4 to 10)
2.1	R	The common platform requirements apply to every firm apart from an insurer, a managing agent and the Society unless provided otherwise in a specific rule. [deleted]
<u>2.1A</u>	R	<u>The common platform organisational requirements apply to every firm apart from a <i>CRR firm</i>, an insurer, a managing agent and the Society unless provided otherwise in a specific rule.</u>
<u>2.1B</u>	R	<u>SYSC 10 applies to every firm apart from an insurer, a managing agent and the Society unless provided otherwise in a specific rule.</u>

...

Part 3		Tables summarising the application of the common platform requirements to different types of firm
3.1	G	The common platform requirements apply in the following four ways (subject to the provisions in Part 2 of this Annex). [deleted]
<u>3.1A</u>	G	<u>The common platform requirements apply in accordance with Part 2 of this Annex and the provisions in 3.2BR, 3.2CR, 3.2DG, 3.2ER, 3.3AG and 3.4R.</u>
3.2	G	For a common platform firm, they apply in accordance with Column A in the table below. [deleted]
...		
<u>3.2C</u>	R	<u>For a common platform firm other than a <i>CRR firm</i>, Provision SYSC 4 to Provision SYSC 9 apply in accordance with Column A in the table below.</u>
<u>3.2D</u>	G	<u>SYSC 4 to 9 are not applicable to <i>CRR firms</i>. <i>CRR firms</i> are subject to the rules in the General Organisational Requirements, Skills, Knowledge and Expertise, Compliance</u>

		<u>and Internal Audit, Risk Control, Outsourcing and Record Keeping Parts of the PRA Rulebook.</u>
<u>3.2E</u>	<u>R</u>	<u>For a common platform firm, Provision SYSC 10 applies in accordance with Column A in the table below.</u>
...		
<u>3.3</u>	<u>G</u>	<u>For all other firms apart from insurers, managing agents, the Society and full-scope UK AIFMs of unauthorised AIFs, they apply in accordance with Column B in the table below. For these firms, where a rule is shown modified in Column B as 'Guidance', it should be read as guidance (as if "should" appeared in that rule instead of "must") and should be applied in a proportionate manner, taking into account the nature, scale and complexity of the firm's business. [deleted]</u>
<u>3.3A</u>	<u>G</u>	<u>For all other firms apart from CRR firms, insurers, managing agents, the Society and full-scope UK AIFMs of unauthorised AIFs, they apply in accordance with Column B in the table below. For these firms, where a rule is shown modified in Column B as 'Guidance', it should be read as guidance (as if "should" appeared in that rule instead of "must") and should be applied in a proportionate manner, taking into account the nature, scale and complexity of the firm's business.</u>
<u>3.4</u>	<u>R</u>	<u>For the purposes of Provision 4 to Provision 9 in the table below, the reference to:</u>

- (1) "common platform firm" in Column A must be read as "a common platform firm apart from a CRR firm"; and
- (2) "all other firms" in Column B must be read as "all other firms apart from CRR firms".

...

12.1 Application

...

12.1.13A R When applying SYSC 12.1.13R, CRR firms must read references to:

- (1) SYSC 4.1.1R and SYSC 4.1.2R as references to General Organisation Requirements 2.1 and 2.2 of the PRA Rulebook;
- (2) SYSC 4.1.7R as a reference to General Organisation Requirement 2.6 of the PRA Rulebook;
- (3) SYSC 4.3A as a reference to chapters 5 and 6 of the General Organisation Requirements Part of the PRA Rulebook;
- (4) SYSC 5.1.7R as a reference to Skills, Knowledge and Expertise 3.2 of the PRA Rulebook;
- (5) SYSC 7 as a reference to Chapters 2 and 3 of the Risk Control Part of the PRA Rulebook;

...

13.8 External events and other changes

...

13.8.4 G The high-level requirement for appropriate systems and controls at SYSC 3.1.1R applies at all times, including when a business continuity plan is invoked. However, the *appropriate regulator* recognises that, in an emergency, a *firm* may be unable to comply with a particular *rule* and the conditions for relief are outlined in GEN 1.3 (Emergency). ~~[deleted]~~

...

13.8.4A G The high level requirement for appropriate systems and controls at SYSC 3.1.1R applies at all times, including when a business continuity plan is invoked. However, the *appropriate regulator* recognises that, in an emergency, a *firm* may be unable to comply with a particular *rule* and the conditions for relief are outlined in Chapter 2 of the General Provisions Part of the *PRA* Rulebook.

...

19A.1 General application and purpose

...

19A.1.1 R (1) ~~The *Remuneration Code* applies to :- [deleted]~~

- (a) ~~a *building society*; [deleted]~~
- (b) ~~a *bank*; [deleted]~~
- (c) ~~an *investment firm*; [deleted]~~
- (d) ~~an *overseas firm* that; [deleted]~~
 - (i) ~~is not an *EEA firm*; [deleted]~~
 - (ii) ~~has its head office outside the *EEA*; and [deleted]~~
 - (iii) ~~would be a *firm* referred to in (a), (b) or (c) if it had been a *UK domestic firm*, had carried on all of its business in the *UK* and had obtained whatever authorisations for doing so as are required under the Act. [deleted]~~

(2) ~~In relation to a *firm* that falls under (1)(d), the *Remuneration Code* applies only in relation to activities carried on from an establishment in the United Kingdom. [deleted]~~

(3) ~~Otherwise, the *Remuneration Code* applies to a *firm* within (1) in the same way as SYSC 4.1.1R (General Requirements). [deleted]~~

...

19A.1.1B R (1) The *Remuneration Code* applies to :

- (a) a *building society*;
- (b) a *bank*;

- (c) an investment firm;
- (d) an overseas firm that:
 - (i) is not an EEA firm;
 - (ii) has its head office outside the EEA; and
 - (iii) would be a firm referred to in (a), (b) or (c) if it had been a UK domestic firm, had carried on all of its business in the UK and had obtained whatever authorisations for doing so as are required under the Act.

- (2) In relation to a firm that falls under (1)(d), the Remuneration Code applies only in relation to activities carried on from an establishment in the United Kingdom.
- (3) Otherwise, the Remuneration Code applies to a firm within (1) in the same way as SYSC 4.1.1R (General Requirements) or, in the case of a CRR firm, General Organisational Requirements 2.1 in the PRA Rulebook.

...

- 19A.1.2 G Part 2 of SYSC 1 Annex 1 provides for the application of SYSC 4.1.1R (General Requirements). In particular, and subject to the provisions on group risk systems and controls requirements in SYSC 12, this means that: [deleted]
- (1) in relation to what the Remuneration Code applies to, it: [deleted]
 - (a) applies in relation to regulated activities, activities that constitute dealing in investments as principal (disregarding the exclusion in article 15 of the Regulated Activities Order (Absence of holding out etc)), ancillary activities and (in relation to MiFID business) ancillary services; [deleted]
 - (b) applies with respect to the carrying on of unregulated activities in a prudential context; and [deleted]
 - (c) takes into account activities of other group members; and [deleted]
 - (2) in relation to where the Remuneration Code applies, it applies in relation to: [deleted]
 - (a) a firm's UK activities; [deleted]
 - (b) a firm's passported activities carried on from a branch in another EEA State; and [deleted]
 - (c) a UK domestic firm's activities wherever they are carried on, in a prudential context. [deleted]
- 19A.1.2A G Subject to the provisions on group risk systems and controls requirements in SYSC 12:
- (1) in relation to what the Remuneration Code applies to, it:
 - (a) applies in relation to regulated activities, activities that constitute dealing in investments as principal (disregarding the exclusion in article 15 of the Regulated Activities Order (Absence of holding out, etc)),

ancillary activities and (in relation to MiFID business) ancillary services:

(b) applies with respect to the carrying on of unregulated activities in a prudential context, and

(c) takes into account activities of other group members; and

(2) in relation to where the Remuneration Code applies, it applies in relation to:

(a) a firm's UK activities;

(b) a firm's passported activities carried on from a branch in another EEA State; and

(c) a UK domestic firm's activities wherever they are carried on, in a prudential context.

...

Purpose

- 19A.1.6 G (1) ~~The aim of the Remuneration Code is to ensure that firms have risk-focused remuneration policies, which are consistent with and promote effective risk management and do not expose them to excessive risk. It expands upon the general organisational requirements in SYSC 4. [deleted]~~
- (2) ~~The Remuneration Code implements the main provisions of the CRD which relate to remuneration. The Committee of European Banking Supervisors published Guidelines on Remuneration Policies and Practices on 10 December 2010. Provisions of the Capital Requirements (Amendment) Regulations 2012 (SI 2012/917) together with the European Banking Authority's Guidelines to article 22(3) and (5) of the Banking Consolidation Directive relating to the collection of remuneration benchmarking information and high earners information have been implemented through SUP 16 Annex 33AR and SUP 16 Annex 34AR. The Guidelines can be found at <http://www.eba.europa.eu/cobs/media/Publications/Standards%20and%20Guidelines/2012/EBA-GL-2012-04-GL-4-on-remuneration-benchmarking-exercise-.pdf> and <http://www.eba.europa.eu/cobs/media/Publications/Standards%20and%20Guidelines/2012/EBA-GL-2012-05-GL-5-on-remuneration-data-collection-exercise-.pdf>. [deleted]~~
- (3) [deleted]
- 19A.1.6A G (1) The aim of the Remuneration Code is to ensure that firms have risk-focused remuneration policies, which are consistent with and promote effective risk management and do not expose them to excessive risk. It expands upon the general organisational requirements in General Organisational Requirements 2.1 of the PRA Rulebook.
- (2) The Remuneration Code implements the main provisions of the CRD which relate to remuneration. The Committee of European Banking Supervisors published Guidelines on Remuneration Policies and Practices on 10 December 2010. Provisions of the Capital Requirements Regulations 2013 (SI 2013/3115) together with the European Banking Authority's Guidelines to article 75(1) and (3) of the CRD relating to the collection of remuneration benchmarking information and high earners information have been implemented through the Remuneration Reporting Requirements Part of the PRA Rulebook. The Guidelines can be found at <http://www.eba.europa.eu/-/eba-publishes-guidelines-to-streamline-data-collection-on-remuneration->

practices

...

19A.2 General requirement

...

- 19A.2.2 G (1) ~~If a firm's remuneration policy is not aligned with effective risk management it is likely that employees will have incentives to act in ways that might undermine effective risk management. [deleted]~~
- (2) ~~The Remuneration Code covers all aspects of remuneration that could have a bearing on effective risk management including salaries, bonuses, long-term incentive plans, options, hiring bonuses, severance packages and pension arrangements. In applying the Remuneration Code, a firm should have regard to applicable good practice on remuneration and corporate governance, such as guidelines on executive contracts and severance produced by the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF). In considering the risks arising from its remuneration policies, a firm will also need to take into account its statutory duties in relation to equal pay and non-discrimination. [deleted]~~
- (3) ~~As with other aspects of a firm's systems and controls, in accordance with SYSC 4.1.2R remuneration policies, procedures and practices must be comprehensive and proportionate to the nature, scale and complexity of the common platform firm's activities. What a firm must do in order to comply with the Remuneration Code will therefore vary. For example, while the Remuneration Code refers to a firm's remuneration committee and risk management function, it may be appropriate for the governing body of a smaller firm to act as the remuneration committee, and for the firm not to have a separate risk management function. [deleted]~~
- (4) ~~The principles in the Remuneration Code are used by the appropriate regulator to assess the quality of a firm's remuneration policies and whether they encourage excessive risk-taking by a firm's employees. [deleted]~~
- (5) ~~The appropriate regulator may also ask remuneration committees to provide the appropriate regulator with evidence of how well the firm's remuneration policies meet the Remuneration Code's principles, together with plans for improvement where there is a shortfall. The appropriate regulator also expects relevant firms to use the principles in assessing their exposure to risks arising from their remuneration policies as part of the internal capital adequacy assessment process (ICAAP). [deleted]~~
- (6) ~~The Remuneration Code is principally concerned with the risks created by the way remuneration arrangements are structured, not with the absolute amount of remuneration, which is generally a matter for firms' remuneration committees. [deleted]~~
- 19A.2.2A G (1) If a firm's remuneration policy is not aligned with effective risk management it is likely that employees will have incentives to act in ways that might undermine effective risk management.
- (2) The Remuneration Code covers all aspects of remuneration that could have a bearing on effective risk management including salaries, bonuses, long-term incentive plans, options, hiring bonuses, severance packages and pension arrangements. In applying the Remuneration Code, a firm should have regard to applicable good practice on remuneration and corporate governance, such as guidelines on executive contracts and severance

produced by the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF). In considering the risks arising from its remuneration policies, a firm will also need to take into account its statutory duties in relation to equal pay and non-discrimination.

- (3) As with other aspects of a firm's systems and controls, in accordance with General Organisational Requirement 2.2 of the PRA Rulebook, remuneration policies, procedures and practices must be comprehensive and proportionate to the nature, scale and complexity of the common platform firm's activities. What a firm must do in order to comply with the Remuneration Code will therefore vary. For example, while the Remuneration Code refers to a firm's remuneration committee and risk management function, it may be appropriate for the governing body of a smaller firm to act as the remuneration committee, and for the firm not to have a separate risk management function.
- (4) The principles in the Remuneration Code are used by the appropriate regulator to assess the quality of a firm's remuneration policies and whether they encourage excessive risk-taking by a firm's employees.
- (5) The appropriate regulator may also ask remuneration committees to provide the appropriate regulator with evidence of how well the firm's remuneration policies meet the Remuneration Code's principles, together with plans for improvement where there is a shortfall. The appropriate regulator also expects relevant firms to use the principles in assessing their exposure to risks arising from their remuneration policies as part of the internal capital adequacy assessment process (ICAAP).
- (6) The Remuneration Code is principally concerned with the risks created by the way remuneration arrangements are structured, not with the absolute amount of remuneration, which is generally a matter for firms' remuneration committees.

...

Record-keeping

19A.2.4 G ~~In line with the record-keeping requirements in SYSC 9, a firm should ensure that its remuneration policies, practices and procedures are clear and documented. Such policies, practices and procedures would include performance appraisal processes and decisions. [deleted]~~

19A.2.4A G In line with the record-keeping requirements in the Record Keeping Part of the PRA Rulebook, a firm should ensure that its remuneration policies, practices and procedures are clear and documented. Such policies, practices and procedures would include performance appraisal processes and decisions.

...

19A.3 Remuneration principles for banks, building societies and investment firms

...

19A.3.5 R ~~A firm must: [deleted]~~

(1) ~~maintain a record of its Remuneration Code staff in accordance with the general record-keeping requirements (SYSC 9); and [deleted]~~

(2) ~~take reasonable steps to ensure that its Remuneration Code staff understand the implications of their status as such, including the potential for~~

~~remuneration which does not comply with certain requirements of the Remuneration Code to be rendered void and recoverable by the firm.~~
[deleted]

- 19A.3.5A R A firm must:
- (1) maintain a record of its Remuneration Code staff in accordance with the general record-keeping requirements in the Record Keeping Part of the PRA Rulebook; and
 - (2) take reasonable steps to ensure that its Remuneration Code staff understand the implications of their status as such, including the potential for remuneration which does not comply with certain requirements of the Remuneration Code to be rendered void and recoverable by the firm.
- ...
- 19A.3.13 G (1) ~~A firm should be able to demonstrate that its decisions are consistent with an assessment of its financial condition and future prospects. In particular, practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain should be evaluated carefully and the governing body or remuneration committee (or both) should work closely with the firm's risk function in evaluating the incentives created by its remuneration system.~~ [deleted]
- (2) ~~The governing body and any remuneration committee are responsible for ensuring that the firm's remuneration policy complies with the Remuneration Code and where relevant should take into account relevant guidance, such as that issued by the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO).~~ [deleted]
 - (3) ~~The periodic review of the implementation of the remuneration policy should assess compliance with the Remuneration Code.~~ [deleted]
 - (4) ~~Guidance on what the supervisory function might involve is set out in SYSC 4.3.3G.~~ [deleted]
- 19A.3.13A G (1) A firm should be able to demonstrate that its decisions are consistent with an assessment of its financial condition and future prospects. In particular, practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain should be evaluated carefully and the governing body or remuneration committee (or both) should work closely with the firm's risk function in evaluating the incentives created by its remuneration system.
- (2) The governing body and any remuneration committee are responsible for ensuring that the firm's remuneration policy complies with the Remuneration Code and where relevant should take into account relevant guidance, such as that issued by the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO).
 - (3) The periodic review of the implementation of the remuneration policy should assess compliance with the Remuneration Code.
 - (4) Guidance on what the supervisory function might involve is set out in paragraph 2.8 of the PRA's Supervisory Statement: internal governance.

...

- 19A.3.17 G (1) ~~This Remuneration Principle is designed to manage the conflicts of interest which might arise if other business areas had undue influence over the remuneration of employees within control functions. Conflicts of interest can easily arise when employees are involved in the determination of remuneration for their own business area. Where these could arise they need to be managed by having in place independent roles for control functions (including, notably, risk management and compliance) and human resources. It is good practice to seek input from a firm's human resources function when setting remuneration for other business areas. [deleted]~~
- (2) ~~The need to avoid undue influence is particularly important where employees from the control functions are embedded in other business areas. This Remuneration Principle does not prevent the views of other business areas being sought as an appropriate part of the assessment process. [deleted]~~
- (3) ~~The appropriate regulator would generally expect the ratio of the potential variable component of remuneration to the fixed component of remuneration to be significantly lower for employees in risk management and compliance functions than for employees in other business areas whose potential bonus is a significant proportion of their remuneration. Firms should nevertheless ensure that the total remuneration package offered to those employees is sufficient to attract and retain staff with the skills, knowledge and expertise to discharge those functions. The requirement that the method of determining the remuneration of relevant persons involved in the compliance function must not compromise their objectivity or be likely to do so also applies (see SYSC 6.1.4R(4)). [deleted]~~

- 19A.3.17A G (1) This Remuneration Principle is designed to manage the conflicts of interest which might arise if other business areas had undue influence over the remuneration of employees within control functions. Conflicts of interest can easily arise when employees are involved in the determination of remuneration for their own business area. Where these could arise they need to be managed by having in place independent roles for control functions (including, notably, risk management and compliance) and human resources. It is good practice to seek input from a firm's human resources function when setting remuneration for other business areas.
- (2) The need to avoid undue influence is particularly important where employees from the control functions are embedded in other business areas. This Remuneration Principle does not prevent the views of other business areas being sought as an appropriate part of the assessment process.
- (3) The appropriate regulator would generally expect the ratio of the potential variable component of remuneration to the fixed component of remuneration to be significantly lower for employees in risk management and compliance functions than for employees in other business areas whose potential bonus is a significant proportion of their remuneration. Firms should nevertheless ensure that the total remuneration package offered to those employees is sufficient to attract and retain staff with the skills, knowledge and expertise to discharge those functions. The requirement that the method of determining the remuneration of relevant persons involved in the compliance function must not compromise their objectivity or be likely to do so also applies (see Compliance and Internal Audit 2.4(4) of the PRA Rulebook).

...

20.1 Application and purpose

...

- 20.1.4 G The reverse stress testing requirements are an integral component of a *firm's* business planning and risk management under SYSC and the Risk Control Part of the *PRA Rulebook*. For *BIPRU firms* as referred to in SYSC 20.1.1R (1)(a), this chapter amplifies ~~SYSC 7.1.1G to SYSC 7.1.8G on risk control~~ Risk Control in the *PRA Rulebook*. For insurers as referred to in SYSC 20.1.1R (1)(b), this chapter amplifies SYSC 14.1.17G to SYSC 14.1.25G on business planning and risk management.

...

21.1 Risk control: guidance on governance arrangements

- 21.1.1 G (1) This chapter provides additional guidance on risk-centric governance arrangements for effective risk management. It expands upon the general organisational requirements in SYSC 2, SYSC 3, SYSC 4, SYSC 7 and FUND 3.7, and so applies to the same extent as SYSC 3.1.1R (for *insurers, managing agents and the Society*), SYSC 4.1.1R (for every other *firm*) and FUND 3.7 (for a *full-scope UK AIFM* of an authorised *AIF*). ~~[deleted]~~
- (2) *Firms* should, taking account of their size, nature and complexity, consider whether in order to fulfil the general organisational requirements in SYSC 2, SYSC 3, SYSC 4, SYSC 7 and (for a *full-scope UK AIFM* of an authorised *AIF*) FUND 3.7 their risk control arrangements should include: ~~[deleted]~~
- (a) ~~appointing a Chief Risk Officer; and [deleted]~~
- (b) ~~establishing a governing body risk committee. [deleted]~~
- ~~The functions of a Chief Risk Officer and governing body risk committee are explained further in this section. [deleted]~~
- (3) The ~~appropriate regulator~~ considers that *banks and insurers* that are included in the FTSE 100 Index are examples of the types of *firm* that should structure their risk control arrangements in this way. However, this *guidance* will also be relevant to some similar sized *firms* (whether or not *listed*) and some smaller *firms*, by virtue of their risk profile or complexity. ~~[deleted]~~

- 21.1.1A G (1) This chapter provides additional guidance on risk-centric governance arrangements for effective risk management. It expands upon the general organisational requirements in SYSC 2, SYSC 3, SYSC 4, SYSC 7 and the General Organisational Requirements Part and the Risk Control Part of the *PRA Rulebook*, and so applies to the same extent as SYSC 3.1.1R (for *insurers, managing agents and the Society*), SYSC 4.1.1R and the General Organisational Requirements Part and the Risk Control Part of the *PRA Rulebook* (for *CRR firms*).
- (2) *Firms* should, taking account of their size, nature and complexity, consider whether in order to fulfil the general organisational requirements in SYSC 2, SYSC 3, SYSC 4, SYSC 7 and the General Organisational Requirements Part and the Risk Control Part of the *PRA Rulebook* and their risk control arrangements should include:
- (a) appointing a Chief Risk Officer; and
- (b) establishing a *governing body* risk committee.

The functions of a Chief Risk Officer and *governing body* risk committee are

explained further in this section.

- (3) The *appropriate regulator* considers that *banks* and *insurers* that are included in the FTSE 100 Index are examples of the types of *firm* that should structure their risk control arrangements in this way. However, this *guidance* will also be relevant to some similar sized *firms* (whether or not *listed*) and some smaller *firms*, by virtue of their risk profile or complexity.

Annex C

Amendments to the Supervision manual (SUP)

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

...

10B.9 Systems and controls function

...

10B.9.1 R ...

- (2) setting and controlling its risk exposure (see SYSC 3.2.10G, and SYSC 7.1.6R and, for CRR firms, Risk Control 2.5 of the PRA Rulebook); and.
- (3) adherence to internal systems and controls, procedures and policies (see SYSC 3.2.16G, and SYSC 6.2 and, for CRR firms, Compliance and Internal Audit 3.1 of the PRA Rulebook).

...

10B.11 Application for approval and withdrawing an application for approval

...

10B.11.6 G ...

- (2) Usually this will be the *firm* that is employing the *PRA candidate* to perform the *PRA controlled function*. Where a *firm* has outsourced the performance of a *PRA controlled function*, the details of the outsourcing determine where responsibility lies and whom the *PRA* anticipates will submit *PRA-approved persons* application forms. *SUP* 10B.11.7G describes some common situations. The *firm* which is outsourcing is referred to as "A" and the *person* to whom the performance of the *PRA controlled function* has been outsourced, or which makes the arrangement for the *PRA controlled function* to be performed, is referred to as "B". In each situation, A must take reasonable care to ensure that, in accordance with section 59(2) of the Act, no *person* performs a *PRA controlled function* under an arrangement entered into by its contract—or in relation to the carrying on by A of a *regulated activity*, without approval from the *PRA*. See also SYSC 3.2.4G and SYSC 8.1.1R, and, for CRR firms, Outsourcing 2.1 of the PRA Rulebook and SYSC 13.9 for insurers.

...

10B.11.7A G The reference to "SYSC 8" in in the table above must be read as "SYSC 8 or, in the case of a CRR firm, the Outsourcing Part of the PRA Rulebook".

...

10B.14 How to apply for approval and give notifications

...

10B.14.4 G Where *SUP* 10B.14.1D (4) or the equivalent situation under *SUP* 10B.14.2R applies to a *firm*, ~~*GEN* 1.3.2R (Emergency) does~~ General Provisions 2.2 of the PRA Rulebook does not apply.

...

16.1 Application

...

16.1.3	R
		<i>SUP 16.10</i> <u>[FCA only]</u>	All categories of <i>firm</i> except:	Entire section
			(a) an <i>ICVC</i> ;	
			(b) a <i>UCITS</i> <i>qualifier</i> ;	
			(c) a <i>credit union</i> ; and	
			(d) a <i>dormant account fund operator</i> .	

...

16.3 General provisions on reporting

...

- SUP 16.3.2 G ~~This chapter has been split into the following sections, covering: [deleted]~~
- (1) ~~annual controllers reports (*SUP 16.4*); [deleted]~~
 - (2) ~~annual close links reports (*SUP 16.5*); [deleted]~~
 - (3) ~~compliance reports (*SUP 16.6*); [deleted]~~
 - (4) ~~[deleted]~~
 - (5) ~~persistence reports (*SUP 16.8*); [deleted]~~
 - (6) ~~annual appointed representatives reports (*SUP 16.9*); [deleted]~~
 - (7) ~~Verification of standing data (*SUP 16.10*); [deleted]~~
 - (8) ~~product sales data reporting (*SUP 16.11*); [deleted]~~
 - (9) ~~integrated regulatory reporting (*SUP 16.12*); [deleted]~~
 - (10) ~~reporting under the Payment Services Regulations (*SUP 16.13*); [deleted]~~
 - (11) ~~client money and asset return (*SUP 16.14*); [deleted]~~
 - (12) ~~reporting under the Electronic Money Regulations (*SUP 16.15*); [deleted]~~
 - (13) ~~prudent valuation reporting (*SUP 16.16*); [deleted]~~
 - (14) ~~remuneration reporting (*SUP 16.17*); [deleted]; and~~

(15) ~~AIFMD reporting (SUP 16.18) [deleted].~~

SUP 16.3.2A G This chapter has been split into the following sections, covering:

- (1) annual controllers reports (SUP 16.4);
- (2) annual close links reports (SUP 16.5);
- (3) compliance reports (SUP 16.6);
- (4) persistence reports (SUP 16.8);
- (5) annual appointed representatives reports (SUP 16.9);
- (6) product sales data reporting (SUP 16.11);
- (7) integrated regulatory reporting (SUP 16.12);
- (8) reporting under the Payment Services Regulations (SUP 16.13);
- (9) client money and asset return (SUP 16.14);
- (10) reporting under the Electronic Money Regulations (SUP 16.15).
- (11) prudent valuation reporting (SUP 16.16);
- (12) remuneration reporting (SUP 16.17); and
- (13) AIFMD reporting (SUP 16.18).

...

- 16.3.17 R (1) ~~A firm must notify the appropriate regulator if it changes its accounting reference date. [deleted]~~
- (2) ~~When a firm extends its accounting period, it must make the notification in (1) before the previous accounting reference date. [deleted]~~
- (3) ~~When a firm shortens its accounting period, it must make the notification in (1) before the new accounting reference date. [deleted]~~
- (4) ~~SUP 16.10.4AR to SUP 16.10.4CG (Requirement to check the accuracy of standing data and to report changes to the appropriate regulator) apply to any notification made under (1). [deleted]~~

- 16.3.17A R (1) A firm must notify the appropriate regulator if it changes its accounting reference date.
- (2) When a firm extends its accounting period, it must make the notification in (1) before the previous accounting reference date.
- (3) When a firm shortens its accounting period, it must make the notification in (1) before the new accounting reference date.
- (4) Notifications 5.3A and 5.5 (Core Information Requirements) apply to any notification made under (1).

...

TP 1 Transitional provisions

...

TP
1.2

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
...
14C <u>[FCA only]</u>	SUP 16.10.4	R	A <i>firm</i> whose <i>accounting reference date</i> falls between 1 April 2005 and 30 June 2005 (inclusive) need not comply with SUP 16.10.4R until its <i>accounting reference date</i> in	1 April 2005-30 June 2005	1 April 2005

Annex D

Amendments to the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)

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

2.3 Knowledge, ability and good repute

...

2.3.5 G ~~Firms are reminded that *Principle 3* requires *firms* to take reasonable care to organise and control their affairs responsibly and effectively. *Principle 3* is amplified by the *rule* which requires *firms* to take reasonable care to establish and maintain such systems and controls as are appropriate to its business (SYSC 3.1.1R and SYSC 4.1.1R). A *firm's* systems and controls should enable it to satisfy itself of the suitability of anyone who acts for it (SYSC 3.2.13G and SYSC 5.1.2G). This includes the assessment of an individual's honesty and competence. In addition, the *competent employees rule* (SYSC 3.1.6R and SYSC 5.1.1R) sets out a high-level competence requirement which every *firm* should follow.[deleted]~~

2.3.5A G Firms are reminded that *Principle 3* requires firms to take reasonable care to organise and control their affairs responsibly and effectively. *Principle 3* is amplified by the *rule* which requires *firms* to take reasonable care to establish and maintain such systems and controls as are appropriate to its business (SYSC 3.1.1R, SYSC 4.1.1R and, for *CRR firms*, General Organisational Requirement 2.1 of the *PRA* Rulebook). A *firm's* systems and controls should enable it to satisfy itself of the suitability of anyone who acts for it (SYSC 3.2.13G). This includes the assessment of an individual's honesty and competence. In addition, the *competent employees rule* (SYSC 3.1.6R, SYSC 5.1.1R Skills, Knowledge and Expertise 2.1 of the *PRA* Rulebook) sets out a high-level competence requirement which every firm should follow.

Annex E
General Provisions (GEN)

In this Annex new text is underlined.

...

TP1 Transitional provisions

...

GEN TP 1.3 (4) Transitional Provisions applying to GEN only

The references to “GEN 6.1” in the table above must be read as “GEN 6.1 and General Provisions 7 in the *PRA* Rulebook”.

Annex F

Amendments to the Fees manual (FEES)

In this Annex new text is underlined.

4.2 Obligation to pay periodic fees

...

4.2.10A R A *CRR firm* need not pay a periodic fee on the date on which it is due under the relevant provision in FEES 4.2.1R, if that date falls during a period during which circumstances of the sort set out in General Provisions 2.2 in the *PRA* Rulebook exist, and that *firm* has reasonable grounds to believe that those circumstances impair its ability to pay the fee, in which case the *firm* must pay it on or before the fifth *business day* after the end of that period.

Annex G

Amendments to the Conduct of Business Sourcebook (COBS)

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

20.2 Treating with-profits policyholders fairly

...

20.2.48 G A ~~retribution expert's~~ report should comply with the applicable rules on expert evidence. The scope and content of the report should be substantially similar to that of the report required of an *independent expert* under SUP 18.2 (Insurance business transfers), as if (where appropriate) a reference to: ~~[deleted]~~

- (1) the '~~scheme report~~' was a reference to the '~~retribution expert's report~~'; ~~[deleted]~~
- (2) the '~~independent expert~~' was a reference to the '~~retribution expert~~'; and ~~[deleted]~~
- (3) the '~~scheme~~' was a reference to the proposal for a '~~retribution~~'. ~~[deleted]~~

20.2.48A G A *retribution expert's* report should comply with the applicable rules on expert evidence. The scope and content of the report should be substantially similar to that expected of the report of an independent expert as set out in the PRA's Statement of Policy: The Prudential Regulation Authority's approach to insurance business transfers, as if (where appropriate) a reference to:

- (1) the '*scheme report*' was a reference to the '*retribution expert's report*';
- (2) the '*independent expert*' was a reference to the '*retribution expert*'; and
- (3) the '*scheme*' was a reference to the proposal for a '*retribution*'.

**PRA RULEBOOK: NOTIFICATIONS
(AMENDMENT) (VERIFICATION OF STANDING DATA) 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 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 the proposed rules and had regard to representations made.

PRA Rulebook: Notifications (Amendment) (Verification of Standing Data) Instrument 2015

- D. The PRA makes the rules amending the Notifications Part of the PRA Rulebook as set out in the Annex to this instrument.

Commencement

- E. This instrument comes into force on 2 April 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: Notifications (Amendment) (Verification of Standing Data) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

30 March 2015

Annex

Amendments to the Notifications Part of the PRA Rulebook

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

5 CORE INFORMATION REQUIREMENTS

...

5.3 ...

5.3A A firm must, within 30 business days of its *accounting reference date*, check the accuracy of its *standing data* through the *ONA system*. If any *standing data* is incorrect, the *firm* must correct the *standing data* by submitting the form referred to in 10.2 (Standing Data Form).

...

5.5 (1) A *firm* other than a *credit union* must submit the forms required in 5.1 to ~~5.3~~5.3A online using the *ONA system*.

(2) ...

(a) a *firm* must submit any notice required by 5.1 to 5.3 in the way set out in 7.4 to 7.6; ~~and~~

(aa) a *firm* must submit any notice required by 5.3A to static.data@fca.org.uk or via post or hand delivery to the *FCA* marked for the attention of the "Static Data team"; and

(b) the *rules* in relation to non-compliance with *rules* by a *firm* in the case of an emergency do not apply.

(3) A *credit union* must submit corrected standing data to static.data@fca.org.uk or via post or hand delivery to the *FCA* marked for the attention of the "Static Data Team".

...

PRA RULEBOOK: CRR FIRMS; NON CRR FIRMS: BRANCH RULES 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: CRR FIRMS; NON CRR FIRMS: BRANCH RULES INSTRUMENT 2015

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

Commencement

- E. This instrument comes into force on 1 July 2015.

Citation

- F. This instrument may be cited as the CRR Firms; Non CRR Firms: Branch Rules Instrument 2015.

By order of the Board of the Prudential Regulation Authority

29 April 2015

Annex

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

Part

INCOMING FIRMS AND THIRD COUNTRY FIRMS

Chapter content

...

3. BRANCH RETURN

4. FORM

Links

3 BRANCH RETURN

- 3.1 A firm must provide the PRA with information in accordance with the Branch Return Form. The information must be provided as at 30 June and 31 December each year and provided by electronic means within 30 days of the date to which the information relates.

4 FORM

- 4.1 The Branch Return Form can be found [here](#).

**PRA RULEBOOK: CRR FIRMS, NON CRR FIRMS AND NON AUTHORISED PERSONS:
DEPOSITOR PROTECTION AND
DORMANT ACCOUNT SCHEME (AMENDMENT) 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);
 - (2) section 137T (General supplementary powers);
 - (3) section 213 (The compensation scheme);
 - (4) section 214 (General); and
 - (5) section 218A (Regulators power to require information).
- 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 and Non Authorised Persons: Depositor Protection (Amendment) Instrument 2015

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

Commencement

- E. This instrument comes into force on 3 July 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Non CRR Firms: and Non Authorised Persons: Depositor Protection (Amendment) Instrument 2015.

By order of the Board of the Prudential Regulation Authority
14 May 2015.

Annex A

Amendments to the Depositor Protection Part

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

1 APPLICATION AND DEFINITIONS

...

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

...

exclusions list

~~has the meaning given in 16.2.~~

means:

- (1) up to and including 2 July 2016, a list in the form set out in Section A of Annex 3 to this Part; and
- (2) from 3 July 2016, a list in the form set out in Section B of Annex 3 to this Part.

local authority

means

- (1) in England and Wales, a local authority within the meaning of the Local Government Act 1972, the Greater London Authority, the Common Council of the City of London or the Council of the Isles of Scilly;
- (2) in Scotland, a council within the meaning of the Local Government etc. (Scotland) Act 1994;
- (3) in Northern Ireland, a district council within the meaning of The Local Government Act (Northern Ireland) 1972;
- (4) an authority equivalent to (1), (2) or (3) located in a country outside the UK.

...

public authority

includes a government, central administrative authority, provincial authority, regional authority, municipal authority or *local authority*.

...

small local authority

means a *local authority* with an annual budget of up to EUR 500,000.

...

2 ELIGIBILITY

...

2.1 This Chapter applies ~~only~~ to the *FSCS* and *firms*.

2.2 The provisions in this rule determine whether a *deposit* is an *eligible deposit*.

...

(4) The following are not *eligible deposits*:

...

(j) a *deposit* by a public authority, unless it is a small local authority;

...

2.3 A firm, must at least annually, take reasonable steps to confirm that a depositor that it has classified as a small local authority continues to be a small local authority, using the exchange rate prevailing on the 3 July immediately preceding the date on which any confirmation is undertaken.

...

9 TIME LIMITS

...

9.6 (1) From 1 June 2016 until 31 December 2023, in cases to which ~~9.3~~ 9.2 applies, where the *FSCS* cannot pay compensation within seven *business days* starting on the day following the *compensation date*, the *FSCS* shall, provided ~~the FSCS~~ it receives sufficient information, ensure that within five *business days* of receipt of a request from a *depositor*:

- (a) the *depositor* who is an individual, has access to an appropriate amount of their *covered deposits* to cover the cost of living; and
- (b) the *depositor* which is not a *large company*, or is a small local authority, has access to an appropriate amount of their *covered deposits* to cover necessary business expenses.

...

12 SINGLE CUSTOMER VIEW REQUIREMENTS

...

12.9 A *firm* must ensure that each *single customer view* and *exclusions view* contains all the information set out in the table below.

...

42.	Account balance in sterling	Account balance including any interest, at end of business on: <ul style="list-style-type: none"> • the date on which the <i>deposit</i> becomes 	Do not include any non-numeric symbols such as commas, currency symbols (e.g., £).
-----	-----------------------------	---	--

		<p>an <i>unavailable deposit</i>, or</p> <ul style="list-style-type: none"> the date of request from <i>FSCS</i> or <i>PRA</i> as applicable. <p><u>Where there is a negative balance, the amount should be preceded by a minus symbol ('-').</u></p>	<p>All balances must be rounded up to two decimal places.</p> <p>Maximum number of characters in field: 15</p>
<u>43.</u>	<u>Authorised negative balances</u>	<u>The maximum negative balance on the account authorised by the firm, in sterling.</u>	<p><u>Do not include any non-numeric symbols such as commas, currency symbols (e.g. £).</u></p> <p><u>All figures must be rounded up to two decimal places.</u></p> <p><u>If the account does not accept negative balances please insert 0.00.</u></p> <p><u>If the maximum negative balance authorised is e.g. £50, please insert 50.00, not -50.00.</u></p> <p><u>Maximum number of characters in field: 15</u></p>
43. <u>44.</u>	Currency of account	Currency in which the account is held.	<p>ISO 4217 or alternative code if ISO 4217 is unavailable</p> <p>Maximum number of characters in field: 3</p>
44. <u>45.</u>	Account balance in original currency	<p>The original balance in the original currency, including any interest at the end of business before conversion to sterling [if applicable].</p> <p><u>Where there is a negative balance, the amount should be preceded by a minus symbol ('-').</u></p>	<p>Do not include any non-numeric symbols such as commas, currency symbols (e.g., £). All balances must be rounded up to two decimal places.</p> <p>Maximum number of characters in field: 15</p>

45. <u>46.</u>	Exchange rate	The exchange rate used to calculate the sterling balance [if applicable].	Do not include any non-numeric symbols such as commas, currency symbols (e.g., £). All balances must be rounded up to nine decimal places. Maximum number of characters in field: 29
46. <u>47.</u>	Original account balance before interest	Account balance in original currency before interest accrued applied. <u>Where there is a negative balance, the amount should be preceded by a minus symbol ('-').</u>	Do not include any non-numeric symbols such as commas, currency symbols (e.g., £). All balances must be rounded up to two decimal places. Maximum number of characters in field: 15
47. <u>48.</u>	<i>Transferable eligible deposit</i>	If the file is a <i>single customer view</i> , the amount of the <i>transferable eligible deposit</i> [if applicable].	Do not include any non-numeric symbols such as commas, currency symbols (e.g., £). All balances must be rounded up to two decimal places. Maximum number of characters in field: 15
	Aggregate balance		
48. <u>49.</u>	<i>Single customer view</i> record number	Unique customer identifier.	Maximum number of characters in field: 200
49. <u>50.</u>	Aggregate balance in sterling	Aggregate balance across all accounts <u>which contain a positive balance</u> at end of business on: <ul style="list-style-type: none"> • the date the <i>deposit</i> becomes an <i>unavailable deposit</i>, or • the date of request from <i>FSCS</i> or <i>PRA</i> as applicable. 	Do not include any non-numeric symbols such as commas, currency symbols (e.g., £). All balances must be rounded up to two decimal places. Maximum number of characters in

		<u>Where an account contains a negative balance, that balance should be excluded from the calculation of the aggregate balance.</u>	field: 15
<u>50- 51.</u>	Compensatable amount in sterling	The amount to be compensated subject to the limit check that must be performed by the <i>firm</i> pursuant to 11.11(2) (this could be lower than the aggregate balance across all accounts <u>which contain a positive balance</u> if this exceeds the coverage levels set out in Chapter 4). For beneficiary accounts, it may not be possible to calculate this amount and this field may be left blank.	Do not include any non-numeric symbols such as commas, currency symbols (e.g., £). All balances must be rounded up to two decimal places. Maximum number of characters in field: 15

...

13 BRRD MARKING AND CONTINUITY OF ACCESS

13.1 This Chapter does not apply to the *FSCS*, *credit unions* or *Northern Ireland credit unions*.

...

13.6 A *firm* must have systems in place that enable it to transfer any ~~*eligible deposits* which do not form part of the *transferable eligible deposit*~~ into a separate account:

(1) *eligible deposits* which do not form part of the *transferable eligible deposits*; and

(2) negative balances in accounts that may also hold *eligible deposits*.

into a separate account.

13.7 A *firm* must transfer any ~~*eligible deposits* which do not form part of the *transferable eligible deposits*~~ into a separate account within 48 hours of the ~~*transferable eligible deposits*~~ becoming ~~*unavailable deposits*~~, or upon receipt of a request of the *PRA*;

(1) *eligible deposits* which do not form part of the *transferable eligible deposits*; and

(2) negative balances in accounts that may also hold *eligible deposits*.

into a separate account within 48 hours of the *transferable eligible deposits* becoming *unavailable deposits*, or upon receipt of a request from the *PRA*.

...

16 FIRMS' DISCLOSURE OBLIGATIONS – INFORMATION SHEET AND EXCLUSIONS

...

16.2 A firm must:

- (1) prepare an 'information sheet', containing the categories of information set out in the template in Annex 1 to this Part, ~~and prepare the *exclusions list*~~ prepare an 'exclusions list' in the form set out in Annex 3 to this Part;

...

[Note: Art. 16(1), (2), (3) and (4) and Art. 19(2) of the DGSD]

...

17 FIRMS' DISCLOSURE OBLIGATIONS – STATEMENTS OF ACCOUNT

17.1 A firm must:

...

[Note: Art. 16(1) and (3) and Art. 19(2) of the DGSD]

...

50 TRANSITIONAL PROVISIONS – SINGLE CUSTOMER VIEW

...

50.2 This Chapter does not apply in relation to an *eligible deposit*:

- (1) of a *large company*;
- (2) contained in an account that is *not active*; ~~or~~
- (3) contained in an account that holds funds to which a *depositor* is not absolutely entitled; ~~or~~
- (4) of a *small local authority*.

...

52 TRANSITIONAL PROVISIONS – CLASS A TARIFF BASE CALCULATION

...

52.2 Until 1 December 2016:

- (1) the *class A tariff base* in 43.1 excludes from *covered deposits* any *eligible deposit* of a *large company* and a *small local authority*, and
- (2) in Chapter 43.2, a reference to *single customer view* is a reference to a *single customer view* compiled in accordance with the requirements in Chapter 50 and which contains the information set out in 50.11 and the definitions of *single customer view* and *SCV requirements* in 1.4 are modified accordingly.

...

ANNEX 3

EXCLUSIONS LIST (CHAPTER 16)

Section A (up to and including 2 July 2016)

...

(3) It is a deposit made by a depositor which is one of the following:

...

- pension or retirement fund¹
- public authority, other than a small local authority.

The following are deposits, categories of deposits or other instruments which will no longer be protected from 3 July 2015:

- deposits of a credit union to which the credit union itself is entitled
- deposits which can only be proven by a financial instrument² unless it is a savings product which is evidenced by a certificate of deposit made out to a named person and which exists in a Member State on 2 July 2014)
- deposits of a collective investment scheme which qualifies as a small company³
- deposits of an overseas financial services institution which qualifies as a small company⁴
- deposits of certain regulated firms (investment firms, insurance undertakings and reinsurance undertakings) which qualify as a small business or a small company⁵ – refer to the FSCS for further information on this category

For further information about exclusions, refer to the FSCS website at www.FSCS.org.uk

¹ Deposits by personal pension schemes, stakeholder pension schemes and occupational pension schemes of micro, small and medium sized enterprises are not excluded

² Listed in Section C of Annex 1 of Directive 2014/65/EU

³ Under the Companies Act 1985 or Companies Act 2006

⁴ See footnote 3

⁵ See footnote 3

Section B (from 3 July 2016)

A deposit is excluded from protection if:

(1) The holder and any beneficial owner of the deposit have never been identified in accordance with money laundering requirements. For further information, contact your bank, bank building society or credit union.

(2) The deposit arises out of transactions in connection with which there has been a criminal conviction for money laundering.

(3) It is a deposit made by a depositor which is one of the following:

- credit institution
- financial institution
- investment firm
- insurance undertaking
- reinsurance undertaking
- collective investment undertaking
- pension or retirement fund¹
- public authority, other than a small local authority.

<p>For further information about exclusions, refer to the FSCS website at www.FSCS.org.uk</p>
--

...

¹ Deposits by personal pension schemes, stakeholder pension schemes and occupational pension schemes of micro, small and medium sized enterprises are not excluded

Annex B

Amendments to the Dormant Account Scheme Part

In this Annex, new text is underlined.

...

27 INFORMATION REQUIREMENTS

27.1 This Chapter does not apply to the *FSCS*.

27.2 A *firm* must provide the *FSCS*, on request by the *FSCS* or the *PRA*, with all information relating to *dormant accounts* it has transferred to a *dormant account fund operator* which is necessary to enable the *FSCS* to prepare for the payment of compensation in accordance with this Part.

**PRA RULEBOOK: CRR FIRMS: INTERNAL LIQUIDITY ADEQUACY ASSESSMENT
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: CRR Firms: Internal Liquidity Adequacy Assessment Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 October 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Internal Liquidity Adequacy Assessment Instrument 2015.

By order of the Board of the Prudential Regulation Authority

4 June 2015

Annex

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

Part

INTERNAL LIQUIDITY ADEQUACY ASSESSMENT

Chapter content

1. APPLICATION AND DEFINITIONS
2. OVERALL LIQUIDITY ADEQUACY RULE
3. OVERALL STRATEGIES, PROCESSES AND SYSTEMS
4. LIQUIDITY RISK APPETITE AND FUNDING RISK APPETITE
5. INTRA-DAY MANAGEMENT OF LIQUIDITY
6. TRANSFER PRICING SYSTEM
7. MANAGEMENT OF COLLATERAL
8. MANAGING LIQUIDITY ACROSS LEGAL ENTITIES, BUSINESS LINES, COUNTRIES AND CURRENCIES
9. FUNDING DIVERSIFICATION AND MARKET ACCESS
10. MANAGEMENT OF ASSET ENCUMBRANCE
11. STRESS TESTING
12. LIQUIDITY CONTINGENCY PLAN
13. INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS
14. APPLICATION OF THIS PART ON AN INDIVIDUAL BASIS AND A CONSOLIDATED BASIS
15. INTRODUCTION OF THE LIQUIDITY COVERAGE RATIO
16. TRANSITIONAL PROVISION

Links

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to a *CRR firm*.

1.2 In this Part, the following definitions shall apply:

consolidation group

means the undertakings included in the scope of consolidation pursuant to Articles 18(1), 19(1), 19(3), 23 and 24(1) of the *CRR*.

Delegated Regulation

means Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions.

funding risk

means the risk that a *firm* does not have stable sources of funding in the medium and long term to enable it to meet its financial obligations, such as payments or collateral calls, as they fall due, either at all or only at excessive cost.

Internal Liquidity Adequacy Assessment Process (ILAAP)

means the process for the identification, measurement, management and monitoring of liquidity implemented by the *firm* in accordance with 3 – 13.

liquidity contingency plan

a plan for dealing with liquidity crises as required by 12.1.

liquidity coverage ratio

means the ratio calculated in accordance with Article 4(1) of the *Delegated Regulation*.

liquidity risk

means the risk that a *firm*, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due.

overall liquidity adequacy rule

means the rule in 2.1.

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 OVERALL LIQUIDITY ADEQUACY RULE

2.1 A *firm* must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

- 2.2 For the purposes of the *overall liquidity adequacy rule*:
- (1) a *firm* also must ensure that:
 - (a) its liquidity resources contain an adequate buffer of high quality, unencumbered assets; and
 - (b) it maintains a prudent funding profile; and
 - (2) a *firm* may not include liquidity resources that may be made available through emergency liquidity assistance from a central bank.

3 OVERALL STRATEGIES, PROCESSES AND SYSTEMS

- 3.1 As part of the *overall liquidity adequacy rule*, a *firm* must have in place robust strategies, policies, processes and systems that enable it to identify, measure, manage and monitor *liquidity risk* and *funding risk* over an appropriate set of time horizons, including intra-day, so as to ensure that it maintains adequate levels of liquidity buffers and an appropriate funding profile. These strategies, policies, processes and systems must be tailored to business lines, currencies, *branches* and legal entities and must include adequate allocation mechanisms of liquidity costs, benefits and risks.

[Note: Art. 86(1) of the CRD]

- 3.2 The strategies, policies, processes and systems referred to in 3.1 must be proportionate to the complexity, risk profile and scope of operation of the *firm*, and the *liquidity risk* appetite and *funding risk* appetite set by the *firm's management body* in accordance with 4, and must reflect the *firm's* importance in each country in which it carries on business.

[Note: Art. 86(2) (part) of the CRD]

- 3.3 A *firm* must, taking into account the nature, scale and complexity of its activities, have *liquidity risk* profiles and *funding risk* profiles that are consistent with and not in excess of those necessary for a well-functioning and robust system.

[Note: Art. 86(3) of the CRD]

- 3.4 A *firm* must put in place risk management policies to define its approach to asset encumbrance, as well as procedures and controls that ensure that the risks associated with collateral management and asset encumbrance are adequately identified, monitored and managed.

4 LIQUIDITY RISK APPETITE AND FUNDING RISK APPETITE

- 4.1 A *firm* must ensure that:
- (1) its *management body* establishes the *firm's liquidity risk* appetite and *funding risk* appetite and that this is appropriately documented;
 - (2) its *liquidity risk* appetite and *funding risk* appetite are appropriate for its business strategy and reflect its financial condition and funding capacity; and

- (3) its *liquidity risk* appetite and *funding risk* appetite are communicated to all relevant business lines.

[Note: Art. 86(2) (part) of the CRD]

5 INTRA-DAY MANAGEMENT OF LIQUIDITY

- 5.1 A *firm* must actively manage its intra-day liquidity positions and any related risks so that it is able to meet its payment and settlement obligations on a timely basis.
- 5.2 For the purposes of 5.1, a *firm* must ensure that its intra-day liquidity management arrangements enable it:
- (1) to meet its payment and settlement obligations on a timely basis under both normal financial conditions and under the stresses required by 11.3;
 - (2) to identify and prioritise the most time-critical payment and settlement obligations; and
 - (3) in relation to the markets in which it is active and the currencies in which it has significant positions, to measure, monitor and deal with intra-day *liquidity risk*. A *firm* must in particular be able to:
 - (a) measure expected daily gross liquidity inflows and outflows, anticipate the intra-day timing of these flows where possible, and forecast the range of potential net funding shortfalls that might arise at different points during the day; and
 - (b) manage the timing of its liquidity outflows such that priority is given to the *firm's* most time-critical payment obligations.

6 TRANSFER PRICING SYSTEM

- 6.1 A *firm* must implement an adequate transfer pricing system to ensure that it accurately quantifies liquidity and funding costs, benefits and risk in relation to all significant business activities.

7 MANAGEMENT OF COLLATERAL

- 7.1 A *firm* must actively manage collateral positions.
- 7.2 A *firm* must distinguish between pledged and unencumbered assets that are available at all times, in particular during emergency situations. A *firm* must also take into account the legal entity in which assets reside, the country where assets are legally recorded either in a register or in an account as well as their eligibility and must monitor how assets can be mobilised in a timely manner.

[Note: Art. 86(5) of the CRD]

8 MANAGING LIQUIDITY ACROSS LEGAL ENTITIES, BUSINESS LINES, COUNTRIES AND CURRENCIES

- 8.1 A *firm* must actively manage its *liquidity risk* exposures and related funding needs and take into account:
- (1) existing legal, regulatory and operational limitations to potential transfers of liquidity and unencumbered assets amongst entities, both within and outside the *EEA*; and
- [Note: Art. 86(6) of the *CRD*]**
- (2) any other constraints on the transferability of liquidity and unencumbered assets across business lines, countries and currencies.

9 FUNDING DIVERSIFICATION AND MARKET ACCESS

- 9.1 A *firm* must ensure that it has access to funding which is adequately diversified, both as to source and tenor.
- 9.2 A *firm* must develop methodologies for the identification, measurement, management and monitoring of funding positions. Those methodologies must include the current and projected material cash-flows in and arising from assets, liabilities, off-balance-sheet items, including contingent liabilities and the possible impact of reputational risk.

[Note: Art. 86(4) of the *CRD*]

10 MANAGEMENT OF ASSET ENCUMBRANCE

- 10.1 A *firm* must actively manage its asset encumbrance position.
- 10.2 For the purpose of 10.1 a *firm* must ensure that:
- (1) its risk management policies take into account:
 - (a) the *firm's* business model;
 - (b) the countries in which it operates;
 - (c) the specificities of the funding markets; and
 - (d) the macroeconomic situation; and
 - (2) its *management body* receives timely information on:
 - (a) the current and expected level and types of asset encumbrance and related sources of encumbrance, such as secured funding or other transactions;
 - (b) the amount, expected level and credit quality of unencumbered assets that are capable of being encumbered, specifying the volume of assets available for encumbrance; and
 - (c) the expected amount, level and types of additional encumbrance that may result from stress scenarios.

- 10.3 For the purpose of this Chapter a *firm* must treat an asset as encumbered if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction.

11 STRESS TESTING

- 11.1 A *firm* must consider different *liquidity risk* mitigation tools, including a system of limits and liquidity buffers in order to be able to withstand a range of different stress events and an adequately diversified funding structure and access to funding sources. It must review those arrangements regularly.

[Note: Art. 86(7) of the CRD]

- 11.2 A *firm* must consider alternative scenarios on liquidity positions and on risk mitigants and must review the assumptions underlying decisions concerning the funding position at least annually. For these purposes, alternative scenarios must address, in particular, off-balance sheet items and other contingent liabilities, including those of *securitisation special purpose entities* or other special purpose entities, as referred to in the *CRR* in relation to which the *firm* acts as *sponsor* or provides material liquidity support.

[Note: Art. 86(8) of the CRD]

- 11.3 A *firm* must:
- (1) conduct on a regular basis appropriate stress tests so as to:
 - (a) identify sources of potential liquidity strain;
 - (b) ensure that current liquidity exposures continue to conform to the *liquidity risk* and *funding risk* appetite established by that *firm's management body*; and
 - (c) identify the effects on that *firm's* assumptions about pricing; and
 - (2) analyse on a regular basis the separate and combined impact of possible future liquidity stresses on its:
 - (a) cash flows;
 - (b) liquidity position;
 - (c) profitability; and
 - (d) solvency.
- 11.4 A *firm* must consider the potential impact of institution-specific, market-wide and combined alternative scenarios. Different time periods and varying degrees of stressed conditions must be considered.

[Note: Art. 86(9) of the CRD]

- 11.5 In carrying out the liquidity stress tests required by 11.3, a *firm* must make appropriate assumptions around the major sources of risk, including the major sources of risk in each of the following categories where they are relevant to the *firm* given the nature and scale of its business:
- (1) retail *funding risk*;

- (2) wholesale secured and unsecured *funding risk*;
 - (3) risks arising from the correlation between funding markets and lack of diversification between funding types;
 - (4) off-balance sheet *funding risk*;
 - (5) risks arising from the *firm's* funding tenors;
 - (6) risks associated with a deterioration of a *firm's* credit rating;
 - (7) cross currency *funding risk*;
 - (8) risk that liquidity resources cannot be transferred across entities, sectors and countries;
 - (9) *funding risks* resulting from estimates of future balance sheet growth;
 - (10) franchise risk;
 - (11) marketable assets risk;
 - (12) non-marketable assets risk;
 - (13) internalisation risk; and
 - (14) intra-day risk.
- 11.6 A *firm* must ensure that its *management body* reviews regularly the stresses and scenarios tested to ensure that their nature and severity remain appropriate and relevant to the *firm*.
- 11.7 A *firm* must ensure that the results of its stress tests are:
- (1) reviewed by its *senior management*;
 - (2) reported to that *firm's management body*, specifically highlighting any vulnerabilities identified and proposing appropriate remedial action;
 - (3) reflected in the processes, strategies and systems established in accordance with 3.1;
 - (4) used to develop effective *liquidity contingency plans*;
 - (5) integrated into that *firm's* business planning process and day-to-day risk management; and
 - (6) taken into account when setting internal limits for the management of that *firm's liquidity risk* exposure.
- 11.8 A *firm* must report the results of its liquidity stress tests to the *PRA* in a timely manner.

12 LIQUIDITY CONTINGENCY PLAN

- 12.1 A *firm* must adjust its strategies, internal policies and limits on *liquidity risk* and *funding risk* and develop an effective *liquidity contingency plan*, taking into account the outcome of the alternative scenarios referred to in 11.2.

[Note: Art. 86(10) of the CRD]

- 12.2 The *liquidity contingency plan* must include strategies to address the contingent encumbrance resulting from relevant stress events including downgrades in the firm's credit rating, devaluation of pledged assets and increases in margin requirements.
- 12.3 The *liquidity contingency plan* must also set out adequate strategies and proper implementation measures in order to address possible liquidity shortfalls, including in relation to *branches* established in another *EEA State*. Those plans must be tested at least annually, updated on the basis of the outcome of the alternative scenarios set out in 11.2, and be reported to and approved by the *firm's senior management*, so that internal policies and processes can be adjusted accordingly.

[Note: Art. 86(11) (part) of the CRD]

- 12.4 A *firm* must take the necessary operational steps in advance to ensure that *liquidity contingency plans* can be implemented immediately, including holding collateral immediately available for central bank funding. This includes holding collateral where necessary in the currency of another *EEA State* or currency of a *third country* to which the *firm* has exposures, and where operationally necessary within the territory of an *EEA State* or *third country* to whose currency it is exposed.

[Note: Art. 86(11) (part) of the CRD]**13 INTERNAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS**

- 13.1 A *firm* must ensure that:
- (1) it regularly, but at least annually, reviews its *ILAAP*;
 - (2) it regularly carries out an internal assessment of the adequacy of its liquidity and funding in accordance with its *ILAAP*;
 - (3) the assessment in (2) is proportionate to the nature, scale and complexity of its activities and includes an assessment of:
 - (a) the adequacy of its liquidity and funding resources to cover the risks identified in accordance with this Part;
 - (b) the methodologies and assumptions applied for risk measurement and liquidity management;
 - (c) the results of the stress tests required by 11.3; and
 - (d) the *firm's* compliance with this Part;
 - (4) its *ILAAP* identifies those of the measures set out in its *liquidity contingency plans* that it would implement.
- 13.2 A *firm* must make a written record of its *ILAAP* and the assessments required under this Part and maintain such record for at least three years.
- 13.3 A *firm* must ensure that its *management body* approves the *firm's ILAAP*.

14 APPLICATION OF THIS PART ON AN INDIVIDUAL BASIS AND A CONSOLIDATED BASIS

14.1 This Part applies to a *firm* on an individual basis whether or not it also applies to the *firm* on a *consolidated basis*.

[Note: Art 109(1) of the CRD]

14.2 Where a *firm* is a member of a *consolidation group*, the *firm* must ensure that the arrangements, processes and mechanisms at the level of the *consolidation group* of which it is a member comply with the obligations set out in 3 – 13 on a *consolidated basis*.

14.3 Compliance with 14.2 must enable the *consolidation group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: Art 109(2) (part) of the CRD]

14.4 A *firm* which is an *EEA parent institution* must comply with this Part on the basis of its *consolidated situation*.

14.6 A *UK bank* or *building society* controlled by an *EEA parent financial holding company* or by an *EEA parent mixed financial holding company* must comply with this Part on the basis of the *consolidated situation* of that holding company if the *PRA* is responsible for supervision of the *UK bank* or *building society* on a *consolidated basis* under Article 111 of the *CRD*.

14.7 A *UK designated investment firm* controlled by an *EEA parent financial holding company* or by an *EEA parent mixed financial holding company* must comply with this Part on the basis of the *consolidated situation* of that holding company if:

- (1) there is no *subsidiary* of the holding company which is a *credit institution* to which 14.6 applies; and
- (2) the *PRA* is responsible for the supervision of the *UK designated investment firm* on a *consolidated basis* under Article 111 of the *CRD*.

14.8 If this Part applies to a *firm* on a *consolidated basis*, the *firm* must carry out consolidation to the extent and in the manner prescribed in Articles 18(1), 19(1), 19(3), 23 and 24 (1) of the *CRR*.

15 INTRODUCTION OF THE LIQUIDITY COVERAGE RATIO

15.1 The applicable *liquidity coverage ratio* for the purpose of Article 38(2) *Delegated Regulation* shall be:

- (1) 80% as from 1 October 2015;
- (2) 90% as from 1 January 2017; and
- (3) 100% as from 1 January 2018.

16 TRANSITIONAL PROVISION

16.1 In 14.4 – 14.7 any reference to *EEA* is to be read as a reference to *EU*.

PRA RULEBOOK: CRR FIRMS: LIQUIDITY COVERAGE REQUIREMENT – UK DESIGNATED INVESTMENT FIRMS 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”) and the European Communities Act 1972 (“the EC Act”):
- (1) section 137G of the Act (the PRA’s general rules);
 - (2) section 137T of the Act (general supplementary powers); and
 - (3) paragraph 1A of Schedule 2 (provisions as to subordinate legislation) of the EC Act.
- 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: Liquidity Coverage Requirement – UK Designated Investment Firms Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 October 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Liquidity Coverage Requirement – UK Designated Investment Firms Instrument 2015.

By order of the Board of the Prudential Regulation Authority

4 June 2015

Annex

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

Part

LIQUIDITY COVERAGE REQUIREMENT – UK DESIGNATED INVESTMENT FIRMS

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. LIQUIDITY COVERAGE REQUIREMENT**
- 3. COMPLIANCE WITH LIQUIDITY REPORTING**
- 4. APPLICATION OF THIS PART ON AN INDIVIDUAL BASIS AND A CONSOLIDATED BASIS**
- 5. TRANSITIONAL PROVISIONS**

Links

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to a *UK designated investment firm*.

1.2 In this Part, the following definitions shall apply:

COREP Regulation

means the Commission Implementing Regulation (EU) No 680/2014 of 16 April 2014 laying down implementing technical standards with regard to supervisory reporting of institutions according to Regulation (EU) No 575/2013 of the European Parliament and the Council, as amended from time to time.

Delegated Regulation

means Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions, as amended from time to time.

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 LIQUIDITY COVERAGE REQUIREMENT

2.1 (1) For the purpose of complying with Article 412 (1) of the *CRR*, a *firm* must comply with the obligations set out in the *Delegated Regulation* as they apply to a *credit institution* supervised under the *CRD*, subject to the modifications in (2).

(2) For the purposes of (1):

- (a) the provisions in Article 2(3) of the *Delegated Regulation* do not apply where Article 12 of the *CRR* applies;
- (b) the provisions in Article 2(3)(d) and Article 38 of the *Delegated Regulation* do not apply; and
- (c) any reference to *competent authority* means a reference to the *PRA*.

3 COMPLIANCE WITH LIQUIDITY REPORTING

3.1 In accordance with Article 6(4) and Article 11(3) of the *CRR*, a *firm* is exempt from complying with the obligations laid down in Title II and Title III of Part Six of the *CRR* on an individual basis and on a *consolidated basis*.

3.2 (1) A *firm* must comply with the reporting requirements laid down in Chapter 1 and Chapter 7 to Chapter 9 of the *COREP Regulation* with the exception of Article 15 as they apply to a *credit institution* supervised under the *CRD*.

(2) For the purpose of (1), a reference to Article 415 of the *CRR* in the *COREP Regulation* is construed as a reference to the obligations set out in (1).

4 APPLICATION OF THIS PART ON AN INDIVIDUAL BASIS AND A CONSOLIDATED BASIS

- 4.1 This Part applies to a *firm* on an individual basis whether or not it also applies to the *firm* on a *consolidated basis*.
- 4.2 A *firm* which is an *EEA parent institution* must comply with this Part on the basis of its *consolidated situation*.
- 4.3 A *firm* controlled by an *EEA parent financial holding company* or by an *EEA parent mixed financial holding company* must comply with this Part on the basis of the *consolidated situation* of that holding company if:
- (1) there is no *subsidiary* of the holding company which is a *credit institution* that is supervised under the *CRD*; and
 - (2) the *PRA* is responsible for the supervision of the *UK designated investment firm* on a *consolidated basis* under Article 111 of the *CRD*.
- 4.4 If this Part applies to a *firm* on a *consolidated basis*, the *firm* must carry out consolidation to the extent and in the manner prescribed in Articles 18(1), 19(1), 19(3) 23 and 24 (1) of the *CRR*.

5 TRANSITIONAL PROVISIONS

- 5.1 In 4.2 and 4.3 any reference to *EEA* is to be read as a reference to *EU*.

LIQUIDITY STANDARDS CONSEQUENTIALS 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.

Commencement

- D. Annex A to Annex D and Annex F to this instrument come into force on 1 October 2015.
- E. Annex E to this instrument shall come into force on the date specified by a subsequent PRA Board Instrument.

Amendments to the Handbook

- F. The modules of the PRA 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 of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU)	Annex C
Supervision manual (SUP)	Annex D
Supervision manual (SUP)	Annex E
Amendments to the Fundamental Rules	Annex F

Amendments to the Rulebook

- G. The PRA Rulebook: Fundamental Rules is amended in accordance with Annex F to this instrument.

Citation

- H. This instrument may be cited as the Liquidity Standards Consequential Instrument 2015.

By order of the Board of the Prudential Regulation Authority
4 June 2015

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text. Insert the following new definitions and amendments in the appropriate alphabetical order.

<i>ILAS BIPRU firm</i>	<p>(A) In the PRA Handbook:</p> <p>a firm falling into BIPRU 12.1.1R, but excluding a firm that is:</p> <p>(a) an exempt full scope BIPRU investment firm; or a UK bank; or</p> <p>(b) a BIPRU limited licence firm; or a building society; or</p> <p>(c) a BIPRU limited activity firm; or a UK designated investment firm; or</p> <p>(d) an exempt BIPRU commodities firm. <u>an overseas firm that:</u></p> <p>(a) <u>is a bank;</u></p> <p>(b) <u>is not an EEA firm; and;</u></p> <p>(c) <u>has its head office outside the EEA; or</u></p> <p>(e) <u>an EEA bank that has its registered office (or if it has no registered office, its head office) outside the EU.</u></p>
...	
<i>intra-group liquidity modification</i>	<p>a modification to the <i>overall liquidity adequacy rule</i> of the kind described in BIPRU 12.8.7G <u>as in effect on 30 September 2015 granted to a firm and in effect on that date.</u></p>
...	
<i>overall liquidity adequacy rule</i>	<p>BIPRU 12.2.1R <u>as in effect on 30 September 2015.</u></p>
...	
<i>whole-firm liquidity modification</i>	<p>a modification to the <i>overall liquidity adequacy rule</i> of the kind described in BIPRU 12.8.22G <u>as in effect on 30 September 2015 granted to a firm and in effect on that date.</u></p>

Annex B

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

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

SYSC 12.1.13R is deleted in its entirety. This text is not shown.

12.1 Application

...

CRR firms and non-CRR firms that are parent financial holding companies in a Member State

12.1.13A R If this rule applies under SYSC 12.1.14R to a firm, the firm must:

- (1) comply with SYSC 12.1.8R (2) in relation to any UK consolidation group or non-EEA sub-group of which it is a member, as well as in relation to its group; and
- (2) ensure that the risk management processes and internal control mechanisms at the level of any consolidation group or non-EEA sub-group of which it is a member comply with the obligations set out in the following provisions on a consolidated (or sub-consolidated) basis:
 - (a) SYSC 4.1.1 R and SYSC 4.1.2 R;
 - (b) SYSC 4.1.7 R;
 - (bA) SYSC 4.3A;
 - (c) SYSC 5.1.7 R;
 - (d) SYSC 7;
 - (dA) the Remuneration Code;
 - (e) [deleted];
 - (f) [deleted];
 - (g) [deleted];
 - (h) [deleted];

[Note: article 109(2) of CRD]

- (3) ensure that compliance with the obligations in (2) enables the consolidation group or the non-EEA sub-group to have

arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[**Note:** article 109(2) of *CRD*]

12.1.13AB R When applying ~~SYSC 12.1.13R~~ SYSC 12.1.13AR, *CRR firms* must read references to:

...

Annex C

Amendments to the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU)

The entirety of part 2 of the Annex to Prudential sourcebook for Banks, Building Societies and Investment Firms (Liquidity Standards) Amendments Instrument 2013 is deleted.

BIPRU 12, BIPRU Schedule 3 and BIPRU Schedule 6 are deleted in their entirety.

Annex D

Amendments to the Supervisory manual (SUP)

The entirety of part 5 of the Annex of the Capital Requirements Regulation (Reporting) Amendment Instrument 2013 is deleted.

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

16.12 Integrated Regulatory Reporting

...

16.12.4A G ~~RAG 1 includes an incoming EEA firm exercising a BCD right through a UK branch.~~[deleted]

~~Group liquidity reporting~~

16.12.4B G ~~Reporting at group level for liquidity purposes by firms falling within BIPRU 12 (Liquidity) is by reference to defined liquidity groups. Guidance about the different types of defined liquidity groups and related material is set out in SUP 16 Annex 26 (Guidance on designated liquidity groups in SUP 16.12).~~[deleted]

Regulated Activity Group 1

SUP 16.12.5R is deleted in its entirety. This text is not shown.

16.12.5A R The applicable data items and forms or reports referred to in SUP 16.12.4R are set out according to firm type in the table below:

Description of data item	Prudential category of firm, applicable data items and reporting format (Note 1)						
	<u>UK bank</u>	<u>Building society</u>	<u>Non-EEA bank</u>	<u>EEA bank that has permission to accept deposits, other than one with permission for cross border services only and that has its registered office (or, if it has no registered office, its head office) outside the</u>	<u>[deleted]</u>	<u>Credit union</u>	<u>Dormant account fund operator (note 15)</u>

				<i>EU</i>			
<i>Annual report and accounts</i>	No standard format		No standard format, but in English				No standard format
<i>Annual report and accounts of the mixed-activity holding company (note 9)</i>	No standard format						
Solvency statement (note 10)	No standard format						
Balance sheet	FSA001 (note 2)	FSA001 (note 2)				CQ: CY	
Income statement	FSA002 (note 2)	FSA002 (note 2)	FSA002			CQ: CY	
Capital adequacy						CQ: CY	
	[deleted]	[deleted]					
Market risk	FSA005 (notes 2, 4)	FSA005 (notes 2, 4)					
Market risk - supplementary	FSA006 (note 5)						
Large exposures						CQ: CY	
Exposures between core UK group and non-core large exposures group	FSA018 (note 12)	FSA018 (note 12)					
Liquidity (other than stock)		FSA011				CQ: CY	
Forecast data	FSA014 (note 11)	FSA014 (note 11)					
Solo consolidation data	FSA016 (note 7)	FSA016 (note 7)					
Interest rate gap report	FSA017	FSA017					
Sectoral	FSA015	FSA015					

<u>information, including arrears and impairment</u>	(Note 2)	(Note 2)					
<u>IRB portfolio risk</u>	FSA045 (note 13)	FSA045 (note 13)					
<u>Daily Flows</u>	FSA047 (Notes 16, 20 and 22)	FSA047 (Notes 16, 20 and 22)	FSA047 (Notes 16, 18, 20 and 22)	FSA047 (Notes 16, 18, 20 and 22)			
<u>Enhanced Mismatch Report</u>	FSA048 (Notes 16, 20 and 22)	FSA048 (Notes 16, 20 and 22)	FSA048 (Notes 16, 18, 20 and 22)	FSA048 (Notes 16, 18, 20 and 22)			
<u>Liquidity Buffer Qualifying Securities</u>	FSA050 (Notes 17, 21 and 22)	FSA050 (Notes 17, 21 and 22)					
<u>Funding Concentration</u>	FSA051 (Notes 17, 21 and 22)	FSA051 (Notes 17, 21 and 22)					
<u>Pricing data</u>	FSA052 (Notes 17, 22 and 24)	FSA052 (Notes 17, 22 and 24)					
<u>Retail and corporate funding</u>	FSA053 (Notes 17, 21 and 22)	FSA053 (Notes 17, 21 and 22)					

<u>Note 1</u>	<u>When submitting the completed data item required, a firm must use the format of the data item set out in SUP 16 Annex 24R, except for credit union reports that are in SUP 16 Annex 14R. Guidance notes for completion of the data items are contained in SUP 16 Annex 25G (or Annex 15G for credit unions).</u>
<u>Note 2</u>	<u>Firms that are members of a UK consolidation group are also required to submit this data item on a UK consolidation group basis. Firms' attention is drawn to SUP 16.3.25G regarding a single submission for all firms in the group.</u>
<u>Note 3</u>	[deleted]
<u>Note 4</u>	<u>For PRA-<i>authorised persons</i> lines 62 to 64 only are applicable. These lines apply to a firm that applies add-ons to their market risk capital calculation under the RNIV framework. For further guidance on how to complete the form PRA-<i>authorised persons</i> may refer to SUP 16.12.25A R.</u>
<u>Note 5</u>	<u>Only applicable to firms with a VaR model permission.</u>
<u>Note 6</u>	[deleted]
<u>Note 7</u>	<u>Only applicable to a firm that has a solo consolidation waiver.</u>
<u>Note 8</u>	[deleted]
<u>Note 9</u>	[deleted]
<u>Note 10</u>	[deleted]

Note 11	<u>Members of a UK consolidation group should only submit this data item at the UK consolidation group level.</u>
Note 12	<u>Only applicable to a firm that has both a core UK group and a non-core large exposures group.</u>
Note 13	<u>Only applicable to firms that have an IRB permission.</u>
Note 14	[deleted]
Note 15	<u>Only applies to a dormant account fund operator that does not fall into any of the other prudential categories in this table.</u>
Note 16	<p><u>A firm must complete this item separately on each of the following bases that are applicable.</u></p> <p><u>(1) It must complete it on a solo basis (including on the basis of the firm's UK branch). Therefore even if it has a solo consolidation waiver it must complete the item on an unconsolidated basis by reference to the firm alone.</u></p> <p><u>(2) If it is a group liquidity reporting firm in a DLG by default and is a UK lead regulated firm, it must complete the item on the basis of that group.</u></p> <p><u>(3) If it is a group liquidity reporting firm in a UK DLG by modification, it must complete the item on the basis of that group and (1) does not apply.</u></p> <p><u>(4) If it is a group liquidity reporting firm in a non-UK DLG by modification, it must complete the item on the basis of that group.</u></p>
Note 17	<p><u>A firm must complete this item separately on each of the following bases that are applicable.</u></p> <p><u>(1) It must complete it on a solo basis (including on the basis of the firm's UK branch) unless it is a group liquidity reporting firm in a UK DLG by modification. Therefore even if it has a solo consolidation waiver it must complete the item on an unconsolidated basis by reference to the firm alone.</u></p> <p><u>(2) If it is a group liquidity reporting firm in a UK DLG by modification, it must complete the item on the basis of that group.</u></p>
Note 18	<p><u>(1) If the firm has a whole-firm liquidity modification, it must complete this item on the basis of the whole firm (or at any other reporting level the whole-firm liquidity modification may have required) and not just its UK branch.</u></p> <p><u>(2) If the firm does not have a whole-firm liquidity modification there is no obligation to report this item.</u></p>
Note 19	[deleted]
Note 20	<p><u>(1) This item must be reported in the reporting currency.</u></p> <p><u>(2) If any data element is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.</u></p> <p><u>(3) In addition, all material currencies (which may include the reporting currency) must each be recorded separately (translated into the reporting currency). However if:</u></p> <p><u>(a) the reporting frequency is (whether under a rule or under a waiver) quarterly or less than quarterly; or</u></p> <p><u>(b) the only material currency is the reporting currency;</u></p> <p><u>(3) does not apply.</u></p> <p><u>(4) If there are more than three material currencies for this data item, (3) only applies to the three largest in amount. A firm must identify the largest in amount in accordance with the following procedure.</u></p> <p><u>(a) For each currency, take the largest of the asset or liability figure as referred to in the definition of material currency.</u></p> <p><u>(b) Take the three largest figures from the resulting list of amounts.</u></p> <p><u>(5) The date as at which the calculations for the purposes of the definition of material currency are carried out is the last day of the reporting period in question.</u></p> <p><u>(6) The reporting currency for this data item is whichever of the following currencies the firm chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).</u></p>
Note 21	<u>Note 20 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that material currencies must not be recorded separately.</u>
Note 22	<u>Any changes to reporting requirements caused by a firm receiving an intra-group liquidity modification or a whole-firm liquidity modification (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the data item in question if the firm receives that intra-group liquidity modification, whole-firm liquidity modification or variation part of the way through such a period. If the change is that the firm does not have to report a particular data item or does not have to report it at a particular reporting level, the firm must nevertheless report that item or at that reporting level for any reporting period that has already begun. This paragraph is subject to anything that the intra-group liquidity modification or a whole-firm liquidity modification says</u>

	to the contrary.
Note 23	Only applicable to firms that hold securitisation positions in the trading book and/ or are the originator or sponsor of securitisations held in the trading book.
Note 24	This data item must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.

...

16.12.11B R The applicable data items referred to in SUP 16.12.4R for UK designated investment firms are set out below:

...	
Note 10	A firm must complete this item separately on each of the following bases (if applicable). ... (3) If it is a group liquidity reporting firm in a UK DLG by modification, it must complete the item on the basis of that group and (1) does not apply. ...
...	

...

Regulated Activity Group 4

16.12.15B R The applicable data items referred to in SUP 16.12.4R for UK designated investment firms are set out below:

...	
Note 7	A firm must complete this item separately on each of the following bases (if applicable). ... (3) If it is a group liquidity reporting firm in a UK DLG by modification, it must complete the item on the basis of that group and (1) does not apply. ...
...	

...

Regulated Activity Group 7

16.12.22C R The applicable data items referred to in SUP 16.12.4R for UK designated investment firms are set out in the table below:

...	
Note 6	A firm must complete this item separately on each of the following bases (if applicable). ... (3) If it is a group liquidity reporting firm in a UK DLG by modification, it must complete the item on the basis of that group and (1) does not apply. ...

...	
-----	--

...

Regulated Activity Group 8

16.12.25C R The applicable *data items* referred to in SUP 16.12.4R are set out in the table below:

...	
Note 9	<p>A <i>firm</i> must complete this item separately on each of the following bases (if applicable).</p> <p>...</p> <p>(3) If it is a <i>group liquidity reporting firm</i> in a UK DLG by <i>modification</i>, it must complete the item on the basis of that group and (1) does not apply.</p> <p>...</p>
...	

...

16 Annex 26 Guidance on designated liquidity groups in SUP 16.12

The entirety of SUP 16 Annex 26 (Guidance on designated liquidity groups in SUP 16.12) is deleted. The deleted text is not shown.

Annex E

Amendments to the Supervisory manual (SUP)

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

16.12 Integrated Regulatory Reporting

...

Regulated Activity Group 1

16.12.5A R The applicable *data items* and forms or reports referred to in *SUP* 16.12.4R are set out according to *firm* type in the table below:

Description of <i>data item</i>	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (Note 1)						
	<i>UK bank</i>	<i>Building society</i>	<i>Non-EEA bank</i>	<i>EEA bank that has permission to accept deposits, other than one with permission for cross border services only and that has its registered office (or, if it has no registered office, its head office) outside the EU</i>	[deleted]	<i>Credit union</i>	<i>Dormant account fund operator</i> (note 15)
<i>Annual report and accounts</i>	No standard format		No standard format, but in English				No standard format
<i>Annual report and accounts of the mixed-activity holding company</i> (note 9)	No standard format						
Solvency statement (note 10)	No standard format						
Balance sheet	FSA001 (note 2)	FSA001 (note 2)				CQ; CY	

Income statement	FSA002 (note 2)	FSA002 (note 2)	FSA002			CQ; CY	
Capital adequacy						CQ; CY	
	[deleted]	[deleted]					
Market risk	FSA005 (notes 2, 4)	FSA005 (notes 2, 4)					
Market risk - supplementary	FSA006 (note 5)						
Large exposures						CQ; CY	
Exposures between <i>core UK group</i> and <i>non-core large exposures group</i>	FSA018 (note 12)	FSA018 (note 12)					
Liquidity (other than stock)		FSA011				CQ; CY	
Forecast data	FSA014 (note 11)	FSA014 (note 11)					
Solo consolidation data	FSA016 (note 7)	FSA016 (note 7)					
Interest rate gap report	FSA017	FSA017					
Sectoral information, including arrears and impairment	FSA015 (Note 2)	FSA015 (Note 2)					
IRB portfolio risk	FSA045 (note 13)	FSA045 (note 13)					
Daily Flows	FSA047 (Notes 16, 20 and 22)	FSA047 (Notes 16, 20 and 22)	FSA047 (Notes 16, 18, 20 and 22)	FSA047 (Notes 16, 18, 20 and 22)			
Enhanced Mismatch Report	FSA048 (Notes 16, 20 and 22)	FSA048 (Notes 16, 20 and 22)	FSA048 (Notes 16, 18, 20 and 22)	FSA048 (Notes 16, 18, 20 and 22)			
Liquidity Buffer Qualifying	FSA050 (Notes 17, 21 and 22)	FSA050 (Notes 17, 21 and 22)					

Securities							
Funding Concentration	FSA051 (Notes 17, 21 and 22)	FSA051 (Notes 17, 21 and 22)					
Pricing data	FSA052 (Notes 17, 22 and 24)	FSA052 (Notes 17, 22 and 24)					
Retail and corporate funding	FSA053 (Notes 17, 21 and 22)	FSA053 (Notes 17, 21 and 22)					

...	
Note 17	<i>A firm must complete this item separately on each of the following bases that are applicable.</i> (1) <i>It must complete it on a solo basis (including on the basis of the firm's UK branch) unless it is a group liquidity reporting firm in a UK DLG by modification. Therefore even if it has a solo consolidation waiver it must complete the item on an unconsolidated basis by reference to the firm alone.</i> (2) <i>If it is a group liquidity reporting firm in a UK DLG by modification, it must complete the item on the basis of that group.</i> [deleted]
...	
Note 21	Note 20 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that <i>material currencies must not be recorded separately.</i> [deleted]
...	
Note 24	<i>This data item must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.</i> [deleted]
...	

...

16.12.11B R The applicable *data items* referred to in SUP 16.12.4R for UK designated investment firms are set out below:

Description of <i>data item</i>	Applicable <i>data items</i> (Note 1)
...	
Daily flows	FSA047 (Notes 10, 13, and 15 and 16)
Enhanced Mismatch Report	FSA048 (Notes 10, 13, and 15 and 16)
Liquidity Buffer Qualifying Securities	FSA050 (Notes 11, 14, 15 and 16)
Funding Concentration	FSA051 (Notes 11, 14, 15 and 16)
Pricing data	FSA052 (Notes 11, 15, 16 and 17)
Retail and corporate funding	FSA053 (Notes 11, 14, 15 and 16)

Currency Analysis	FSA054 (Notes 11, 14, 15 and 16)
Systems and Controls Questionnaire	FSA055 (Notes 12 and 16)

...	
Note 11	<i>A firm must complete this item separately on each of the following bases that are applicable.</i> (1) <i>It must complete it on a solo basis unless it is a group liquidity reporting firm in a UK DLG by modification. Therefore even if it has an individual consolidation permission it must complete the item on an unconsolidated basis by reference to the firm alone.</i> (2) <i>If it is a group liquidity reporting firm in a UK DLG by modification, it must complete the item on the basis of that group.</i> [deleted]
Note 12	<i>If it is a non-ILAS BIPRU firm, it must complete it on a solo basis. Therefore even if it has an individual consolidation permission it must complete the item on an unconsolidated basis by reference to the firm alone.</i> [deleted]
...	
Note 14	<i>Note 13 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that material currencies must not be recorded separately.</i> [deleted]
Note 16	<i>FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an ILAS BIPRU firm. An ILAS BIPRU firm does not need to complete FSA055. A non-ILAS BIPRU firm must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054.</i> [deleted]
Note 17	<i>This data item must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.</i> [deleted]
...	

...

Regulated Activity Group 4

16.12.15B R The applicable *data items* referred to in SUP 16.12.4R for *UK designated investment firms* are set out below:

Description of <i>data item</i>	Applicable data items (Note 1)
...	
Daily Flows	FSA047 (Notes 7,10, and 12 and 13)
Enhanced Mismatch Report	FSA048 (Notes 7,10, and 12 and 13)
Liquidity Buffer Qualifying Securities	FSA050 (Notes 8, 11, 12 and 13)
Funding Concentration	FSA051 (Notes 8, 11, 12 and 13)
Pricing data	FSA052 (Notes 8, 12, 13 and 14)
Retail and corporate funding	FSA053 (Notes 8, 11, 12 and 13)
Currency Analysis	FSA054 (Notes 8, 11, 12 and 13)

Pricing data	FSA052 (Notes 8, 12, 13 and 14)
Systems and Control Questionnaire	FSA055 (Notes 9 and 13)

...	
Note 8	<p>A firm must complete this item separately on each of the following bases that are applicable.</p> <p>(1) It must complete it on a solo basis unless it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone.</p> <p>(2) If it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>, it must complete the item on the basis of that group. [deleted]</p>
Note 9	<p>If it is a <i>non ILAS BIPRU firm</i>, it must complete it on a solo basis. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone. [deleted]</p>
...	
Note 11	<p>Note 10 applies, except that paragraphs (3), (4), and (5) do not apply, meaning that <i>material currencies</i> must not be recorded separately. [deleted]</p>
...	
Note 13	<p>FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an <i>ILAS BIPRU firm</i>. An <i>ILAS BIPRU firm</i> does not need to complete FSA055. A <i>non ILAS BIPRU firm</i> must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054. [deleted]</p>
Note 14	<p>This <i>data item</i> must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported. [deleted]</p>
...	

...

Regulated Activity Group 7

16.12.22C R The applicable *data items* referred to in SUP 16.12.4R for *UK designated investment firms* are set out in the table below:

Description of <i>data item</i>	Applicable <i>data item</i> (Note 1)
...	
Daily Flows	FSA047 (Notes 6, 9, and 11 and 12)
Enhanced Mismatch Report	FSA048 (Notes 6, 9, and 11 and 12)
Liquidity Buffer Qualifying Securities	FSA050 (Notes 7, 10, 11 and 12)
Funding Concentration	FSA051 (Notes 7, 10, 11 and 12)
Pricing Data	FSA052 (Note 7, 10, 12 and 13)

Retail and corporate funding	FSA053 (Notes 7, 10, 11 and 12)
Currency Analysis	FSA054 (Notes 7, 10, 11 and 12)
Systems and Controls Questionnaire	FSA055 (Notes 8 and 12)

...	
Note 7	<p>A firm must complete this item separately on each of the following bases that are applicable.</p> <p>(1) It must complete it on a solo basis unless it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone.</p> <p>(2) If it is a <i>group liquidity reporting firm</i> in a <i>UK DLG by modification</i>, it must complete the item on the basis of that group. [deleted]</p>
Note 8	<p>If it is a <i>non ILAS BIPRU firm</i>, it must complete it on a solo basis. Therefore even if it has an <i>individual consolidation permission</i> it must complete the item on an unconsolidated basis by reference to the <i>firm</i> alone. [deleted]</p>
...	
Note 10	<p>Note 9 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that <i>material currencies</i> must not be recorded separately. [deleted]</p>
...	
Note 12	<p>FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an <i>ILAS BIPRU firm</i>. An <i>ILAS BIPRU firm</i> does not need to complete FSA055. A <i>non ILAS BIPRU firm</i> must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054. [deleted]</p>
Note 13	<p>This <i>data item</i> must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported. [deleted]</p>
...	

...

Regulated Activity Group 8

16.12.25C R The applicable *data items* referred to in SUP 16.12.4R are set out in the table below:

Description of <i>data item</i>	Applicable <i>data item</i> (Note 1)
...	
Daily flows	FSA047 (Notes 9, 12, and 14 and 15)
Enhanced Mismatch Report	FSA048 (Notes 9, 12, 14 and 15)
Liquidity Buffer Qualifying Securities	FSA050 (Notes 10, 13, 14 and 15)
Funding Concentration	FSA051 (Notes 10, 13, 14 and 15)

Pricing data	FSA052 (Notes 10, 14, 15 and 16)
Retail and corporate funding	FSA053 (Notes 10, 13, 14 and 15)
Currency Analysis	FSA054 (Notes 10, 13, 14 and 15)
Systems and Controls Questionnaire	FSA055(Notes 11 and 15)

...	
Note 10	A firm must complete this item separately on each of the following bases that are applicable. (1) It must complete it on a solo basis unless it is a group liquidity reporting firm in a UK DLG by modification. Therefore even if it has an individual consolidation permission it must complete the item on an unconsolidated basis by reference to the firm alone. (2) If it is a group liquidity reporting firm in a UK DLG by modification, it must complete the item on the basis of that group. [deleted]
Note 11	If it is a non ILAS BIPRU firm, it must complete it on a solo basis. Therefore even if it has an individual consolidation permission it must complete the item on an unconsolidated basis by reference to the firm alone. [deleted]
...	
Note 13	Note 24 applies, except that paragraphs (3), (4) and (5) do not apply, meaning that material currencies must not be recorded separately. [deleted]
...	
Note 15	FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054 must be completed by an ILAS BIPRU firm. An ILAS BIPRU firm does not need to complete FSA055. A non ILAS BIPRU firm must complete FSA055 and does not need to complete FSA047, FSA048, FSA050, FSA051, FSA052, FSA053 and FSA054. [deleted]
Note 16	This data item must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported. [deleted]
...	

...

Annex F

Amendments to the Fundamental Rules

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

3 RESTRICTIONS

3.1 The *Fundamental Rules* apply to every *firm*, except that:

- (1) ...
- (2) for an *incoming EEA firm* that is a *credit institution* without a *top-up permission*, Fundamental Rule 4 ~~applies only in relation to the liquidity of a branch established in the UK~~ does not apply; and
- (3) ...

HANDBOOK (REMUNERATION CONSEQUENTIALS) 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.

Handbook (Remuneration Consequentials) Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 July 2015.

Amendments to the PRA Handbook

- F. The Glossary of definitions is amended in accordance with Annex A to this instrument.
- G. The Senior Management Arrangements, Systems and Controls sourcebook (SYSC) is amended in accordance with Annex B to this instrument.

Citation

- H. This instrument may be cited as the Handbook (Remuneration Consequentials) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

19 June 2015

Annex A

Amendments to the Glossary of Definitions

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

Amend the following definitions as shown:

discretionary pension benefit (A) ~~In the PRA Handbook:~~

~~(in SYSC 19A) enhanced pension benefits granted on a discretionary basis by a firm to an employee as part of that employee's variable remuneration package, but excluding accrued benefits granted to an employee under the terms of his company pension scheme. [deleted]~~

~~[Note: article 4(49) of the *Banking Consolidation Directive*]~~

(B) In the FCA Handbook:

...

investment firm (A) In the PRA Handbook:

...

~~(5) (in SYSC 19A) a firm in (3) except for a BIPRU firm [deleted]~~

(B) In the FCA Handbook:

...

parent undertaking (A) In the PRA Handbook:

(1) ...

(c) (for the purposes of *BIPRU* (except *BIPRU* 12), *GENPRU* (except *GENPRU* 3) and *INSPRU* as they apply on a consolidated basis and for the purposes of *SYSC* 12 (Group risk systems and controls requirement) ~~and SYSC 19C (Remuneration Code for BIPRU firms)~~ and in relation to whether an *undertaking* is a *parent undertaking*) an *undertaking* which has the following relationship to another *undertaking* ("S"):

(i) a relationship described in (a) other than (a)(vii); or

- (ii) it effectively exercises a dominant influence over S;

and so that (a)(v) does not apply for the purpose of *BIPRU* as it applies on a consolidated basis (including *BIPRU* 8 (Group risk - consolidation)) or *BIPRU* 10.

(2) ...

- (3) (for the purposes of *GENPRU* 3, *BIPRU* 12, and *IFPRU* and ~~SYSC 19A (Remuneration Code)~~) has the meaning in article 4(1)(15) of the *EU CRR* but so that (in accordance with article 2(9) of the *Financial Groups Directive*) article 4(1)(15)(b) applies for the purpose of *GENPRU* 3.

(B) In the FCA Handbook:

...

...

Remuneration Code ~~SYSC 19A (Remuneration Code)~~[deleted]

Remuneration Code general requirement ~~SYSC 19A.2.1R~~[deleted]

Remuneration Code staff (A) ~~In the PRA Handbook:~~

~~(for a *CRR firm* and an *overseas firm* in SYSC 19A1.1.1R(1)(f)) has the meaning given in SYSC 19A.3.4R~~ [deleted]

(B) In the FCA Handbook:

...

remuneration principles proportionality rule ~~(in SYSC 19A) has the meaning given in SYSC 19A.3.3R.~~ [deleted]

Annex B

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

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

1 Application and purpose

1.1A Application

...

- 1.1A.1 G The application of this sourcebook is summarised at a high level in the following table. The detailed application is cut back in SYSC 1 Annex 1 and in the text of each chapter.

Type of firm	Applicable chapters
<i>Insurer</i>	Chapters 2, 3, 11 to 18, 21
<i>Managing agent</i>	Chapters 2, 3, 11, 12, 18, 21
<i>Society</i>	Chapters 2, 3, 12, 18, 21
Every other <i>firm</i>	Chapters 4 to 12, 18, 19A, <u>19D,</u> and 21

Firms that SYSC 19D applies to should also refer to the Remuneration part of the PRA Rulebook

...

1.4 Application of SYSC 11 to SYSC 21

...

- 1.4.1A R SYSC 12, SYSC 19A, SYSC 19D, SYSC 20 and SYSC 21 do not apply to a *firm* in relation to its carrying on of *auction regulation bidding*.

- 1.4.1B G Apart from SYSC 12, SYSC 19A, SYSC 19D, SYSC 20 and SYSC 21 which are disapplied by SYSC 1.4.1A R, the other chapters of SYSC 11 to SYSC 17 do not apply in relation to a *firm's* carrying on of *auction regulation bidding* because they only apply to an *insurer*. SYSC 18 provides guidance on the Public Interest Disclosure Act.

...

4 General organisational requirements

4.1 General Requirements

...

4.1.2 R For a *common platform firm*, the arrangements, processes and mechanisms referred to in SYSC 4.1.1R must be comprehensive and proportionate to the nature, scale and complexity of the risks inherent in the business model and of the *common platform firm's* activities and must take into account the specific technical criteria described in SYSC 4.1.7R, SYSC 5.1.7R, SYSC 7 ~~(for a firm to which SYSC 19A applies)~~ SYSC 19A or for a *full scope UK AIFM*) SYSC 19 Band whichever of the following as applicable:

- (1) (for a firm to which SYSC 19A applies) SYSC 19A (IFPRU Remuneration Code);
- (2) (for a full-scope UK AIFM) SYSC 19B (AIFM Remuneration Code);
- (3) (for a firm to which SYSC 19C applies) SYSC 19C (BIPRU Remuneration Code);
- (4) (for a firm to which SYSC 19D applies) SYSC 19D (Dual-regulated firms Remuneration Code); or
- (5) (for a firm to which the Remuneration part of the PRA Rulebook applies) the Remuneration part of the PRA Rulebook.

...

6 Compliance, internal audit and financial crime

6.1 Compliance

...

6.1.4-A G In setting the method of determining the *remuneration of relevant persons* involved in the compliance function:

- (1) *firms that SYSC 19A applies to will also need to comply with the Remuneration Code; and*
- (2) *BIPRU firms will also need to comply with the BIPRU Remuneration Code;*
- (3) *firms that SYSC 19D applies to will also need to comply with the Dual-regulated firms Remuneration Code; and*
- (4) *firms that the Remuneration part of the PRA Rulebook applies to will also need to comply with it.*

...

7 Risk control

7.1 Risk control

7.1.7B G In setting the method of determining the *remuneration of employees* involved in the risk management function;

... (1) *firms that SYSC ~~19A~~ 19D applies to will also need to comply with the Dual-regulated firms Remuneration Code; and*

(2) *firms that the Remuneration part of the PRA Rulebook applies to will also need to comply with it.*

...

12 Group risk systems and control requirements

12.1 Application

...

CRR firms and non-CRR firms that are parent financial holding companies in a Member State

12.1.13 R If this *rule* applies under SYSC 12.1.14 R to a *firm*, the *firm* must:

...

(2) ensure that the risk management processes and internal control mechanisms at the level of any *consolidation group* or non-EEA *sub-group* of which it is a member comply with the obligations set out in the following provisions on a consolidated (or sub-consolidated) basis:

...

(dA) *the Remuneration Code or the Dual-regulated Firms Remuneration Code, whichever is applicable;*

...

...

21.1 Risk control: guidance on governance arrangements

...

Chief Risk Officer

21.1.2 G

(1) A Chief Risk Officer should:

...

- (j) provide risk-focused advice and information into the setting and individual application of the *firm's remuneration* policy (Where the *Remuneration Code* applies, see in particular SYSC 19A.3.15 E. Where the BIPRU Remuneration Code applies, see in particular SYSC 19C.3.15E. Where the *Dual-regulated Remuneration Code* applies, see in particular SYSC 19D.2.16E. Where the Remuneration part of the *PRA Rulebook* applies, see the *PRA's Supervisory Statement on Remuneration*).

[Note: The *PRA's Supervisory Statement on remuneration* is available on the *PRA* website at

<http://www.bankofengland.co.uk/pr/Pages/default.aspx>.]

...

SYSC 19A is deleted in its entirety. This text is not shown.

SYSC TP3 Remuneration Code is deleted in its entirety. This text is not shown.

PRA RULEBOOK: CRR FIRMS: REMUNERATION 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);
 - (2) section 137H (General rules about remuneration);
 - (3) section 137T (General supplementary powers); and
 - (4) section 138C (Evidential provisions).
- 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: Remuneration Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 July 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Remuneration Instrument 2015.

By order of the Board of the Prudential Regulation Authority

19 June 2015

Annex A

REMUNERATION

Chapter content

1. APPLICATION AND DEFINITIONS
2. APPLICATION DATES
3. MATERIAL RISK TAKERS
4. GROUPS
5. PROPORTIONALITY
6. REMUNERATION POLICIES
7. GOVERNANCE
8. CONTROL FUNCTIONS
9. REMUNERATION AND CAPITAL
10. EXCEPTIONAL GOVERNMENT INTERVENTION
11. RISK ADJUSTMENT
12. PENSION POLICY
13. PERSONAL INVESTMENT STRATEGIES
14. NON-COMPLIANCE
15. REMUNERATION STRUCTURES
16. BREACH OF THE REMUNERATION RULES
17. REMUNERATION BENCHMARKING REPORTING REQUIREMENT
18. HIGH EARNERS REPORTING REQUIREMENT

Links:

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *CRR firm* in relation to its;
 - (a) *UK activities*;
 - (b) *passport activities* carried on from a *branch* in another *EEA State*; and
 - (c) other activities wherever they are carried on, in a *prudential context*; and
- (2) a *third country CRR firm* in relation to its activities carried on from an establishment in the *UK*.

1.2 This Part applies:

- (1) in relation to *regulated activities*;
- (2) in relation to the *regulated activity*, specified in Article 14 of the *Regulated Activities Order* (Dealing in investments as principal), disregarding the exclusion in Article 15 of the *Regulated Activities Order* (Absence of holding out etc.);
- (3) in relation to *ancillary activities* and (in relation to *MiFID business*) *ancillary services*;
- (4) in relation to the carrying on of *unregulated activities* in a *prudential context*; and
- (5) taking into account activities of other members of a *group* of which the *firm* is a member.

1.3 In this Part, the following definitions shall apply:

accounting reference date

means

- (1) (in relation to a *body corporate* incorporated in the *UK* under the Companies Acts) the accounting reference date of that *body corporate* determined in accordance with section 391 of the Companies Act 2006; or
- (2) (in relation to any other body) the last day of its financial year.

consolidation group entity

means an *institution* or *financial institution* which is, in relation to a *CRR firm* responsible for consolidation:

- (1) the *CRR firm* responsible for consolidation;
- (2) a *subsidiary* of the *CRR firm* responsible for consolidation; or
- (3) a *subsidiary* of the *EEA parent financial holding company* or *EEA parent mixed financial holding company* by which the *CRR firm* responsible for consolidation is controlled.

CRR firm responsible for consolidation

means a *CRR firm* which is either:

- (1) an *EEA parent institution*; or
- (2) controlled by an *EEA parent financial holding company* or by an *EEA parent mixed financial holding company* and to which supervision on a *consolidated basis* by the *PRA* applies in accordance with Article 111 of *CRD*.

high earner

means an *employee* (of a *firm* or of any *consolidation group entity*) whose total annual *remuneration* is €1 million or more per year or its equivalent in another currency determined by reference to the conversion rate applicable to the corresponding *High Earners Report* under Chapter 18.

High Earners Report

means the report by which a *firm* provides to the *PRA* the information required in Chapter 18.

material risk taker

has the meaning given in 3.1.

Material Risk Takers Regulation

means Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.

Remuneration Benchmarking Information Report

means the report by which a *firm* provides to the *PRA* the information required in Chapter 17.

remuneration requirements

means the requirements in 6 to 15.

share

means the investment specified in Article 76 of the *Regulated Activities Order* (Shares etc).

total assets

means:

- (1) in relation to a *CRR firm* or an *EEA bank*, its total assets as set out in its balance sheet on the relevant *accounting reference date*; and
- (2) in relation to a *third country CRR firm*, the total assets of the *third country CRR firm* as set out in its balance sheet on the relevant *accounting reference date* that cover the activities of the *branch* operation in the *UK*.

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

2 APPLICATION DATES

- 2.1 Subject to 2.2 and 2.3, a *firm* must apply the *remuneration requirements* in relation to:
- (1) *remuneration* awarded, whether pursuant to a contract or otherwise, on or after 1 January 2011;
 - (2) *remuneration* due on the basis of contracts concluded before 1 January 2011 which is awarded or paid on or after 1 January 2011; and
 - (3) *remuneration* awarded, but not yet paid, before 1 January 2011, for services provided in 2010.
- 2.2 A *firm* must apply 15.9(3) and 15.10 in relation to *remuneration* awarded for services provided or performance from the year 2014 onwards, whether due on the basis of contracts concluded before, on or after 31 December 2013.
- [Note: Art. 162(3) of the *CRD*]**
- 2.3 A *firm* must apply 15.17(1)(b) and (c), 15.20(2), (3) and (4), 15.23 and 16.1(3) in relation to *remuneration* awarded in relation to a performance year starting on or after 1 January 2016.

3 MATERIAL RISK TAKERS

- 3.1 A *firm* must, save where otherwise stated, apply the requirements of this Part in relation to a *person* (a “material risk taker”) who is:
- (1) an *employee* of a *CRR firm* whose professional activities have a material impact on the *firm’s* risk profile, including any *employee* who is deemed to have a material impact on the *firm’s* risk profile in accordance with criteria set out in articles 3 to 5 of the *Material Risk Takers Regulation*; or
 - (2) subject to 3.2, an *employee* of a *third country CRR firm* who would fall within 3.1(1) if it had applied in relation to him or her.
- 3.2 A *third country CRR firm* may deem an *employee* not to be a *material risk taker* where:
- (1) the *employee*:
 - (a) would meet any of the criteria in Article 4(1) of the *Material Risk Takers Regulation*,
 - (b) would not meet any of the criteria in Article 3 of the *Material Risk Takers Regulation*; and
 - (c) was awarded total *remuneration* of less than €750,000 in the preceding financial year; and

- (2) the *third country CRR firm* determines that the professional activities of the *employee* do not have a material impact on its risk profile on the grounds described in Article 4(2) of the *Material Risk Takers Regulation*.
- 3.3 Where a *third country CRR firm* deems an *employee* not to be a *material risk taker* as set out in 3.2, it must notify the *PRA*, applying exactly the approach described in Article 4(4) of the *Material Risk Takers Regulation*.
- 3.4 A *firm* must maintain a record of its *material risk takers* in accordance with the Record Keeping Part.
- 3.5 A *firm* must take reasonable steps to ensure that its *material risk takers* understand the implications of their status as such, including the potential for *remuneration* which does not comply with certain requirements of this Part to be rendered void and recoverable by the *firm*.

4 GROUPS

- 4.1 A *firm* must apply the requirements at *group*, *parent undertaking* and *subsidiary undertaking* levels, including those *subsidiaries* established in a country or territory which is not in an *EEA State*.
- 4.2 A *firm* must:
- (1) ensure that the risk management processes and internal control mechanisms of the other members of the *group* of which it is a member comply with the obligations set out in this Part on a *consolidated basis* or *sub-consolidated basis*; and
 - (2) ensure that compliance with (1) enables the members of the *group* of which it is a member to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: Arts. 92(1) and 109 of the CRD]

5 PROPORTIONALITY

- 5.1 A *firm* must comply with this Part in a way and to the extent that is appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities, when establishing and applying the total *remuneration* policies for *material risk takers*.
- 5.2 5.1 does not apply to the requirement in 7.4 for significant *firms* to have a *remuneration* committee.

[Note: Art. 92(2) of the CRD]

6 REMUNERATION POLICIES

- 6.1 In this Chapter, 6.2 and 6.5 apply to *firms* in relation to *firms' remuneration* policies, practices and procedures generally, not only in relation to *material risk takers*.

- 6.2 A *firm* must establish implement and maintain a *remuneration* policy, practices and procedures which are consistent with and promote sound and effective risk management and do not encourage risk-taking that exceeds the level of tolerated risk of the *firm*.

[Note: Arts. 74(1) and 92(2)(a) of the CRD]

- 6.3 A *firm* must ensure that its *remuneration* policy is in line with the business strategy, objectives, values and long-term interests of the *firm*.

[Note: Art. 92(2)(b) of the CRD]

- 6.4 A *firm* must ensure that its *remuneration* policy includes measures to avoid conflicts of interest.

[Note: Art. 92(2)(b) of the CRD]

- 6.5 A *firm* must ensure that its *remuneration* policies, practices and procedures, including performance appraisal processes and decisions, are clear and documented.

7 GOVERNANCE

- 7.1 In this Chapter, 7.4 applies generally, not only in relation to *material risk takers*.

- 7.2 A *firm* must ensure that its *management body* in its *supervisory function* adopts and periodically reviews the general principles of the *remuneration* policy and is responsible for overseeing its implementation.

[Note: Art. 92(2)(c) of the CRD and Standard 1 of the FSB Compensation Standards]

- 7.3 A *firm* must ensure that the implementation of the *remuneration* policy is, at least annually, subject to central and independent internal review for compliance with policies and procedures for *remuneration* adopted by the *management body* in its *supervisory function*.

[Note: Art. 92(2)(d) of the CRD and Standard 1 of the FSB Compensation Standards]

- 7.4 A *CRR firm* that is significant in terms of its size, internal organisation and the nature, scope and complexity of its activities must establish a *remuneration* committee, and ensure that the committee:

- (1) is constituted in a way that enables it to exercise competent and independent judgment on *remuneration* policies and practices and the incentives created for managing risk, capital and liquidity;
- (2) comprises a chairman and members who are members of the *management body* who do not perform any executive function in the *firm*;
- (3) is responsible for the preparation of decisions regarding *remuneration*, including those which have implications for the risk and risk management of the *firm* and which are to be taken by the *management body*; and
- (4) takes into account, when preparing such decisions, the long-term interests of shareholders, investors and other stakeholders in the *firm* as well as the public interest.

[Note: Art. 95 of the CRD and Standard 1 of the FSB Compensation Standards]

- 7.5 A *firm* that maintains a website must explain on the website how the *firm* complies with this Part.

[Note: Art. 96 of the CRD]

8 CONTROL FUNCTIONS

- 8.1 A *firm* must ensure that *employees* engaged in control functions:

- (1) are independent from the business units they oversee;
- (2) have appropriate authority; and
- (3) are *remunerated*:
 - (a) adequately to attract qualified and experienced *employees*; and
 - (b) in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

[Note: Art. 92(2)(e) of the CRD and Standard 2 of the FSB Compensation Standards]

- 8.2 A *firm* must ensure that the remuneration of the senior officers in risk management and compliance functions is directly overseen by the *remuneration* committee referred to in 7.4, or, if such a committee has not been established, by the *governing body* in its *supervisory function*.

[Note: Art. 92(2)(f) of the CRD]

9 REMUNERATION AND CAPITAL

- 9.1 A *firm* must ensure that total variable *remuneration* does not limit the *firm's* ability to strengthen its capital base.

[Note: Art. 94(1)(c) of the CRD and Standard 3 of the FSB Compensation Standards]

10 EXCEPTIONAL GOVERNMENT INTERVENTION

- 10.1 A *firm* that benefits from exceptional government intervention must ensure that:

- (1) variable *remuneration* is strictly limited as a percentage of net revenues when it is inconsistent with the maintenance of a sound capital base and timely exit from government support;
- (2) it restructures *remuneration* in a manner aligned with sound risk management and long-term growth, including when appropriate establishing limits to the *remuneration* of members of its *management body*; and
- (3) no variable or discretionary *remuneration* of any kind is paid to members of its *management body* unless this is justified.

[Note: Art. 93 of the CRD and Standard 10 of the FSB Compensation Standards]

11 RISK ADJUSTMENT

- 11.1 (1) A *firm* must ensure that any measurement of performance used to calculate variable *remuneration* components or pools of variable *remuneration* components:
- (a) includes adjustments for all types of current and future risks and takes into account the cost and quantity of the capital and the liquidity required; and
 - (b) takes into account the need for consistency with the timing and likelihood of the *firm* receiving potential future revenues incorporated into current earnings.
- (2) A *firm* must ensure that the allocation of variable *remuneration* components within the *firm* also takes into account all types of current and future risks.

[Note: Arts. 94(1)(j) and (k) of the CRD and Standard 4 of the FSB Compensation Standards]

- 11.2 A *firm* must have a clear and verifiable mechanism for measuring performance, with risk adjustment applied thereafter in a clear and transparent manner.
- 11.3 A *firm* must base assessments of financial performance used to calculate variable *remuneration* components or pools of variable *remuneration* components principally on profits. To determine profits for this purpose, a *firm* (other than a *branch*) must adjust its fair valuation accounting model profit figure by the incremental change in its regulatory prudent valuation adjustment figure across the relevant performance period.
- 11.4 A *firm*'s risk-adjustment approach must reflect both ex-ante adjustment (which adjusts *remuneration* for intrinsic risks that are inherent in its business activities) and ex-post adjustment (which adjusts *remuneration* for crystallisation of specific risk events).
- 11.5 A *firm* must not base the ex-ante risk adjustments referred to in 11.4 on revenue-based measures, except as part of a balanced, risk-adjusted scorecard.
- 11.6 A *firm* must ensure that its total variable *remuneration* is generally considerably contracted where subdued or negative financial performance of the *firm* occurs, taking into account both current *remuneration* and reductions in payouts of amounts previously earned, including through malus or clawback arrangements.

[Note: Art. 94(1)(n) of the CRD and Standard 5 of the FSB Compensation Standards]

12 PENSION POLICY

- 12.1 A *firm* must ensure that:
- (1) its pension policy is in line with its business strategy, objectives, values and long-term interests;
 - (2) when an *employee* leaves the *firm* before retirement, any discretionary pension benefits are held by the *firm* for a period of five years in the form of instruments referred to in 15.15; and

- (3) when an *employee* reaches retirement, discretionary pension benefits are paid to the *employee* in the form of instruments referred to in 15.15 and subject to a five-year retention period.

[Note: Art. 94(1)(o) of the CRD]

13 PERSONAL INVESTMENT STRATEGIES

- 13.1 (1) A *firm* must ensure that its *employees* undertake not to use personal hedging strategies to undermine the risk alignment effects embedded in their *remuneration* arrangements.
- (2) A *firm* must ensure that its *employees* undertake not to use *remuneration*-related or liability-related *contracts of insurance* to undermine the risk alignment effects embedded in their *remuneration* arrangements.
- (3) A *firm* must maintain effective arrangements designed to ensure that *employees* comply with their undertaking.

[Note: Art. 94(1)(p) of the CRD and Standard 14 of the FSB Compensation Standards]

14 NON-COMPLIANCE

- 14.1 A *firm* must ensure that variable *remuneration* is not paid through vehicles or methods that facilitate non-compliance with obligations arising from *CRR*, *CRD* or this Part.

[Note: Art. 94(1)(q) of the CRD]

15 REMUNERATION STRUCTURES

General Requirement

- 15.1 A *firm* must ensure that the structure of an *employee's remuneration* is consistent with and promotes effective risk management.
- 15.2 A *firm* must ensure that its *remuneration* policy makes a clear distinction between criteria for setting:
- (1) basic fixed *remuneration* that primarily reflects an *employee's* professional experience and organisational responsibility as set out in the *employee's* job description and terms of employment; and
- (2) variable *remuneration* that reflects performance in excess of that required to fulfil the *employee's* job description and terms of employment and that is subject to performance adjustment in accordance with this Part.

[Note: Art. 92(2)(g) of the CRD]

- 15.3 A *firm* must not award variable *remuneration* to a *non-executive director* in relation to his or her role as such.

Assessment of performance

15.4 A *firm* must ensure that where *remuneration* is performance-related:

- (1) the total amount of *remuneration* is based on a combination of the assessment of the performance of:
 - (a) the individual;
 - (b) the business unit concerned; and
 - (c) the overall results of the *firm*; and
- (2) when assessing individual performance, financial as well as non-financial criteria are taken into account.

[Note: Art. 94(1)(a) of the CRD and Standard 6 of the FSB Compensation Standards]

15.5 A *firm* must clearly explain the performance assessment process referred to in 15.4 to relevant *employees*.

15.6 A *firm* must ensure that the assessment of performance is set in a multi-year framework in order to ensure that the assessment process is based on longer-term performance and that the actual payment of performance-based components of *remuneration* is spread over a period which takes account of the underlying business cycle of the *firm* and its business risks.

[Note: Art. 94(1)(b) of the CRD]

Specific award structures: guaranteed variable remuneration and buy-outs

15.7 A *firm* must ensure that guaranteed variable *remuneration* is not part of prospective *remuneration* plans. A *firm* must not award, pay or provide guaranteed variable *remuneration* unless:

- (1) it is exceptional;
- (2) it occurs in the context of hiring a new *employee*;
- (3) the *firm* has a sound and strong capital base; and
- (4) it is limited to the first year of service.

[Note: Arts. 94(1)(d) and (e) of the CRD and Standard 11 of the FSB Compensation Standards]

15.8 A *firm* must ensure that *remuneration* packages relating to compensation for, or buy out from, an *employee's* contracts in previous *employment* align with the long-term interests of the *firm* including appropriate retention, deferral and performance and clawback arrangements.

[Note: Art. 94(1)(i) of the CRD]

Ratio between fixed and variable components of total remuneration

15.9 A *firm* must set an appropriate ratio between the fixed and variable components of total *remuneration* and ensure that:

- (1) fixed and variable components of total *remuneration* are appropriately balanced;

- (2) the level of the fixed component represents a sufficiently high proportion of the total *remuneration* to allow the operation of a fully flexible policy on variable *remuneration* components, including the possibility to pay no variable *remuneration* component; and
- (3) subject to 15.10, the level of the variable component of total *remuneration* must not exceed 100% of the fixed component of total *remuneration* for each *material risk taker*.

[Note: Arts. 94(1)(f) and 94(1)(g)(i) of the CRD]

- 15.10 A *firm* may set a higher maximum level of the ratio between the fixed and variable components of *remuneration* provided:
- (1) the overall level of the variable component does not exceed 200% of the fixed component of the total *remuneration* for each *material risk taker*; and
 - (2) is approved by the shareholders or owners or members of the *firm* in accordance with 15.11.
- 15.11 A *firm* must ensure that any approval by the shareholders or owners or members of the *firm* for the purposes of 15.10 is carried out in accordance with the following procedure:
- (1) the *firm* must give reasonable notice to all shareholders or owners or members of the *firm* that the *firm* intends to seek approval of the proposed higher ratio;
 - (2) the *firm* must make a detailed recommendation to all shareholders or owners or members of the *firm* giving the reasons for, and the scope of, the approval sought, including the number of staff affected, their functions and the expected impact on the requirement to maintain a sound capital base;
 - (3) the *firm* must, without delay, inform the *PRA* of the recommendation to its shareholders or owners or members, including the proposed higher ratio and the reasons therefor and must demonstrate to the *PRA* that the proposed higher ratio does not conflict with the *firm's* obligations under the *CRD* and the *CRR*, having regard in particular to the *firm's* own funds obligations;
 - (4) the *firm* must ensure that *employees* who have an interest in the proposed higher ratio are not allowed to exercise, directly or indirectly, any voting rights they may have as shareholders or owners or members of the *firm* in respect of the approval sought; and
 - (5) the higher ratio is approved by:
 - (a) at least 66% of the shares or equivalent ownership rights represented, if at least 50% of the shares or equivalent ownership rights in the *firm* are represented; or
 - (b) at least 75% of the shares or equivalent ownership rights represented if less than 50% of the shares or equivalent ownership rights in the *firm* are represented.

[Note: Art. 94(1)(g)(ii) of the CRD]

- 15.12 A *firm* must notify without delay the *PRA* of the decisions taken by its shareholders or members or owners including any approved higher maximum ratio.

[Note: Art. 94(1)(g)(ii) of the CRD]

- 15.13 A *firm* may apply a discount rate to a maximum of 25% of an *employee's* total variable *remuneration* provided it is paid in instruments that are deferred for a period of not less than

five years. In applying this discount rate, *firms* must apply the EBA Guidelines on the applicable notional discount rate for variable remuneration of 27 March 2014.

[Note: Art. 94(1)(g)(iii) of the CRD]

Payments related to early termination

15.14 A *firm* must ensure that payments relating to the early termination of a contract reflect performance achieved over time and are designed in a way that does not reward failure or misconduct.

[Note: Art. 94(1)(h) of the CRD and Standard 12 of the FSB Compensation Standards]

Retained shares or other instruments

15.15 A *firm* must ensure that:

- (1) a substantial portion, which is at least 50%, of any variable *remuneration* consists of an appropriate balance of:
 - (a) *shares* or equivalent ownership interests, subject to the legal structure of the *firm* concerned, or *share-linked* instruments or equivalent non-cash instruments in the case of a non-listed *firm*; and
 - (b) where possible other instruments which are eligible as *Additional Tier 1 instruments* or are eligible as *Tier 2 instruments* or other instruments that can be fully converted to *Common Equity Tier 1 instruments* or written down, that in each case adequately reflect the credit quality of the *firm* as a going concern and are appropriate for use as variable *remuneration*; and
- (2) the instruments referred to in paragraph (1) are subject to an appropriate retention policy designed to align incentives with the longer-term interests of the *firm*.

15.16 A *firm* must apply 15.15 to both the portion of the variable *remuneration* component deferred in accordance with 15.17 and 15.18 and the portion not deferred.

[Note: Art. 94(1)(l) of the CRD and Standard 8 of the FSB Compensation Standards]

Deferral

15.17 (1) A *firm* must not award, pay or provide a variable *remuneration* component unless a substantial portion of it, which is at least 40%, is deferred over a period which is not less than:

- (a) in the case of a *material risk taker* who is not subject to (b) or (c), three years, vesting no faster than on a pro-rata basis;
- (b) in the case of a *material risk taker* who does not perform a *PRA senior management function*, but whose professional activities meet the qualitative criteria set out in Article 3(1) to 3(9), 3(10) (but only by virtue of being responsible for a committee referred to therein), 3(13) or 3(15) of the *Material Risk Takers Regulation*, five years, vesting no faster than on a pro-rata basis; or
- (c) in the case of a *material risk taker* who performs a *PRA senior management function*, seven years, with no vesting to take place until three years after award, and vesting no faster than on a pro-rata basis thereafter.

15.18 In the case of a variable *remuneration* component:

- (1) of £500,000 or more; or
- (2) payable to a *director* of a *firm* that is significant in terms of its size, internal organisation and the nature, scope and complexity of its activities;

at least 60% of the amount must be deferred on the basis set out in 15.17.

- 15.19 Subject to 15.17, the length of the deferral period must be established in accordance with the business cycle, the nature of the business, its risks and the activities of the *employee* in question.

[Note: Art. 94(1)(m) of the CRD and Standards 6 and 7 of the FSB Compensation Standards]

Performance adjustment

- 15.20 A *firm* must ensure that:

- (1) any variable *remuneration*, including a deferred portion, is paid or vests only if it is sustainable according to the financial situation of the *firm* as a whole, and justified on the basis of the performance of the *firm*, the business unit and the individual concerned;
- (2) any variable *remuneration* is subject to clawback, such that it is only awarded if an amount corresponding to it can be recovered from the individual by the *firm* if the recovery is justified on the basis of the circumstances described in 15.21(2) or 15.22; and
- (3) any variable *remuneration* is subject to clawback for a period of at least 7 years from the date on which the variable *remuneration* is awarded;
- (4) in the case of a *material risk taker* who performs a *PRA senior management function*, the *firm* can, by notice to the *employee* to be given no later than 7 years after the variable *remuneration* was awarded, extend the period during which variable *remuneration* is subject to clawback to at least 10 years from the date on which the variable *remuneration* is awarded, where:
 - (a) the *firm* has commenced an investigation into facts or events which it considers could potentially lead to the application of clawback were it not for the expiry of the clawback period; or
 - (b) the *firm* has been notified by a regulatory authority (including an overseas regulatory authority) that an investigation has been commenced into facts or events which the *firm* considers could potentially lead to the application of clawback by the *firm* were it not for the expiry of the clawback period; and
- (5) it considers on an ongoing basis whether to use the power in (4).

[Note: Art. 94(1)(n) of the CRD and Standards 6 and 9 of the FSB Compensation Standards]

- 15.21 A *firm* must:

- (1) set specific criteria for the application of malus and clawback; and
- (2) ensure that the criteria for the application of malus and clawback in particular cover situations where the *employee*:

- (a) participated in or was responsible for conduct which resulted in significant losses to the *firm*; or
- (b) failed to meet appropriate standards of fitness and propriety.

[Note: Art. 94(1)(n) of the CRD]

- 15.22 (1) A *firm* should reduce unvested deferred variable *remuneration* when, as a minimum:
- (a) there is reasonable evidence of *employee* misbehaviour or material error;
 - (b) the *firm* or the relevant business unit suffers a material downturn in its financial performance; or
 - (c) the *firm* or the relevant business unit suffers a material failure of risk management.
- (2) For performance adjustment purposes, awards of deferred variable *remuneration* made in *shares* or other non-cash instruments should provide the ability for a *firm* to reduce the number of *shares* or other non-cash instruments.
- (3) Contravention of any of (1) or (2) may be relied on as tending to establish contravention of 15.20(1). Contravention of (1) or (2) does not give rise to any of the consequences provided for by provisions of *FSMA* other than section 138C.
- 15.23 A *firm* must make all reasonable efforts to recover an appropriate amount corresponding to some or all vested variable *remuneration* where either of the following circumstances arise during the period in which clawback applies (including any part of such period occurring after the relevant employment has ceased):
- (1) there is reasonable evidence of *employee* misbehaviour or material error; or
 - (2) the *firm* or the relevant business unit suffers a material failure of risk management.
- A *firm* must take into account all relevant factors (including, where the circumstances described in (2) arise, the proximity of the *employee* to the failure of risk management in question and the *employee's* level of responsibility) in deciding whether and to what extent it is reasonable to seek recovery of any or all of their vested variable *remuneration*.

16 BREACH OF THE REMUNERATION RULES

- 16.1 Subject to 16.2 to 16.7, the voiding provisions in 16.9 to 16.13 apply in relation to the prohibitions on *material risk takers* being *remunerated* in the ways specified in:
- (1) 15.7 (guaranteed variable *remuneration*);
 - (2) 15.17 to 15.19 (deferred variable *remuneration*);
 - (3) 15.20(2) (performance adjustment – clawback); and
 - (4) 16.16 (replacing payments recovered or property transferred).
- 16.2 16.1 applies only to those prohibitions as they apply in relation to a *firm* that satisfies either Condition 1 or Condition 2, as set out in 16.3 and 16.4.
- 16.3 Condition 1 is that the *firm* is a *CRR firm* that has relevant total assets exceeding £50 billion.

- 16.4 Condition 2 is that the *firm*:
- (1) is a *credit institution* or a *UK designated investment firm*; and
 - (2) is part of a *group* containing a *firm* that has relevant total assets exceeding £50 billion and that is a *CRR firm*.
- 16.5 For the purposes of 16.3 and 16.4 “relevant total assets” means the arithmetic mean of the *firm*’s total assets as set out in its balance sheet on its last three accounting reference dates.
- 16.6 The voiding provisions in 16.9 to 16.13 do not apply in relation to the prohibition on *material risk takers* being *remunerated* in the way specified in 15.7 (guaranteed variable *remuneration*) if both the conditions in paragraphs (2) and (3) of that *rule* are met.
- 16.7 The voiding provisions in 16.9 to 16.13 do not apply in relation to a *material risk taker* (X) in respect of whom both the following conditions are satisfied:
- (1) Condition 1 is that X’s variable *remuneration* is no more than 33% of total *remuneration*; and
 - (2) Condition 2 is that X’s total *remuneration* is no more than £500,000.
- 16.8 In relation to 16.7:
- (1) references to *remuneration* are to *remuneration* awarded or paid in respect of the relevant performance year;
 - (2) the amount of any *remuneration* is:
 - (a) if it is money, its amount when awarded;
 - (b) otherwise, whichever of the following is greatest: its value to the recipient when awarded; its market value when awarded; or the cost of providing it at the time of the award;
 - (3) where *remuneration* is, when awarded, subject to any condition, restriction or other similar provision which causes the amount of the *remuneration* to be less than it otherwise would be, that condition, restriction or provision is to be ignored in arriving at its value; and
 - (4) it is to be assumed that the *material risk taker* will remain so for the duration of the relevant performance year.

Voiding provisions

- 16.9 Any provision of an agreement that contravenes a prohibition on *persons* being *remunerated* in a way specified in a *rule* to which this *rule* applies (a “contravening provision”) is void.
- 16.10 A contravening provision does not cease to be void because:
- (1) the *firm* concerned ceases to satisfy any of the conditions set out in 16.3 to 16.4; or
 - (2) the *material risk taker* concerned starts to satisfy both of the conditions set out in 16.7 (1) and (2).
- 16.11 A contravening provision that, at the time a *rule* to which this *rule* applies was first made (including any corresponding *rules* specified in SYSC 19A.3.54R of the *PRA Handbook*), is

contained in an agreement made before that time is not rendered void by 16.9 unless it is subsequently amended so as to contravene such a *rule*.

- 16.12 (1) A pre-existing provision is not rendered void by 16.9.
- (2) In this Chapter, a pre-existing provision is any provision of an agreement that would (but for this *rule*) be rendered void by 16.9 that was agreed at a time when either:
- (a) the *firm* concerned did not satisfy any of the conditions set out in 16.3 to 16.4; or
 - (b) the *material risk taker* concerned satisfied both of the conditions set out in 16.7(1) and (2).
- (3) But an amendment to, or in relation to, a pre-existing provision is not to be treated as a pre-existing provision where the amendment is agreed at a time when both:
- (a) the *firm* concerned satisfies at least one of the conditions set out in 16.3 to 16.4; and
 - (b) the *material risk taker* concerned does not satisfy both of the conditions set out in 16.7(1) and (2).
- 16.13 For the purposes of this Chapter, it is immaterial whether the law which (apart from 16.9 to 16.16) governs a contravening provision is the law of the *UK*, or of a part of the *UK*.

Recovery of payments made or property transferred pursuant to a void contravening provision

- 16.14 In relation to any payment made or other property transferred in pursuance of a contravening provision other than a pre-existing provision, a *firm* must take reasonable steps to:
- (1) recover any such payment made or other property transferred by the *firm*; and
 - (2) ensure that any other *person* recovers any such payment made or other property transferred by that *person*.
- 16.15 16.14 continues to apply in one or both of the following cases:
- (1) the *firm* concerned ceases to satisfy any of the conditions set out in 16.3 to 16.4;
 - (2) the *material risk taker* concerned starts to satisfy both of the conditions set out in 16.7(1) and (2).

Replacing payments recovered or property transferred

- 16.16 (1) A *firm* must not award, pay or provide variable *remuneration* to a *person* who has received *remuneration* in pursuance of a contravening provision other than a pre-existing provision (the "contravening *remuneration*") unless the *firm* has obtained a legal opinion stating that the award, payment or provision of the *remuneration* complies with this Part.
- (2) This *rule* applies only to variable *remuneration* relating to a performance year to which the contravening *remuneration* related.
- (3) The legal opinion in (1) must be properly reasoned and be provided by an appropriately qualified independent individual.

- (4) Paragraph (1) continues to apply in one or both of the following cases:
- (a) the *firm* concerned ceases to satisfy any of the conditions set out in 16.3 to 16.4;
 - (b) the *material risk taker* concerned starts to satisfy both of the conditions set out in 16.7(1) and (2).

17 REMUNERATION BENCHMARKING REPORTING REQUIREMENT

- 17.1 This Chapter applies to a *firm* to which this Part applies, which had *total assets* equal to or greater than £50 billion on an unconsolidated basis on the *accounting reference date* immediately prior to the *firm's* last complete financial year.
- 17.2 A *firm* must submit a *Remuneration Benchmarking Information Report* to the *PRA* annually.
- 17.3 The *firm* must provide to the *PRA*, by way of its *Remuneration Benchmarking Information Report*, the information disclosed in accordance with the criteria for disclosure established in points (g), (h) and (i) of Article 450(1) of the *CRR*.

[Note: Art. 75(1) of the CRD]

- 17.4 The *firm* must submit the *Remuneration Benchmarking Information Report* to the *PRA* within four months of the *firm's* *accounting reference date*.
- 17.5 A *firm* that is not, and does not have, an *EEA parent institution*, an *EEA parent financial holding company* or an *EEA parent mixed financial holding company* must complete that report on an unconsolidated basis in respect of *remuneration* awarded to *employees* of the *firm* in the last completed financial year.
- 17.6 A *firm* that is a *CRR firm responsible for consolidation* must complete that report on a consolidated basis in respect of *remuneration* awarded to all *employees* of all *consolidation group entities* in the last completed financial year.
- 17.7 The *firm* must ensure that the information in the *Remuneration Benchmarking Information Report* is denominated in euro, determined by reference to the exchange rate used by the European Commission for financial programming and the budget for December of the reported year.

[Note: EBA/GL/2014/08]

18 HIGH EARNERS REPORTING REQUIREMENT

- 18.1 The Chapter applies in relation to *high earners* and not only in relation to *material risk takers*.
- 18.2 A *firm* must submit a *High Earners Report* to the *PRA* annually.
- 18.3 The *firm* must submit that report to the *PRA* within four months of the end of the *firm's* *accounting reference date*.
- 18.4 A *firm* that is not, and does not have, an *EEA parent institution*, an *EEA parent financial holding company* or an *EEA parent mixed financial holding company* must complete that report on an unconsolidated basis in respect of *remuneration* awarded in the last completed

financial year to all *high earners* of the *firm* who mainly undertook their professional activities within the *EEA*.

18.5 A *firm* that is a *CRR firm responsible for consolidation* must complete that report on a *consolidated basis* in respect of *remuneration* awarded in the last completed financial year to all *high earners* who mainly undertook their professional activities within the *EEA* at:

- (1) the *EEA parent institution*, *EEA parent financial holding company* or the *EEA parent mixed financial holding company* of the *consolidation group*;
- (2) each *consolidation group entity* that has its registered office (or if it has no registered office, its head office) in an *EEA State*; and
- (3) each *branch* of any other *consolidation group entity* that is established or operating in an *EEA State*.

18.6 The *firm's High Earners Report* must report, in pay brackets of €1m, the number of *high earners*, including their job responsibilities, the business area involved and the main elements of salary, bonus, long-term award and pension contribution. The number of *high earners* must be reported as the number of natural persons, independent of the number of working hours on which their contract is based.

[Note: Art. 75(3) of the CRD]

18.7 The *firm* must ensure that the information in the *High Earners Report* is denominated in euro, determined by reference to the exchange rate used by the European Commission for financial programming and the budget for December of the reported year.

[Note: EBA/GL/2014/07]

Annex B

Amendments to the Glossary

In the Glossary Part of the PRA Rulebook, insert the following new definitions:

consolidation group

means the *undertakings* included in the scope of consolidation pursuant to Articles 18(1), 18(8), 19(1), 19(3) and 23 of the *CRR* and Groups 2.1 to 2.3.

EEA parent financial holding company

means a *parent financial holding company in an EEA State* which is not a *subsidiary* of an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

EEA parent institution

means a *parent institution in an EEA State* which is not a *subsidiary* of another *institution* authorised in an *EEA State* or of a *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

EEA parent mixed financial holding company

means a *parent mixed financial holding company in an EEA State* which is not a *subsidiary* of an *institution* authorised in any *EEA State* or of another *financial holding company* or *mixed financial holding company* set up in any *EEA State*.

remuneration

means any form of remuneration, including salary, discretionary pension benefits and benefits of any kind.

third country CRR firm

means an *overseas firm* that:

- (1) is not an *EEA firm*;
- (2) has its head office outside the *European Economic Area*; and
- (3) would be a *CRR firm* if it had been a *UK undertaking*, had carried on all of its business in the *UK* and had obtained whatever authorisations for doing so as are required under *FSMA*.

Annex C

Amendments to the Remuneration Reporting Requirements Part

Remuneration Reporting Requirements is deleted in its entirety. This text is not shown.

Annex D

Amendments to the Internal Capital Adequacy Assessment Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

~~consolidation group~~

~~means the undertakings included in the scope of consolidation pursuant to Articles 18(1), 18(8), 19(1), 19(3) and 23 of the CRR and Groups 2.1-2.3.~~

...

Annex E

Amendments to the Notifications Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

~~consolidation group~~

~~means the undertakings included in the scope of consolidation pursuant to Articles 18(1), 18(8), 19(1), 19(3) and 23 of the CRR and Groups 2.1-2.3.~~

...

Annex F

Amendments to the Recovery Plans Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

~~EEA parent financial holding company~~

~~means a parent financial holding company in an EEA State which is not a subsidiary of an institution authorised in any EEA State or of another financial holding company or mixed financial holding company set up in any EEA State.~~

~~EEA parent institution~~

~~means a parent institution in an EEA State which is not a subsidiary of another institution authorised in an EEA State or of a financial holding company or mixed financial holding company set up in any EEA State.~~

~~EEA parent mixed financial holding company~~

~~means a parent mixed financial holding company in an EEA State which is not a subsidiary of an institution authorised in any EEA State or of another financial holding company or mixed financial holding company set up in any EEA State.~~

...

Annex G

Amendments to the Resolution Pack Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

~~EEA parent financial holding company~~

~~means a parent financial holding company in an EEA State which is not a subsidiary of an institution authorised in any EEA State or of another financial holding company or mixed financial holding company set up in any EEA State.~~

~~EEA parent institution~~

~~means a parent institution in an EEA State which is not a subsidiary of another institution authorised in an EEA State or of a financial holding company or mixed financial holding company set up in any EEA State.~~

~~EEA parent mixed financial holding company~~

~~means a parent mixed financial holding company in an EEA State which is not a subsidiary of an institution authorised in any EEA State or of another financial holding company or mixed financial holding company set up in any EEA State.~~

...

Annex H

Amendments to the Group Financial Support Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

~~EEA parent financial holding company~~

~~means a parent financial holding company in an EEA State which is not a subsidiary of an institution authorised in any EEA State or of another financial holding company or mixed financial holding company set up in any EEA State.~~

~~EEA parent institution~~

~~means a parent institution in an EEA State which is not a subsidiary of another institution authorised in an EEA State or of a financial holding company or mixed financial holding company set up in any EEA State.~~

~~EEA parent mixed financial holding company~~

~~means a parent mixed financial holding company in an EEA State which is not a subsidiary of an institution authorised in any EEA State or of another financial holding company or mixed financial holding company set up in any EEA State.~~

...

PRA PERIODIC FEES (2015/2016) AND OTHER FEES INSTRUMENT 2015

Powers exercised by the Prudential Regulation Authority

- A. The Prudential Regulation 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 137G (The PRA's general rules);
 - (2) section 137T (General supplementary powers); and
 - (3) paragraph 31 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZB (The Prudential Regulation Authority) of the Act.
- B. The rule making powers listed above are specified for the purpose of section 138G (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.

Amendments to the Handbook

- D. The Fees manual (FEES) is amended in accordance with the Annex to this instrument.

Commencement

- E. This instrument comes into force on 30 June 2015.

Citation

- F. This instrument may be cited as the PRA Periodic Fees (2015/2016) and Other Fees Instrument 2015.

By order of the Board of the Prudential Regulation Authority

26 June 2015

Annex

Amendments to the Fees manual (FEES)

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

3 Application, Notification and Vetting Fees

...

FEES 3 Annex 9 Special Project Fee for restructuring

(11) R	...	
	...	
(11) AR	Table of <i>PRA</i> hourly rates:	
	PRA pay grade	Hourly rate (£)
	Administrator	30
	Associate	55 <u>60</u>
	Technical Specialist	90
	Manager	115
	Any other person employed by the <i>PRA</i>	165 <u>170</u>
(12) G	...	

...

4 Annex 2B FEES 4 Annex 2B PRA fee rates and EEA/Treaty firm modifications for the period from ~~1 March 2014 to 28 February 2015~~ 1 March 2015 to 29 February 2016

Part 1
This table shows the tariff rates applicable to each of the fee blocks set out in Part 1 of FEES 4 Annex 1BR.

(1)	...
...	

Activity group	Fee payable		
A.1	Band width (£ million of Modified Eligible Liabilities (MELs))	Fee (£/£m or part £m of MELs)	
		General Periodic fee	
	>10 - 140	36.84 <u>38.87</u>	
	>140 - 630	36.84 <u>38.87</u>	
	>630 - 1,580	36.84 <u>38.87</u>	
	>1,580 - 13,400	46.04 <u>48.59</u>	
	>13,400	60.74 <u>64.14</u>	
A.3	Gross premium income (GPI)	Column 1 General periodic fee	Column 2 Solvency 2 implementation fee
	Minimum fee (£)	Not applicable	25.00
	Band Width (£ million of GPI)	Fee (£/£m or part £m of GPI)	
	>0.5 - 10.5	439.00 <u>494.15</u>	66.82 <u>70.02</u>
	>10.5 - 30	439.00 <u>494.15</u>	66.82 <u>70.02</u>
	>30 - 245	439.00 <u>494.15</u>	66.82 <u>70.02</u>
	>245 - 1,900	439.00 <u>494.15</u>	66.82 <u>70.02</u>
	>1,900	439.00 <u>494.15</u>	66.82 <u>70.02</u>
	Plus		
	Gross technical liabilities (GTL)	Column 1 General periodic fee	Column 2 Solvency 2 implementation fee
	Band Width (£ million of GTL)	Fee (£/£m or part £m of GTL)	
	>1 - 12.5	24.44 <u>27.31</u>	3.62 <u>3.75</u>
	>12.5 - 70	24.44 <u>27.31</u>	3.62 <u>3.75</u>
	>70 - 384	24.44 <u>27.31</u>	3.62 <u>3.75</u>
	>384 - 3,750	24.44 <u>27.31</u>	3.62 <u>3.75</u>
	>3,750	24.44 <u>27.31</u>	3.62 <u>3.75</u>

	For <i>UK ISPVs</i> the tariff rates are not relevant and a flat fee of £430.00 is payable in respect of each <i>fee year</i> .		
A.4	Adjusted annual gross premium income (AGPI)	Column 1 General periodic fee	Column 2 Solvency 2 implementation fee
	Minimum fee (£)	Not applicable	25.00
	Band Width (£ million of AGPI)	Fee (£/£m or part £m of AGPI)	
	>1 - 5	451.00 <u>499.65</u>	97.49 <u>104.61</u>
	>5 - 40	451.00 <u>499.65</u>	97.49 <u>104.61</u>
	>40 - 260	451.00 <u>499.65</u>	97.49 <u>104.61</u>
	>260 - 4,000	451.00 <u>499.65</u>	97.49 <u>104.61</u>
	>4,000	451.00 <u>499.65</u>	97.49 <u>104.61</u>
	PLUS		
A.4	Mathematical reserves (MR)	Column 1 General periodic fee	Column 2 Solvency 2 implementation fee
	Minimum fee (£)	Not applicable	25.00
	Band Width (£ million of MR)	Fee (£/£m or part £m of MR)	
	>1 - 20	40.44 <u>10.24</u>	2.26 <u>2.15</u>
	>20 - 270	40.44 <u>10.24</u>	2.26 <u>2.15</u>
	>270 - 7,000	40.44 <u>10.24</u>	2.26 <u>2.15</u>
	>7,000 - 45,000	40.44 <u>10.24</u>	2.26 <u>2.15</u>
	>45,000	40.44 <u>10.24</u>	2.26 <u>2.15</u>
A.5	Band Width (£ million of Active Capacity (AC))	Fee (£/£m or part £m of AC)	
	>50 - 150	55.10 <u>59.22</u>	
	>150 - 250	55.10 <u>59.22</u>	
	>250 - 500	55.10 <u>59.22</u>	
	>500 - 1,000	55.10 <u>59.22</u>	
	>1,000	55.10 <u>59.22</u>	

A.6	Flat fee	1,772,360.00 <u>1,895,574.68</u>
	Solvency 2 Implementation Flat Fee (£)	264,360.00 <u>268,659.70</u>
A.10	Band Width (No. of traders)	Fee (£/trader)
	2 - 3	4,951.00 <u>5,776.00</u>
	4 - 5	4,951.00 <u>5,776.00</u>
	6 - 30	4,951.00 <u>5,776.00</u>
	31 - 180	4,951.00 <u>5,776.00</u>
	>180	4,951.00 <u>5,776.00</u>

Part 2

This table sets out the tariff rate applicable to each of the fee blocks set out in Part 2 of FEES 4 Annex 1BR

PA.0	(1)	The minimum fee payable by any <i>firm</i> referred to in (3) is 500 unless:	
		(a)	...
		...	
PT.1	Periodic fees payable under Part 1 multiplied by rate £0.0639 <u>0.0626</u>		

Part 3

This table shows the modifications to fee tariffs that apply to *incoming EEA firms* and *incoming Treaty firms* which have established branches in the UK.

Activity Group	Percentage deducted from the tariff payable under Part 1 applicable to the <i>firm</i>
A.1	...
...	

**PRA RULEBOOK: CRR FIRMS NON-CRR FIRMS: INDIVIDUAL ACCOUNTABILITY 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 59 (Approval for particular arrangements);
- (2) section 60 (Applications for approval);
- (3) section 60A (Vetting of candidates by relevant authorised persons);
- (4) section 61 (Determination of applications);
- (5) section 62A (Changes of responsibilities of senior managers);
- (6) section 63F (Issuing of certificates);
- (7) section 64A (Rules of conduct);
- (8) section 64C (Requirement for relevant authorised persons to notify regulator of disciplinary action);
- (9) section 137G (The PRA's general rules);
- (10) section 137T (General supplementary powers); and

in exercise of the powers and related provisions in Articles, 2, 5, 6, 7, 8, 13, 15, 17, 19 and 20 of the Financial Services (Banking Reform) Act 2013 (Transitional and Savings Provisions) Order 2015 (SI 2015/492).

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 Article 5, Article 13 and Article 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: CRR Firms Non-CRR Firms: Individual Accountability Instrument (No 2) 2015

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

Commencement

E. Annexes A to H come into force on 7 March 2016. Annex I comes into force on 13 July 2015.

Citation

F. This instrument may be cited as the PRA Rulebook: CRR Firms Non-CRR Firms: Individual Accountability Instrument (No 2) 2015.

By order of the Board of the Prudential Regulation Authority

26 June 2015

Annex A

Amendments to the Glossary

In the Glossary Part of the PRA Rulebook, insert the following new definitions:

credit union non-executive director

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

notified non-executive director

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

Annex B

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

Part

SENIOR MANAGEMENT FUNCTIONS

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. GENERAL**
- 3. EXECUTIVE**
- 4. OVERSIGHT**
- 5. GROUP ENTITIES**
- 6. CREDIT UNIONS**
- 7. COMBINATION OF SENIOR MANAGEMENT FUNCTIONS**

Links

1 APPLICATION AND DEFINITIONS

....

1.2 In this Part, the following definitions shall apply:

...

FCA activities

means a function which would, except for SUP10C.9.8R of the *FCA Handbook*, be an FCA governing function.

FCA responsibilities

means any of ~~any of the functions referred to in~~

(1) the responsibilities referred to SYSC 4.7.7R (Table of FCA prescribed senior management responsibilities) of the *FCA Handbook*; and

(2) the responsibilities allocated under SYSC 4.7.8R of the *FCA Handbook* SYSC 4 Annex 1G (The main business areas and management functions of a relevant authorised person).

~~of the *FCA Handbook*~~

....

1.3 This Part does not apply to a function performed by:

...

(11) a *person* acting as an insolvency practitioner within the meaning of Article 3 of the Insolvency (Northern Ireland) Order 1989; or

(12) a *person* acting as a nominee in relation to a voluntary arrangement under Part II (5 Company Voluntary Arrangements) of the Insolvency (Northern Ireland) Order 1989.

2 GENERAL

...

2.4 (1) If a *person* has been approved to perform a *PRA senior management function* in relation to a *firm* and also performs a function which would, except for SUP10C.9.8R of the *FCA Handbook*, be an *FCA governing function* (~~such function, the *FCA activities*~~), performance of the *PRA senior management function* will include the performance of those *FCA activities*, provided the following conditions are met:

(a) the *PRA*'s approval to perform a *PRA senior management function* has been granted and continues in force;

(b) at the time of approval being granted by the *PRA*, that *person* was not subject to an *FCA approval* to perform ~~the~~ that particular *FCA governing function*;

- (c) the *firm* made the notification required by SUP10C.9.8 R (4) of the *FCA Handbook*; and
- (d) that *person* performs and is continuing to perform ~~the~~ these *FCA activities*.

....

2.6 If a *PRA approved person*:

- (1) (other than in the circumstances set out in 2.4 or 2.5), performs one or more *FCA responsibilities* ~~allocated under SYSC 4.7.5R of the *FCA Handbook*~~;

...

4 OVERSIGHT

....

4.3 The *Chairman of Risk Committee function* (SMF10) is the function of having responsibility for chairing, and overseeing the performance of any committee responsible for the oversight of the risk management systems, policies and procedures of a *firm* specified in Risk Control 2 SYSC 7.1 of the *PRA Handbook*, including where applicable to the *firm*, a committee established in accordance with Risk Control 3.1 SYSC 7.1.18R of the *PRA Handbook*.

4.4 The *Chairman of Audit Committee function* (SMF11) is the function of having responsibility for chairing, and overseeing the performance of any committee responsible for the oversight of the internal audit system of a *firm* specified in Compliance and Internal Audit 2 SYSC 6.2 of the *PRA Handbook*.

4.5 The *Chairman of Remuneration Committee function* (SMF12) is the function of having responsibility for chairing, and overseeing the performance of any committee responsible for the oversight of the design, and the implementation of the remuneration policies of a *firm*, including where applicable to the *firm*, a committee established in accordance with Remuneration 7.4 SYSC 19A.3.12R of the *PRA Handbook*.

...

Annex C

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

Part

ALLOCATION OF RESPONSIBILITIES

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. STATEMENT OF RESPONSIBILITIES**
- 3. ALLOCATION OF RESPONSIBILITIES**
- 4. PRESCRIBED RESPONSIBILITIES**
- 5. PRESCRIBED RESPONSIBILITIES: SMALL FIRMS**
- 6. RECORDS**
- 7. CHAIRMAN'S OFFICE**

Links

1 APPLICATION AND DEFINITIONS

....

1.2 In this Part, the following definitions shall apply:

~~ancillary services~~

~~means any of the services listed in Section B of Annex I to MiFID.~~

...

~~FCA other overall responsibility significant responsibility senior management function~~

~~means the FCA controlled function specified in SUP10C.7.1R of the FCA Handbook.~~

~~FCA business functions~~

~~means any of the functions set out in SUP10C Annex 1R of the FCA Handbook.~~

~~FCA responsibilities~~

~~means any of the functions set out in~~

~~(1) any of the responsibilities set out in SYSC 4.7.7R (Table of FCA Prescribed senior management responsibilities) of the FCA Handbook; and~~

~~(2) any responsibility allocated under SYSC 4.7.8R of the FCA Handbook (SYSC 4 Annex 1G (The main business activities and functions of a relevant authorised person).~~

~~of the FCA Handbook.~~

....

~~ring-fencing obligation requirement~~

~~means any obligation, prohibition or other requirement imposed on a ring-fenced body by or under FSMA, by virtue as a consequence of it being a ring-fenced body, including any statutory instrument made under FSMA and any ring-fencing rule, but not including any rule made by the FCA ring-fencing rule or under s142G of FSMA.~~

....

1.3 This Part does not apply to a function performed by:

...

(3) a person acting as an insolvency practitioner within the meaning of Article 3 of the Insolvency (Northern Ireland) Order 1989;-or

(4) a person acting as a nominee in relation to a voluntary arrangement under Part II (Company Voluntary Arrangements) of the Insolvency (Northern Ireland) Order 1989.

2 STATEMENT OF RESPONSIBILITIES

...

- 2.4 (1) A firm must have, at all times, a complete set of current and up to date statements of responsibilities for all persons approved to perform a PRA senior management function on its behalf.
- (2) A firm must prepare a statement of responsibilities for each PRA approved person as a single document covering every PRA senior management function and FCA designated senior management function for which
- (a) the PRA approved person has approval from the PRA or the FCA, as the case may be, to perform; or
- (b) an application for approval is being made.

3 ALLOCATION OF RESPONSIBILITIES

....

- 3.4 A firm which is a ring-fenced body must ensure that the ring-fenced body prescribed responsibility is allocated to each person who:
- (1) performs a PRA senior management function or, subject to 3.5(1), an FCA designated senior management function; and
- (2) is responsible for managing any area of the ring-fenced body's business that is subject to a ring-fencing obligation requirement
- on behalf of the firm.
- 3.5 (1) A firm must not allocate a prescribed responsibility to a person who performs an FCA other overall significant responsibility senior management function.
- (2) A small CRR firm or a credit union must not allocate a small firm prescribed responsibility to a person who performs an FCA other overall significant responsibility senior management function.

4 PRESCRIBED RESPONSIBILITIES

- 4.1 Each of the responsibilities set out in this rule is a *prescribed responsibility*:

...

- (4) ~~responsibility for the allocation of all prescribed responsibilities in accordance with 3.1;~~

responsibility for the firm's performance of its obligations under Fitness and Propriety in respect of its notified non-executive directors;

...

- (15) responsibility for safeguarding the independence of, and overseeing the performance of, the internal audit function, including the performance of a *person* approved to perform the *Head of Internal Audit function* on behalf of the *firm*, in accordance with Compliance and Internal Audit 3 SYSC 6.2 (audit) of the PRA Handbook;
- (16) responsibility for safeguarding the independence of, and overseeing the performance of, the compliance function, including the performance of a *person* approved by the *FCA* to perform the *compliance oversight function* on behalf of the *firm*, in accordance with Compliance and Internal Audit 2 SYSC 6.1 (Compliance) of the PRA Handbook;
- (17) responsibility for safeguarding the independence of, and overseeing of the performance of, the risk function , including the performance of a *person* approved to perform the *Chief Risk function* on behalf of the *firm*, in accordance with Risk Control 3.4 and 3.5 SYSC 7.1.21R and SYSC 7.1.22R (Risk control) of the PRA Handbook;
- (18) responsibility for overseeing the development of, developing and overseeing implementation of the *firm's* remuneration policies and practices in accordance with Remuneration;
- ...
- (20) responsibility for the allocation of all prescribed responsibilities in accordance with 3.1.

4.2 Each of the responsibilities set out in this rule is a *prescribed responsibility* in the circumstances specified:

- ...
- (2) if the *firm* does not have a *person* who performs the *Chief Risk function*, responsibility for the compliance of the *firm's* risk management systems, policies and procedures with the requirements of Risk Control 2.1 to 2.4 SYSC 7.1.2R to SYSC 7.1.5R of the PRA Handbook;
- ...
- (4) if the *firm* is a *ring-fenced body*, responsibility for ensuring that those aspects of the *firm's* affairs for which a *person* is responsible for managing are in compliance with the *ring-fencing obligations requirements*.
- ...

6 RECORDS

6.2 A *management responsibilities map* must in particular include:

- (1) the names of all the *firm's approved persons* (including *FCA approved persons*), *notified non-executive directors, credit union non-executive directors and senior management* and the responsibilities held by each, including all ~~*FCA business functions and FCA responsibilities*~~;

....

Annex D

Amendments to the Certification Part

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

Part

CERTIFICATION

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. PERFORMANCE OF CERTIFICATION FUNCTIONS**

Links

1 APPLICATION AND DEFINITIONS

1.1 ...

...

1.3 This Part does not apply to a function performed in relation to the firm by:

...

- (3) a *person* acting as an insolvency practitioner within the meaning of Article 3 of the Insolvency (Northern Ireland) Order 1989;~~or~~
- (4) a *person* acting as a nominee in relation to a voluntary arrangement under Part II (Company Voluntary Arrangements) of the Insolvency (Northern Ireland) Order 1989;
- (5) a PRA approved person;
- (6) a person who performs an FCA controlled function; or
- (7) a non-executive director in relation to their non-executive director function.

...

Annex E

Amendments to the Fitness and Propriety Part

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

Part

FITNESS AND PROPRIETY

Chapter content

1. APPLICATION AND DEFINITIONS
2. FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS
3. CONDUCT STANDARDS
4. NOTIFIED NON-EXECUTIVE DIRECTORS – NOTIFICATIONS
5. [REGULATORY REFERENCES - not yet in force]
6. FITNESS AND PROPRIETY TRANSITIONAL PROVISIONS

Links

1 APPLICATION AND DEFINITIONS

...

1.3 In this Part, the following definitions shall apply:

continued approval

has the meaning in Senior Managers Regime – Transitional Provisions 1.2.

...

2 FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS

2.1 ~~(1)~~ A *firm* must not make a *senior management application* in relation to a *person* unless it is satisfied that *person* is fit and proper to perform the *PRA senior management function* to which the application relates.

2.2 ~~(2)~~ A *firm* must not issue a *certificate* in relation to a *person*, unless it is satisfied that *person* is fit and proper to perform the *certification function* to which the *certificate* relates.

2.3 A *firm* must not appoint a *person* as a *notified non-executive director* or *credit union non-executive director*, unless it is satisfied that *person* is fit and proper to perform that *non-executive director* role.

2.4 A *firm* must ensure that each member of its *management body* is at all times fit and proper.

[Article 91(1) CRD IV]

2.5 ~~(3)~~ In deciding whether a *person* is fit and proper, a *firm* must be satisfied that the *person*:

...

2.6 Before deciding whether a *person* is fit and proper, a *firm* must take reasonable steps to obtain appropriate references covering at least the past 5 years from that *person's* current and previous employers, and from organisations at which that *person* served as, or is currently, a non-executive director.

2.7 ~~(5)~~ In deciding whether a *person* (P) is fit and proper in connection with a *senior management application* or on appointment as a *notified non-executive director* or *credit union non-executive director*, a *firm* must:

...

2.8 If a *firm* engages a *person* for a continuous period of time it is only required to comply with 2.6 and 2.7 the first time it determines that *person* is fit and proper in relation to a *senior management function*, *non-executive director function* or *certification function*.

3 CONDUCT STANDARDS

- 3.1 A firm must contractually require any PRA approved person, notified non-executive director or credit union non-executive director to:
- (a) act with integrity;
 - (b) act with due skill, care and diligence;
 - (c) be open and co-operative with the FCA, the PRA and other regulators; and
 - (d) disclose appropriately any information to the FCA or PRA which they would reasonably expect notice.
- 3.2 A firm must contractually require any PRA approved person to:
- (a) take reasonable steps to ensure that the business of the firm for which they are responsible is controlled effectively;
 - (b) take reasonable steps to ensure that the business of the firm for which they are responsible complies with relevant requirements and standards of the regulatory system; and
 - (c) take reasonable steps to ensure that any delegation of their responsibilities is to an appropriate person and that they oversee the discharge of the delegated responsibility effectively.

4 NOTIFIED NON-EXECUTIVE DIRECTORS - NOTIFICATIONS

- 4.1 This chapter applies to CRR firms only.
- 4.2 A firm must notify the PRA when a person becomes a notified non-executive director and shall provide the PRA with all of the information needed to assess whether that person is fit and proper.
- 4.2 If the notification referred to in 4.2 is in respect of a person who, on becoming a notified non-executive director, ceases to perform a PRA senior management function or an FCA designated senior management function, the firm is not required to provide information needed to assess the fitness and propriety of that person unless there has been a change in the information provided in respect of that person regarding fitness and propriety provided to the PRA or the FCA at the time the application for the approval for performance of the PRA senior management function or the FCA designated senior management function was made.
- 4.3 If a firm becomes aware of information which would reasonably be material to the assessment of a current or former notified non-executive director's fitness and propriety under this Part, it must inform the PRA in writing as soon as practicable.
- 4.4 Where a firm replaces a notified non-executive director because the firm considers that person no longer fulfils the requirements of 2.4, the firm must notify the PRA as soon as reasonably practicable.
- 4.5 Where a notified non-executive director assumes a new role with the firm or ceases to be a director of the firm, the firm must notify the PRA in writing as soon as reasonably practicable.

5 [NOT YET IN FORCE]

6 FITNESS AND PROPRIETY TRANSITIONAL PROVISIONS

- 6.1 The requirement to obtain regulatory references in accordance with 2.6 does not apply to a *firm* in respect of any *person* to the extent that:
- (a) the *firm* is deciding whether the *person* is fit and proper for the purpose of issuing a *certificate*;
 - (b) the *person* will be performing a *certification function* from 7 March 2016; and
 - (c) immediately prior to 7 March 2016, the *person* performed the same function for the *firm*.
- 6.2 The requirement to obtain regulatory references in accordance with 2.6 does not apply to a *firm* in respect of any *person* who has *continued approval*.
- 6.3 The requirements of 2.3, 2.6, 2.7 and 4.2 do not apply to a *director* who, in relation to the *firm*:
- (a) on 7 March 2016 is a *notified non-executive director* or *credit union non-executive director*; and
 - (b) immediately prior 7 March 2016, was approved as a *non-executive director* or *credit union non-executive director*.
- 6.4 A *CRR firm* must notify the PRA before 7 March 2016 of any *director* who, in relation to the *firm*, will be a *notified non-executive director* on 7 March 2016 and who immediately prior to 7 March 2016 was approved as a *non-executive director*.

Annex F

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

Part

CONDUCT RULES

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. INDIVIDUAL CONDUCT RULES**
- 3. SENIOR MANAGER CONDUCT RULES**

Links

1 APPLICATION AND DEFINITIONS

- 1.1 (1) This Part applies to every function a *person* (P) performs in relation to a *firm* (A) that is:
- (a) a *CRR firm*;
 - (b) a *credit union*; or
 - (c) [not yet in force].
- (2) This Part only applies if P:
- (a) is approved under section 59 of *FSMA* to perform a *senior management function* in relation to A;
 - (b) is an *employee* of A that should have been so approved;
 - (c) is an *employee* who is performing a function that would have been a controlled function but for *Senior Management Functions 2.3*; or
 - (d) performs a *certification function* in relation to A.
- (3) Chapter 3 only applies to a *person* in (2)(a) or (b).

1.2 In this Part, the following definitions shall apply:

employee

has the meaning given in Certification 1.3.

FCA designated senior management function

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

senior management function

means either a *PRA senior management function* or an *FCA designated senior management function*.

2 INDIVIDUAL CONDUCT RULES

- 2.1 **Individual Conduct Rule 1:** You must act with integrity.
- 2.2 **Individual Conduct Rule 2:** You must act with due skill, care and diligence.
- 2.3 **Individual Conduct Rule 3:** You must be open and co-operative with the *FCA*, the *PRA* and other regulators.

3 SENIOR MANAGER CONDUCT RULES

- 3.1 **Senior Manager Conduct Rule 1:** You must take reasonable steps to ensure that the business of the *firm* for which you are responsible is controlled effectively.
- 3.2 **Senior Manager Conduct Rule 2:** You must take reasonable steps to ensure that the business of the *firm* for which you are responsible complies with the relevant requirements and standards of the *regulatory system*.
- 3.3 **Senior Manager Conduct Rule 3:** You must take reasonable steps to ensure that any delegation of your responsibilities is to an appropriate *person* and that you oversee the discharge of the delegated responsibility effectively.
- 3.4 **Senior Manager Conduct Rule 4:** You must disclose appropriately any information of which the *FCA* or *PRA* would reasonably expect notice.

Annex G

Amendments to Notifications Part

In this Annex, new text is underlined.

Part

NOTIFICATIONS

Chapter content

1. APPLICATION AND DEFINITIONS
2. GENERAL NOTIFICATION REQUIREMENTS
3. LLOYD'S OF LONDON
4. NOTIFIED PERSONS
5. CORE INFORMATION REQUIREMENTS
6. INACCURATE, FALSE OR MISLEADING INFORMATION
7. FORM AND METHOD OF NOTIFICATION
8. SPECIFIC NOTIFICATIONS
9. FINANCIAL CONGLOMERATE NOTIFICATIONS
10. FORMS
11. CONDUCT RULES: NOTIFICATIONS

Links

Annex B
Amendments to Notifications Part

In the Notifications Part of the PRA Rulebook, insert the following new definitions in 1.2 and new chapter 11.

1 APPLICATION AND DEFINITIONS

1.2 disciplinary action

has the meaning given in section 64C of FSMA.

conduct rules

means the rules in Conduct Rules 2 and 3.

...

11 CONDUCT RULES: NOTIFICATIONS

11.1 This Chapter applies to every firm that is:

(a) a CRR firm;

(b) a credit union; or

(c) [not yet in force].

11.2 If a firm knows or suspects that a person has failed to comply with any conduct rules it must notify the PRA.

11.3 If a firm is required to notify the PRA in compliance with 11.2 based on a suspicion, it must notify the PRA of any subsequent determination it makes in relation to that matter.

11.4 If a firm is required to notify the PRA in compliance with 11.2 to 11.3 based on a determination, it must notify the PRA of any different determination it subsequently makes in relation to that matter.

11.5 If a firm takes disciplinary action against a person relating to any action, failure to act, or circumstance that amounts to a breach of any conduct rule it must notify the PRA.

11.6 If a firm is required to notify the PRA under 11.2 to 11.5 in respect of persons performing certification functions, it must do so within seven business days of the point at which it determined the relevant requirement applied, by submitting Form L. A firm must not unreasonably delay its determination of whether or not the requirement applies.

11.7 If a firm is required to notify the PRA under 11.2 – 11.5 in respect of a person performing a senior management function, it must do so within seven business days of the point at which it determined the relevant requirement applied, by submitting:

(1) if the circumstances set out in Senior Managers Regime – Applications and Notifications 5.2 apply, Form C;

(2) and in all other cases, Form D.

A firm must not unreasonably delay its determination of whether or not the requirement applies.

11.8 If a *firm* becomes aware of information which would reasonably be material to the assessment of the fitness and propriety of a *PRA approved person*, or a *person* in respect of whom an application for approval to perform a *PRA senior management function* has been made, it must inform the *PRA* on Form D, or (if it is more practical to do so and with the prior agreement of the *PRA*) by fax or e-mail, as soon as practicable.

11.9 A *firm* other than a *credit union* must submit:

- (1) Form C and Form D using the *ONA system*; and
- (2) Form L using the *PRA* email address specified in Form L.

11.10 A *credit union* must submit:

- (1) Form C and Form D using the *ONA system* or in the manner set out in Notifications 7;
- (2) Form L using the *PRA* email address specified in Form L.

11.11 If, under any rule in this Chapter:

- (1) a *firm* is required to make a notification; and
- (2) the information technology systems used by the *PRA* fail and online submission is unavailable for 24 hours or more,

until such time as facilities for online submission are restored a *firm* must submit the specified form in the way set out in Notifications 7.

11.12 (1) Form C may be found [here](#).

(2) Form D may be found [here](#).

(3) Form L may be found [here](#).

Annex H

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

Part

SENIOR MANAGERS REGIME – APPLICATIONS AND NOTIFICATIONS

Chapter content

1. APPLICATION AND DEFINITIONS
2. APPLICATION TO PERFORM A PRA SENIOR MANAGEMENT FUNCTION
3. APPLICATION TO VARY A CONDITIONAL APPROVAL
4. WITHDRAWAL OF A SENIOR MANAGEMENT APPROVAL APPLICATION OR AN APPLICATION TO VARY A CONDITIONAL APPROVAL
5. CEASING TO PERFORM A PRA SENIOR MANAGEMENT FUNCTION
6. CHANGE IN DETAILS OR RESPONSIBILITIES RELATING TO PRA APPROVED PERSON
7. PROCEDURE FOR MAKING APPLICATIONS AND NOTIFICATIONS
8. FORMS

Links

Annex

Senior Managers Regime – Applications and Notifications Part

1 APPLICATION AND DEFINITIONS

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

- (1) a *CRR firm*; and
- (2) a *credit union*.

1.2 In this Part, the following definitions shall apply:

commencement date

means 7 March 2016.

current approved person approval

means

- (1) an approval granted to a *person* under section 59 of *FSMA* (Approval for particular arrangements):
 - (a) by the *PRA* for the performance of a *PRA senior management function*; or
 - (b) by the *FCA* for the performance for the performance of an *FCA designated senior management function* or a *significant influence function*;
- (2) a deemed approval given by either the *PRA* following the submission of a *grandfathering notification* under Senior Managers Regime (Transitional Provisions) or by the *FCA* under any equivalent rules in the *FCA Handbook*; or
- (3) for the purposes of 2.5(2) and 2.6(1)(a), an approval granted to that *person* under section 59 of *FSMA* by either the *PRA* or the *FCA* to perform a *controlled function* as defined in section 59 of *FSMA* prior to the *commencement date* but which ceased (i) on or before the *commencement date*; and (ii) during the period specified in 2.5(2) or 2.6(1)(a), as the case may be.

FCA designated senior management function

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

grandfathering notification

has the meaning given in Senior Managers Regime – Transitional Provisions.

management responsibilities map

has the meaning given in Allocation of Responsibilities 6.

regulatory body

means any authority, body or *person* having, or who has had, responsibility for the supervision or regulation of any *regulated activities* or other financial services, whether within the *United Kingdom* or overseas.

PRA senior management approval application

means an application for approval to perform a *PRA senior management function* under section 59 of *FSMA*.

significant influence function

has the meaning given in the *FCA Handbook*.

statement of responsibilities

has the meaning given in Allocation of Responsibilities 1.

2 APPLICATION TO PERFORM A PRA SENIOR MANAGEMENT FUNCTION

- 2.1 The *PRA* directs that a *firm* must make a *PRA senior management approval application* in accordance with 2.2, before the activities requiring approval commence.
- 2.2 The *PRA* directs that a *firm* must use form A (long form) for a *PRA senior management approval application* unless
- (1) the *firm* must use Form E under 2.3; or
 - (2) the *firm* must use Form A (shortened form) under 2.6.
- 2.3 The *PRA* directs that, subject to 2.4 and 2.5, a *firm* must use Form E for a *PRA senior management approval application* if the *PRA senior management approval application* is in respect of a *person* who has a *current approved person approval* and is either:
- (1) ceasing to perform a *PRA senior management function* and taking up a new *PRA senior management function* for the same *firm* or another member of its *group*; or
 - (2) ceasing to perform an *FCA designated senior management function* or *significant influence function* and taking up a *PRA senior management function* for the *firm* or another member of its *group*.
- 2.4 The *PRA* directs that a *firm* must not use Form E for a *PRA senior management approval application* if:
- (1) a notification has been made or should be made to the *PRA* or *FCA* under any of the following:
 - (a) section 63(2A) of *FSMA* (Duty to notify regulator of grounds for withdrawal of approval);
 - (b) section 64B(5) of *FSMA* (Notification of non-compliance with Conduct Rules or equivalent *FCA* rules);
 - (c) section 64C of *FSMA* (Requirement for relevant authorised persons to notify regulator of disciplinary action);

- (2) a notification has been made or should be made to the *PRA* under any of the rules in Notifications 11 or to the *FCA* under any equivalent provisions of the *FCA Handbook*; or
- (3) any of the circumstances in 5.2 apply in relation to:
 - (a) any *PRA senior management function* or *FCA designated senior management function* or *significant influence function* that that *person* is ceasing to perform; or
 - (b) any *PRA senior management function* or *FCA designated senior management function* or *significant influence function* that the *person* is continuing to perform in relation to that *firm* or a *firm* in the same *group*.

2.5 The *PRA* directs that a *firm* must not use form E if the *person* to whom the *PRA senior management approval application* relates:

- (1) has never before been approved:
 - (a) by the *PRA* to perform a *PRA senior management function*; or
 - (b) by the *FCA* to perform an *FCA designated senior management function* or a *significant influence function*for any *firm*;
or
- (2) has not been the subject of a *current approved person approval* in relation to any *firm* for more than six *months* prior to the date of application.

- 2.6 (1) The *PRA* directs that a *firm* must use form A (shortened form) for a *PRA senior management approval application* if
- (a) the *person* to whom the application relates:
 - (a) has at the time of application a *current approved person's approval*; or
 - (b) has had a *current approved person's approval* within the previous six months; and
 - (b) there have been no matters arising in relation to the fitness and propriety of the *person* to whom the *PRA senior management approval application* relates which mean that the information provided to the *FCA* or *PRA* regarding fitness and propriety in connection with a *current approved person's approval* may have changed since the application for the *current approved person's approval* was made.
- (2) A *firm* must not use Form A (shortened form) if the circumstances set out in 2.3 apply.
- 2.7 (1) The *PRA* directs that the form submitted for a *PRA senior management approval application* must be accompanied by a *statement of responsibilities* in accordance with Allocation of Responsibilities 2.1.

(2) A *statement of responsibilities* must be in the form set out [here](#).

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.

3 APPLICATION TO VARY A CONDITIONAL APPROVAL

3.1 A *firm* making an application to the *PRA* under section 63ZA of *FSMA* (for the variation of a conditional approval) must do so by submitting

(1) Form I; and

(2) a *statement of responsibilities* for the *PRA-approved person* concerned.

4 WITHDRAWAL OF A PRA SENIOR MANAGEMENT APPROVAL APPLICATION OR OF AN APPLICATION TO VARY A CONDITIONAL APPROVAL

4.1 The *PRA* directs that a *firm* withdrawing an outstanding *PRA senior management approval application* must do so using Form B.

4.2 A *firm* withdrawing an application made under section 63ZA of *FSMA* (Variation of senior managers approval at request of relevant authorised person) must do so using Form B.

5 CEASING TO PERFORM A PRA SENIOR MANAGEMENT FUNCTION

5.1 (1) A *firm* must notify the *PRA* no later than seven *business days* after a *person* ceases to perform a *PRA senior management function*, using:

(a) Form E if a *person* ceases to perform a *PRA senior management function* and the *firm* is also making an application for the same *person* to perform another *PRA senior management function*; and

(b) in all other cases, Form C.

5.2 (1) A *firm* must notify the *PRA* as soon as practicable after it becomes aware, or has information which reasonably suggests, that it will submit a qualified Form C in respect of a *PRA approved person*.

(2) Form C is qualified if the information it contains:

(a) relates to the fact that the *firm* has dismissed, or suspended, the *PRA approved person* from its employment;

(b) relates to the resignation by the *PRA approved person* while under investigation by the *firm*, the *PRA* or any other *regulatory body*;

(c) includes a notification under any of the provisions set out in 2.4(1) and (2); or

(d) otherwise reasonably suggests that it may affect the *PRA's* assessment of the *PRA approved person's* fitness and propriety.

- 5.3 If a *PRA approved person* ceases to perform a *PRA senior management function* for a *firm* but continues to perform one or more *PRA senior management function* for the same *firm*, the *firm* must submit a revised *statement of responsibilities* for the remaining *PRA senior management function(s)*, using Form J.

6 CHANGE IN DETAILS OR RESPONSIBILITIES RELATING TO PRA APPROVED PERSONS

- 6.1 If a *PRA approved person's* title, name or national insurance number changes, the *firm* for which the *person* performs a *PRA senior management function* must notify the *PRA* of that change within seven *business days* of the *firm* becoming aware of the matter, using Form D.
- 6.2 If, in relation to a *firm* which has submitted an application on either Form A or Form E, as required by 2.2, any of the details relating to arrangements and *PRA senior management functions* are to change, the *firm* must notify the *PRA* using Form D as soon as reasonably practicable after the *firm* becomes aware of the proposed change.
- 6.3 (1) The *PRA* directs that if a *firm* is required to submit a revised *statement of responsibilities* under section 62A of FSMA, it must do so by submitting Form J with the revised *statement of responsibilities*.
- (2) A *firm* must not use Form J where the revisions are to be made as part of arrangements involving an application:
- (a) for approval for the *person* performing the *PRA senior management function* concerned to perform another *PRA senior management function* or *FCA designated senior management function* for the same *firm*; or
 - (b) to vary (under section 63ZA of FSMA) an approval for the *person* performing the *PRA senior management function* concerned to perform another *PRA senior management function* or *FCA designated senior management function* for the same *firm*.

7 PROCEDURE FOR MAKING APPLICATIONS AND NOTIFICATIONS

- 7.1 (1) The *PRA* directs that:
- (a) a *firm* other than a *credit union* must make any applications, notifications or submissions required by this Part by submitting the form specified using the *ONA system*; and
 - (b) a *credit union* must make any applications, notifications or submissions required by this Part by submitting the form specified:
 - (i) using the *ONA system*; or
 - (ii) in the manner set out in Notifications 7.
- 7.2 If, under any direction or rule in this Chapter:
- (1) a *firm* is required to make an application, notification or submission online; and

- (2) the information technology systems used by the *PRA* fail and online submission is unavailable for 24 hours or more,

until such time as facilities for online submission are restored a *firm* must submit the specified form in the way set out in Notifications 7.

8 FORMS

- 8.1 (1) Form A may be found [here](#).
- (2) Form B may be found [here](#).
- (3) Form C may be found [here](#).
- (4) Form D may be found [here](#).
- (5) Form E may be found [here](#).
- (6) Form I may be found [here](#).
- (7) Form J may be found [here](#).
- (8) Form L may be found [here](#).

Annex I

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

Part

SENIOR MANAGERS REGIME -TRANSITIONAL PROVISIONS

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. GENERAL**
- 3. GRANDFATHERING NOTIFICATION REQUIREMENTS**
- 4. PROCEDURE FOR MAKING GRANDFATHERING NOTIFICATIONS**
- 5. UPDATING A GRANDFATHERING NOTIFICATION**
- 6. TABLE OF FUNCTIONS FOR GRANDFATHERING**
- 7. APPLICATIONS TO TAKE EFFECT FROM THE COMMENCEMENT DATE**
- 8. FORMS**

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* that is:

- (1) a *CRR firm*; or
- (2) a *credit union*.

1.2 In this Part, the following definitions shall apply:

candidate

means a *person* in respect of whom a *firm* has made a *pending application*.

commencement date

means 7 March 2016.

continued approval

means approval to perform a *PRA senior management function* under section 59 of FSMA, granted pursuant to a *grandfathering notification*.

equivalent function

means a *PRA senior management function* or *FCA-designated senior management function* that is specified in 6 as equivalent for the purposes of articles 2(3)(b) and 11(c) of the *Transitional Order*, to a *pre-implementation controlled function*.

FCA controlled function

means a *controlled function* specified by the *FCA* under section 59 of *FSMA*.

FCA-designated senior management function

means any of the functions specified in column 3 (FCA-designated senior management functions) of the table set out in 6.

grandfathering notification

means a notice required to be sent to the *PRA* under article 2(1) or 11(b) of the *Transitional Order*, including any update to such a notice.

management responsibilities map

has the meaning given in Allocation of Responsibilities 6.

pending application

means an application for approval under section 60 of *FSMA* which:

- (1) has been received by the *FCA* or *PRA* from the *firm* on or before the *commencement date*, and
- (2) has not been determined or withdrawn.

PRA senior management function

means a function specified as a *controlled function* in Senior Management Functions 2 in relation to the carrying on of a *regulated activity* by a *firm*.

pre-implementation controlled function

means any of the *controlled functions* listed in column 1 of the table in 6.

statement of responsibilities

means a statement pursuant to article 2(3)(c) or 11(d) of the *Transitional Order* setting out the aspects of the affairs of the *firm* which it is intended that each relevant *person* will be responsible for managing in performing the notified functions.

Transitional Order

means the Financial Services (Banking Reform) Act 2013 (Transitional and Savings Provisions) Order 2015 (SI 2015/492).

2 GENERAL

- 2.1 The *PRA* directs that a *firm* must make a *grandfathering notification* using Form K before 8 February 2016.
- 2.2 The *PRA* directs that the notice required by article 6(1) of the *Transitional Order* must be provided to the *PRA* using Form K.
- 2.3 The *PRA* directs that the notice required by article 11(b) of the *Transitional Order* in respect of a *candidate* for whom *continued approval* is sought must be provided to the *PRA* in Form K as part of a *grandfathering notification*.

3 GRANDFATHERING NOTIFICATION REQUIREMENTS

- 3.1 A *firm* must ensure that the *grandfathering notification* sets out, in respect of each *approved person* or *candidate*:
- (1) each of the *pre-implementation controlled functions* for which the *person* is approved, or (in the case of a *candidate*) has a *pending application*, in relation to the *firm*;
 - (2) each *PRA senior management function* to be performed by the *person* on and after the *commencement date* in relation to the *firm*; and
 - (3) each *FCA-designated senior management function* (if any) to be performed by the *person* on and after the *commencement date* in relation to the *firm*.
- 3.2 The *PRA* directs that a *firm* must not specify in a *grandfathering notification* a *PRA senior management function* or an *FCA-designated senior management function* for a *person* which is not an *equivalent function* in the table in 6 or the table in FCA SUP TP 6.2.7 in relation to:
- (1) (for an *approved person*) any *pre-implementation controlled functions* for which the *person* has approval in relation to the *firm*; or
 - (2) (for a *candidate*) any *pre-implementation controlled functions* in respect of which there is a *pending application*.

3.3 The *PRA* directs that:

- (1) a *statement of responsibilities* must be submitted with the *grandfathering notification* in respect of each *approved person* or *candidate* for whom *continued approval* is sought; and
- (2) the *firm* must submit a *management responsibilities map*, showing the role of each *approved person* or *candidate* as at the *commencement date*, including the *person(s)* subject to the *grandfathering notification*.

3.4 The *PRA* directs that a *firm* must list in the *grandfathering notification* each *approved person* or *candidate* who, on the *commencement date*, will be acting in the capacity of a *non-executive director* but who will not be performing a *PRA senior management function* or *FCA designated senior management function*.

4 PROCEDURE FOR MAKING GRANDFATHERING NOTIFICATIONS

4.1 The *PRA* directs that, save as required by 4.2 :

- (1) A *firm* other than a *credit union* must make any applications, notifications or submissions, including updates, required by this Part using the *ONA system*; and
- (2) a *credit union* must make any applications, notifications or submissions, including updates, required by this Part:
 - (a) using the *ONA system*; or
 - (b) in the manner set out in Notifications 7.

4.2 If, under any direction or rule in this Chapter,

- (1) a *firm* is required to make an application, notification or submission online; and
- (2) the information technology systems used by the *PRA* fail, and online submission is unavailable for 24 hours or more,

until such time as facilities for online submission are restored a *firm* may submit the specified form in accordance with Notifications 7 (Form and method of notification).

5 UPDATING A GRANDFATHERING NOTIFICATION

5.1 The *PRA* directs that if, before the *commencement date*, there has been a significant change to the matters covered by any *statement of responsibilities* or the *management responsibilities map* provided pursuant to 3.3, the *firm* must provide a revised version to the *PRA* in accordance with the procedure in 4.

6 TABLE OF EQUIVALENT FUNCTIONS FOR GRANDFATHERING

- 6.1 The *PRA senior management functions* set out in column 2 of the table are specified as *equivalent functions*, in each case in relation to the *pre-implementation controlled functions* set out in the corresponding row of column 1 of the table below.
- 6.2 The *FCA functions* set out in column 3 of the table are specified as *equivalent functions*, in each case, in relation to the *pre-implementation controlled functions* set out in the corresponding row of column 1 of the table below.

Column 1	Column 2	Column 3
Pre-implementation PRA or FCA Controlled Function	PRA Senior Management Function	FCA-designated Senior Management Function
All firms apart from credit unions		
Director (CF1) Partner (CF4) Director of unincorporated association (CF5)	Chief Finance function (SMF2) Chief Risk function (SMF4) Head of Internal Audit (SMF5) Head of Key Business Area (SMF6) Group Entity Senior Manager (SMF7)	Executive Director (SMF3)
Non-executive director (CF2)	Group Entity Senior Manager (SMF7) Chairman (SMF9) Chair of the Risk Committee (SMF10) Chair of the Audit Committee (SMF11) Chair of the Remuneration Committee (SMF12) Senior independent director (SMF14)	Chair of the Nominations Committee (SMF13)
Chief executive (CF3)	Chief executive (SMF1)	
Systems and Controls (CF28)	Chief Finance function (SMF2) Chief Risk function (SMF4) Head of Internal Audit (SMF5)	
Significant management (CF29)	Head of Key Business Area (SMF6) Group Entity Senior Manager (SMF7)	Overall responsibility (SMF18)
Credit unions		

Column 1	Column 2	Column 3
PRA or FCA Controlled Function	PRA Senior Management Function	FCA-designated Senior Management Function
Director (CF1)	Credit Union Senior Manager (SMF8)	Executive Director (SMF3)
Non-executive director (CF2)	Credit Union Senior Manager (SMF8)	Chair of the Nominations Committee (SMF13)
Chief executive (CF3)	Credit Union Senior Manager (SMF8)	

- 6.3 The *PRA* directs that a *firm* must not specify in the *grandfathering notification* that any *person* shall perform any combination of *PRA senior management functions* which is prohibited by any other provision of the *PRA Rulebook* or the *FCA Handbook*.

7 APPLICATIONS TO TAKE EFFECT FROM THE COMMENCEMENT DATE

- 7.1 The *PRA* directs that a *firm* must not submit any application pursuant to Senior Managers Regime – Applications and Notifications 2, for a *person* to perform a *PRA senior management function*, before 1 January 2016.
- 7.2 The *PRA* directs that any application to perform a *PRA senior management function* which is made between 1 January 2016 and the day before the *commencement date* must:
- (a) be made on the correct form as directed by Senior Managers Regime – Applications and Notifications 2 (as if those provisions were in force); and
 - (b) be submitted as directed by Senior Managers Regime – Applications and Notifications 7 (as if those provisions were in force).
- 7.3 An application to perform a *PRA senior management function* which is made between 1 January 2016 and the day before the *commencement date* is made on the basis that it is treated as being made on the *commencement date*.

8 FORMS

- 8.1 Form K may be found [here](#)

**PRA RULEBOOK: CRR FIRMS, NON CRR FIRMS AND NON AUTHORISED PERSONS:
DEPOSITOR PROTECTION (AMENDMENT 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);
 - (2) section 137T (General supplementary powers);
 - (3) section 213 (The compensation scheme);
 - (4) section 214 (General); and
 - (5) section 215 (Rights of the scheme on insolvency).
- 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 and Non Authorised Persons: Depositor
Protection (Amendment No. 2) Instrument 2015**

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

Commencement

- E. This instrument comes into force on 3 July 2015.
F. With effect from 1 June 2016, the PRA deletes rule 9.6(2A).

Citation

- G. This instrument may be cited as the PRA Rulebook: CRR Firms, Non CRR Firms and Non Authorised Persons: Depositor Protection (Amendment No.2) Instrument 2015

By order of the Board of the Prudential Regulation Authority
26 June 2015

Annex A

Amendments to the Depositor Protection Part

Chapter 30 is deleted and the following amendments are made. In this Annex, new text is underlined and deleted text is struck through (with the exception of the deletion of the existing text of Chapter 30, which is not shown).

1 APPLICATION AND DEFINITIONS

...

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

...

exclusions view

means a single, consistent view of:

- (1) an account holder's aggregate deposits with a firm limited to accounts that contain or may contain eligible deposits to which the account holder is not absolutely entitled; or
- (2) a depositor's aggregate eligible deposits with a firm limited to accounts that are not active

and which contains the information required by 12.9.

~~a depositor's aggregate eligible deposits with a firm which contains the information required by 12.9, limited to accounts which:~~

- ~~(1) hold any funds to which the depositor is not absolutely entitled; or~~
- ~~(2) are not active.~~

...

...

2 ELIGIBILITY

...

2.2 ...

- (4) The following are not *eligible deposits*:
 - (a) ~~a deposit made by another credit institution on its own behalf or for its own account;~~

...

9 TIME LIMITS

...

9.6 (1) From 1 June 2016 until 31 December 2023, in cases to which ~~9.2~~ 9.3 applies, where the FSCS cannot pay compensation within seven *business days* starting on the day following the *compensation date*, the FSCS shall, provided it receives sufficient information to enable it to make a payment, ensure that within five *business days* of receipt of a request from a *depositor*:

(a) the *depositor* who is an individual, has access to an appropriate amount of their *covered deposits* to cover the cost of living; and

(b) the *depositor* which is not an individual or a large company, ~~or is a small local authority~~, has access to an appropriate amount of their *covered deposits* to cover necessary business expenses or operating costs.

[Note: Art 8(4) of the DGSD]

(2) From 3 July 2015 until 1 December 2016, in cases to which 9.3 applies, the FSCS shall ensure that a depositor which is a *large company* has access to their *covered deposits* within fifteen *business days* of receipt of a request from the *depositor* which contains sufficient information to enable the FSCS to make a payment.

(2A) From 3 July 2015 until 1 June 2016, in cases to which 9.3 applies, the FSCS shall ensure that a depositor which is a small local authority has access to their covered deposits within fifteen business days of receipt of a request from the depositor which contains sufficient information to enable the FSCS to make a payment.

...

12 SINGLE CUSTOMER VIEW REQUIREMENTS

...

12.3 If a *firm* does not have any accounts or balances which are required to be included within ~~the~~ an *exclusions view*, the *firm* must provide confirmation of this to the FSCS.

...

12.9 A *firm* must ensure that each *single customer view* and *exclusions view* contains all the information set out in the table below.

...

1.	<i>Single customer view</i> record number	Unique customer identifier.	Maximum number of characters in field: 200 100
----	---	-----------------------------	--

...

10.	Other national identifier	The type of national identifier being provided [if applicable and where held by the <i>firm</i>].	Maximum number of characters in field: 50 Values: (a) <u>NID - national identifier (Non-UK)</u> , (b) <u>DL - driving</u>
-----	---------------------------	--	---

			<p><u>licence,</u> (c) <u>O - other or unknown.</u></p> <p><u>Maximum number of characters in field: 3</u></p>
--	--	--	--

...

27.	Single customer view record number	Unique customer identifier.	Maximum number of characters in field: 200 <u>100</u>
-----	------------------------------------	-----------------------------	---

...

37.	Exclusion type	<p>If applicable, where the file is an <i>exclusions view</i>, an indication of why the account falls within an <i>exclusions view</i>.</p> <p>Identify all of the following which apply:</p> <ul style="list-style-type: none"> a) <u>The account contains or may contain <i>eligible deposits</i> to which the account holder is not absolutely entitled. The depositor is not absolutely entitled to the sums held in the account;</u> b) The account is a <i>dormant account</i>; c) The account is an account for which the <i>firm</i> has received formal notice of a legal dispute or competing claims to the proceeds of the account; d) The account appears on the "Consolidated list of financial sanctions targets in the United Kingdom" that is maintained by HM Treasury or is otherwise subject to restrictive measures imposed by national governments or international bodies. 	<p>Values:</p> <ul style="list-style-type: none"> a) BEN b) LEGDOR c) LEGDIS d) HMTS <p>Maximum number of characters in field: 6</p>
-----	----------------	--	--

...

49. 48.	Single customer view record number	Unique customer identifier.	Maximum number of characters in field: 200 <u>100</u>
-----------------------	------------------------------------	-----------------------------	---

...

...

12.13 The amount inserted into each *single customer view* and *exclusions view* as the account balance (Field 42) and aggregate balance across all accounts (Field 49 50) must be the total of principal plus any interest or premium attributable up to the *compensation date* (or the date on which the *PRA* or *FSCS* requests the *firm* to provide the *single customer view* and *exclusions view* in accordance with 12.2).

12.14 A *firm* must ensure that the amount inserted into each *single customer view* and *exclusions view* as the account balance (Field 42), original account balance before interest (Field 46 47) and aggregate balance across all accounts (Field 49 50) includes any payment made to the *depositor* for which value has been credited to the *depositor's* account regardless of whether the *firm* has received the value itself. A *firm* must ensure that the amount inserted into each *single customer view* and *exclusions view* as the account balance (Field 42), original account balance before interest (Field 46 47) and aggregate balance across all accounts (Field 49 50) excludes any payment sent by the *depositor* which has been debited from the *depositor's* account regardless of whether the *firm* has sent value itself.

...

30 RECOVERIES OF ELIGIBLE DEPOSITS: RETURN OF SURPLUS TO COMPENSATION RECIPIENT

30.1 If the *FSCS*, in relation to a *claim* for *eligible deposits*, makes recoveries from the *credit institution* or any third party in respect of that *eligible deposit*, it must:

- (1) retain from those recoveries a sum equal to the aggregate of:
 - (a) the sum paid by the *FSCS* as compensation;
 - (b) any amount paid or payable by a *home state scheme* to the *compensation recipient*, and
 - (c) any amount the *FSCS* determines is appropriate to cover all or part of its reasonable costs of recovery; and
- (2) as soon as reasonably possible after it makes the recoveries, pay any remaining sum to the *compensation recipient* (or, if not the *depositor*, as directed by the *depositor* or to any *person* subrogated to the *claim* of the *depositor* against the *credit institution* or to the rights of the *depositor* under this Part or to any *person* otherwise entitled to any remaining sum).

...

43 FUNDING – CLASS A TARIFF BASE CALCULATION

43.1 The *class A tariff base* is:

- (1) covered deposits (excluding *temporary high balances*) as at 31 December except that, where the *covered deposit* is a *dormant account*, the applicable tariff base is ~~*dormant account*~~ *covered deposit* multiplied by 0.2 as at 31 December; and

(2) the total balance of any *deposits* in any account which holds funds to which the account holder is not absolutely entitled but may exclude the value of any funds which the *firm* has confirmed are not *covered deposits*.

...

43.2 ~~A firm must also include in its class A tariff base calculation the total balance of any deposits in any:~~

(1) ~~not active account; or~~

(2) ~~account which holds funds to which the account holder is not absolutely entitled.~~

...

50 TRANSITIONAL PROVISIONS – SINGLE CUSTOMER VIEW

...

50.11 A firm must ensure that a single customer view contains all the information set out in the table below.

...

<p>Account balance in sterling in the original currency <u>in sterling</u></p>	<p>Account balance including any interest or premium attributable, at end of business on:</p> <p>(a) the <i>compensation date</i>;</p> <p>or</p> <p>(b) the date of request from the <i>FSCS</i> or the <i>PRA</i></p>
---	--

...

**PRA RULEBOOK: CRR FIRMS, NON CRR FIRMS AND NON AUTHORISED PERSONS:
DEPOSITOR PROTECTION (AMENDMENT No. 3) 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: CRR Firms, Non CRR Firms and Non Authorised Persons: Depositor Protection (Amendment No. 3) Instrument 2015

- D. The PRA makes the rules in the Annex to this instrument with effect from 3 July 2015.
- E. The PRA deletes Chapter 56 with effect from 2 January 2016.
- F. The PRA deletes Chapter 55 with effect from 3 July 2016.

Citation

- G. This instrument may be cited as the PRA Rulebook: CRR Firms, Non CRR Firms and Non Authorised Persons: Depositor Protection (Amendment No.3) Instrument 2015

By order of the Board of the Prudential Regulation Authority

26 June 2015

Annex

Amendments to the Depositor Protection Part

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

1 APPLICATION AND DEFINITIONS

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

...

compensation leaflet rules

means 23.7(2), 23.8(2) and 23.9.

...

compensation sticker and poster rules

means 23.4, 23.5, 23.6, 23.7(1) and 23.8(1).

...

euro firm

means an *incoming firm* that is a *credit institution* of an *EEA State* that has adopted the euro or that does not convert into their national currency the amount referred to in Article 6(1) of the *DGSD*, pursuant to Article 6(5) *DGSD*.

...

exclusions list

means:

- (1) up to and including ~~2 July~~ 31 December 2016, a list in the form set out in Section A of Annex 3 to this Part; and
- (2) from ~~3 July 2016~~ 1 January 2017, a list in the form set out in Section B of Annex 3 to this Part.

...

information sheet

means an information sheet containing the categories of information set out in the template in Annex 1 to this Part.

~~has the meaning given in 16.2.~~

...

16 FIRMS' DISCLOSURE OBLIGATIONS – INFORMATION AND EXCLUSIONS

...

16.2 A *firm* must:

- (1) prepare an '*information sheet*' ~~containing the categories of information set out in the template in Annex 1 to this Part, and prepare the an *exclusions list*,~~

...

17 FIRMS' DISCLOSURE OBLIGATIONS – STATEMENTS OF ACCOUNT

17.1 A *firm* must:

...

- (3) at least annually, ~~in a depositor's statement of account:~~
- (a) provide to the depositor:
- (i) the information sheet; and
- (ii) the exclusions list; and
- (b) if applicable, inform the depositor of the exclusions from deposit guarantee scheme protection that fall within 2.2(4)(b) and 2.2(4)(k); and

...

17.2 The information set out in 17.1(3) must be provided in a *depositor's* statement of account.

...

54 TRANSITIONAL PROVISIONS - FIRMS' ADDITIONAL DISCLOSURE OBLIGATIONS

54.1 As soon as practicable and in any event by 1 September 2015, a *firm* must provide to a *depositor* the coverage information set out in Annex 4 to this Part.

[Note: Art. 19(2) of the DGSD]

54.2 As soon as practicable after 31 December 2015 and in any event by 1 July 2016, a *firm* must:

- (1) provide to a *depositor*:
- (a) the *information sheet*, and
- (b) the *exclusions list*, and
- (2) if applicable, inform the *depositor* of the exclusions from *deposit guarantee scheme* protection that fall within 2.2(4)(b) and 2.2(4)(k).

[Note: Art. 16(3) of the DGSD]

55 TRANSITIONAL PROVISIONS - FIRMS' DISCLOSURE OBLIGATIONS (SUPERVENING RULES)

55.1 A *firm* will not breach the following rules if it complies with those rules as soon as practicable and in any event from 1 January 2016:

(1) 17.1(1); and

(2) 17.1(4).

55.2 The following provisions shall not apply to a *firm* until 1 January 2016:

(1) 16.1 to 16.3; and

(2) 17.1(2) to 17.1(3).

55.3 17.2 shall not apply to a *firm* until 2 July 2016.

**56 TRANSITIONAL PROVISIONS – DEPOSIT COMPENSATION INFORMATION –
BRANCHES AND WEBSITES (SUPERVENING RULES)**

56.1 This Chapter does not apply to a *UK branch* of a *euro firm* or the *FSCS*.

56.2 A *firm* will not breach the *compensation sticker and poster rules* if it complies with those rules soon as practicable and in any event from 1 September 2015.

56.3 A *firm* will not breach the *compensation leaflet rules* if it complies with those rules as soon as practicable and in any event from 1 January 2016.

...

ANNEX 2

CONTENT OF COMPENSATION STICKER AND POSTER (CHAPTER 23)

1	The compensation stickers must contain the following statements only:
	<p>UK banks</p> <p>building societies</p> <p>credit unions</p> <p>Northern Ireland credit unions</p> <p>An overseas firm that:</p> <p>(a) is not an <i>incoming firm</i>; and</p> <p>(b) has a <i>Part 4A permission</i> that includes <i>accepting deposits</i></p>
(1)	<p>"Your eligible deposits with [insert name of firm] are protected up to a total of £85,000 by the Financial Services Compensation Scheme, the UK's deposit guarantee scheme. Any deposits you hold above the £85,000 limit are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit www.fscs.org.uk."</p> <p>As an alternative, for <i>credit unions</i> or <i>Northern Ireland credit unions</i> that <i>accept deposits</i> under a single brand or trading name:</p> <p>"Your eligible deposits are protected up to a total of £85,000 by the Financial Services Compensation Scheme, the UK's deposit guarantee scheme. Any deposits you hold above the £85,000 limit are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit www.fscs.org.uk"</p>
	Incoming firm that is a <i>credit institution</i>
(2)	<p>"Your eligible deposits with [insert name of firm] are protected up to a total of [insert 100,000 euro or home state equivalent] by [insert name of compensation scheme] the [insert home state of compensation scheme] deposit guarantee scheme and are not protected by the UK Financial Services Compensation Scheme. Any deposits you hold above the [insert 100,000 euro or home state equivalent] limit are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit [insert website address of scheme]."</p>
2	The compensation posters must contain the following statements only:
	<p>UK banks</p> <p>building societies</p>

<p>credit unions</p> <p>Northern Ireland credit unions</p> <p>An overseas firm that:</p> <p>(a) is not an <i>incoming firm</i>; and</p> <p>(b) has a <i>Part 4A permission</i> that includes <i>accepting deposits</i></p>	
(1)	<p><i>Firms that accept deposits</i> under a single brand or trading name</p> <p>"Your eligible deposits with [insert name of firm] are protected up to a total of £85,000 by the Financial Services Compensation Scheme, the UK's deposit guarantee scheme. Any deposits you hold above the £85,000 limit are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit www.fscs.org.uk"</p> <p>As an alternative, for <i>credit unions</i> or <i>Northern Ireland credit unions</i> that <i>accept deposits</i> under a single brand or trading name:</p> <p>"Your eligible deposits are protected up to a total of £85,000 by the Financial Services Compensation Scheme, the UK's deposit guarantee scheme. Any deposits you hold above the £85,000 limit are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit www.fscs.org.uk"</p>
(2)	<p><i>Firms that accept deposits</i> under multiple brands or trading names</p> <p>"Your eligible deposits with [insert name of firm] are protected up to a total of £85,000 by the Financial Services Compensation Scheme, the UK's deposit guarantee scheme. This limit is applied to the total of any deposits you have with the following: [insert names of brands as appropriate]. Any total deposits you hold above the £85,000 limit between these brands are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit www.fscs.org.uk"</p>
<p>Incoming firm that is a <i>credit institution</i></p>	
(3)	<p><i>Incoming firm</i> that is a <i>credit institution</i> and <i>accepts deposits</i> under a single brand or trading name</p> <p>"Your eligible deposits with [insert name of firm] are protected up to a total of [insert 100,000 euro or home state equivalent] by [insert name of compensation scheme] the [insert home state of compensation scheme] deposit guarantee scheme and are not protected by the UK Financial Services Compensation Scheme. Any deposits you hold above the [insert 100,000 euro or home state equivalent] limit are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit [insert website address of scheme]."</p>

(4)	<p><i>Incoming firm that accepts deposits</i> under multiple brands or trading names</p> <p>"Your eligible deposits with [insert name of firm] are protected up to a total of [insert 100,000 euro or home state equivalent] by [insert name of compensation scheme] the [insert home state of compensation scheme] deposit guarantee scheme and are not protected by the UK Financial Services Compensation Scheme. This limit is applied to the total of any deposits you have with the following: [insert names of brands as appropriate]. Any total deposits above the [insert 100,000 euro or home state equivalent] limit are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit [insert website address of scheme]."</p>
3	Each of the statements in 1 and 2 must appear as written with the first and second statements on separate lines. The second statement must appear in smaller font.
4	<u>In 1(1), 2(1) and 2(2), the limit figures must appear in bold font.</u>

...

ANNEX 3

EXCLUSIONS LIST (CHAPTER 16)

Section A (up to and including ~~2 July~~ 31 December 2016)

...

Section B (from ~~3 July 2016~~ 1 January 2017)

...

ANNEX 4**COVERAGE INFORMATION (CHAPTER 54)**

On 1 January 2016 the deposit protection limit is changing from £85,000 to £[xx,000].

If your bank, building society or credit union fails, the Financial Services Compensation Scheme (FSCS) protects your eligible deposits up to the deposit protection limit (currently £85,000 for most depositors).¹

If you have eligible deposits of more than £[xx,000], you are unlikely to be fully protected after 1 January 2016 so you may need to take action if you wish to remain fully covered by the FSCS.

From 1 January 2016, your eligible deposits with [insert name of firm] will be protected up to a total of £[xx,000] by the FSCS. [The limit is applied to the total of your eligible deposits held with the following: insert names of brands as appropriate].

IF YOU HAVE MORE THAN £[xx,000] WITH [insert name of the account holding bank, building society or credit union and all other trading names of the same bank, building society or credit union]:

[Insert details of firm's approach in respect of fixed term deposits. For example where firms choose to adopt measures that the PRA is consulting on in CP23/15 ahead of the PRA making final rules they should set this out here. Firms may also refer to the PRA's consultation to manage the impact on depositors with aggregate deposit balances above £[xx,000].]

PLEASE CONTACT (insert firm contact details) FOR FURTHER INFORMATION ON KEEPING YOUR MONEY PROTECTED.

If you have total eligible deposits of less than £[xx,000] with [insert firm name], then you will not be affected by the limit change.

Further information regarding the protection provided by FSCS is set out below.

General limit of protection

Your eligible deposits held at the same bank, building society or credit union are added up in order to determine the coverage level. If, for instance, you hold eligible deposits in a savings account with £70,000 and a current account with £20,000, you will only be repaid £[xx,000] (or £85,000 for most depositors until 31 December 2015).

From 3 July 2015 until 31 December 2015:

The FSCS protects most depositors, including individuals and small companies, up to £85,000 until 31 December 2015.

Eligible deposits of large companies² and small local authorities³ are eligible for FSCS protection from 3 July 2015 onwards. The £[xx,000] deposit protection limit will apply from 3 July 2015 since these deposits have not previously been protected.

¹ Exceptions for certain deposits are stated below and on the FSCS's website: <http://www.fscs.org.uk>.

² Large company means a body corporate which does not qualify as a small company under section 382 of the Companies Act 2006

³ Small local authority means a local authority with an annual budget of up to EUR 500,000

From 1 January 2016:

From 1 January 2016, the FSCS will protect most eligible deposits up to a total of £[xx,000]. Any deposits you hold above the limit are unlikely to be covered.

Depositors with aggregate deposit balances over £[xx,000]

Further information will be provided to depositors on how these changes will affect depositors with aggregate balances over £[xx,000]. Please contact ([insert firm details]) or the FSCS (details below) for further information.

Temporary high balances

In some cases, an eligible deposit which is categorised as “a “temporary high balance” (for example, as a result of a house sale, inheritance, or insurance payment) may be protected to a higher limit for six months after the amount has been credited to your account or from the moment when such eligible deposits become legally transferable. This applies from 3 July 2015. See the FSCS website for full details.

Exclusions from protection

A deposit is excluded from protection if:

- (1) The holder and any beneficial owner of the deposit have never been identified in accordance with money laundering requirements. For further information, contact your bank, bank building society or credit union.
- (2) The deposit arises out of transactions in connection with which there has been a criminal conviction for money laundering.
- (3) It is a deposit made by a depositor which is one of the following:
 - credit institution
 - financial institution
 - investment firm
 - insurance undertaking
 - reinsurance undertaking
 - collective investment undertaking
 - pension or retirement fund⁴
 - public authority, other than a small local authority.

The following deposits, categories of deposits or other instruments are no longer protected from 3 July 2015:

- deposits of a credit union to which the credit union itself is entitled
- deposits which can only be proven by a financial instrument⁵ unless it is a savings product which is evidenced by a certificate of deposit made out to a named person and which exists in a Member State on 2 July 2014)
- deposits of a collective investment scheme which qualifies as a small company⁶
- deposits of an overseas financial services institution which qualifies as a small company⁷

⁴ Deposits by personal pension schemes, stakeholder pension schemes and occupational pension schemes of micro, small and medium sized enterprises are not excluded

⁵ Listed in Section C of Annex 1 of Directive 2014/65/EU

⁶ Under the Companies Act 1985 or Companies Act 2006

⁷ See footnote above

- deposits of certain regulated firms (investment firms, insurance undertakings and reinsurance undertakings) which qualify as a small business or a small company⁸ – refer to the FSCS for further information on this category.

Reimbursement

The FSCS aims to repay your eligible deposits (up to the compensation limit) within 7 days, and is required to do so within 20 working days (with some exceptions).

Contact

If you have any questions regarding the change in the compensation limit, please contact the Financial Services Compensation Scheme (FSCS) at:

Address: FSCS,
10th Floor Beaufort House,
15 St Botolph Street,
London,
EC3A 7QU

Tel: 0800 678 1100

Email: ICT@fscs.org.uk

Web: <http://www.fscs.org.uk>.

⁸ See footnote above

HANDBOOK (RULEBOOK CONSEQUENTIALS 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 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);
 - (4) section 214 (General);
 - (5) section 215 (Rights of the scheme in insolvency);
 - (6) section 218A (Regulators power to require information);
 - (7) section 223 (Management expenses); and
 - (8) section 224F (Rules about relevant schemes).
- 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 with the Financial Conduct Authority) (“FCA”), the PRA consulted the FCA. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

Commencement

- D. This instrument comes into force on 3 July 2015.

Deletion

- E. Each of the following modules and chapters of the PRA’s Handbook is deleted:

FEES TP2, TP3 and TP7 (Financial Services Compensation Scheme Funding Transitional Provisions)
--

Citation

- F. This instrument may be cited as the Handbook (Rulebook Consequentials No. 2) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

26 June 2015

**PRA RULEBOOK: CRR FIRMS, NON CRR FIRMS AND NON AUTHORISED PERSONS:
DEPOSITOR PROTECTION AND DORMANT ACCOUNT SCHEME (AMENDMENT No. 4)
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);
 - (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.

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 and Non Authorised Persons: Depositor Protection (Amendment No. 4) Instrument 2015

- D. The PRA makes the rules in Annex A and Annex B to this instrument.

Commencement

- E. This instrument comes into force on 3 July 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms, Non CRR Firms and Non Authorised Persons: Depositor Protection and Dormant Account Scheme (Amendment No.4) Instrument 2015

By order of the Board of the Prudential Regulation Authority
3 July 2015

Annex A

Amendments to the Depositor Protection Part

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

4 LIMITS ON COMPENSATION PAYABLE

...

4.2 The maximum compensation sum payable for the aggregate *eligible deposits* of each *depositor* is ~~£85,000~~ £75,000, save that additional compensation may be payable in cases to which 4.3 applies.

...

ANNEX 1

INFORMATION SHEET (CHAPTER 16)

Basic information about the protection of your eligible deposits	
Eligible deposits in [insert name of <i>firm</i>] are protected by:	the Financial Services Compensation Scheme ("FSCS") ¹
Limit of protection:	<p>£85,000 £75,000 per depositor per bank / building society / credit union²</p> <p>[where applicable]The following trading names are part of your bank / building society / credit union:</p> <p>[insert all trading names which operate under the same licence]</p>
If you have more eligible deposits at the same bank / building society / credit union:	All your eligible deposits at the same bank / building society / credit union are "aggregated" and the total is subject to the limit of £85,000 £75,000. ²
If you have a joint account with other person(s):	The limit of £85,000 £75,000 applies to each depositor separately. ³
Reimbursement period in case of bank, building society or credit union's failure:	20 working days ⁴
Currency of reimbursement:	Pound sterling (GBP, £) or, for branches of UK banks operating in other EEA Member States, the currency of that State.
To contact [insert name of <i>firm</i>] for enquiries relating to your account:	[insert name of <i>firm</i> and contact details]
To contact the FSCS for further information on compensation:	<p>Financial Services Compensation Scheme 10th Floor Beaufort House 15 St Botolph Street London EC3A 7QU</p> <p>Tel: 0800 678 1100 or 020 7741 4100</p> <p>Email: ICT@fscs.org.uk</p>
More information:	http://www.fscs.org.uk
Acknowledgement of receipt by the depositor:	

Additional information (all or some of the below)

¹Scheme responsible for the protection of your eligible deposit

Your eligible deposit is covered by a statutory Deposit Guarantee Scheme. If insolvency of your bank, building society or credit union should occur, your eligible deposits would be repaid up to ~~£85,000~~ £75,000 by the Deposit Guarantee Scheme.

²General limit of protection

If a covered deposit is unavailable because a bank, building society or credit union is unable to meet its financial obligations, depositors are repaid by a Deposit Guarantee Scheme. This repayment covers at maximum ~~£85,000~~ £75,000 per bank, building society or credit union. This means that all eligible deposits at the same bank, building society or credit union are added up in order to determine the coverage level. If, for instance a depositor holds a savings account with £80,000 and a current account with £20,000, he or she will only be repaid ~~£85,000~~ £75,000.

[only where applicable] This method will also be applied if a bank, building society or credit union operates under different trading names. [insert name of the account holding bank, building society or credit union] also trades under [insert all other trading names of the same bank, building society or credit union]. This means that all eligible deposits with one or more of these trading names are in total covered up to ~~£85,000~~ £75,000.

In some cases eligible deposits which are categorised as “temporary high balances” are protected above ~~£85,000~~ £75,000 for six months after the amount has been credited or from the moment when such eligible deposits become legally transferable. These are eligible deposits connected with certain events including:

- (a) certain transactions relating to the depositor’s current or prospective only or main residence or dwelling;
- (b) a death, or the depositor’s marriage or civil partnership, divorce, retirement, dismissal, redundancy or invalidity;
- (c) the payment to the depositor of insurance benefits or compensation for criminal injuries or wrongful conviction.

More information can be obtained under <http://www.fscs.org.uk>

³Limit of protection for joint accounts

In case of joint accounts, the limit of ~~£85,000~~ £75,000 applies to each depositor.

However, eligible deposits in an account to which two or more persons are entitled as members of a business partnership, association or grouping of a similar nature, without legal personality, are aggregated and treated as if made by a single depositor for the purpose of calculating the limit of ~~£85,000~~ £75,000.

⁴Reimbursement

The responsible Deposit Guarantee Scheme is the Financial Services Compensation Scheme, 10th Floor Beaufort House, 15 St Botolph Street, London, EC3A 7QU, Tel: 0800 678 1100 or 020 7741 4100, Email: ICT@fscs.org.uk. It will repay your eligible deposits (up to ~~£85,000~~ £75,000) within 20 working days until 31 December 2018; within 15 working days from 1 January 2019 until 31 December 2020; within 10 working days from 1 January 2021 to 31 December 2023; and within 7 working days from 1 January 2024 onwards, save where specific exceptions apply.

Where the FSCS cannot make the repayable amount available within 7 working days, it will, from 1 June 2016 until 31 December 2023, ensure that you have access to an appropriate amount of your covered deposits to cover the cost of living (in the case of a depositor which is an individual) or to

cover necessary business expenses (in the case of a depositor which is not an individual or a large company) within 5 working days of a request. Again, there are specific exceptions to this obligation.

In the case of a depositor which is a large company, where the FSCS cannot make the repayable amount available within 7 working days, it will, from 3 July 2015 until 1 December 2016, ensure that you have access to your covered deposits within fifteen working days of a request containing sufficient information to enable it to make a payment, save where specific exceptions apply.

If you have not been repaid within these deadlines, you should contact the Deposit Guarantee Scheme since the time to claim reimbursement may be barred after a certain time limit. Further information can be obtained under <http://www.fscs.org.uk>.

Other important information

In general, all retail depositors and businesses are covered by Deposit Guarantee Schemes. Exceptions for certain deposits are stated on the website of the responsible Deposit Guarantee Scheme. Your bank, building society or credit union will also inform you of any exclusions from protection which may apply. If deposits are eligible, the bank, building society or credit union shall also confirm this on the statement of account.

ANNEX 2

CONTENT OF COMPENSATION STICKER AND POSTER (CHAPTER 23)

1	The compensation stickers must contain the following statements only:
	<p>UK banks</p> <p>building societies</p> <p>credit unions</p> <p>Northern Ireland credit unions</p> <p>An overseas firm that:</p> <p>(a) is not an <i>incoming firm</i>; and</p> <p>(b) has a <i>Part 4A permission</i> that includes <i>accepting deposits</i></p>
(1)	<p>"Your eligible deposits with [insert name of firm] are protected up to a total of £85,000 <u>£75,000</u> by the Financial Services Compensation Scheme, the UK's deposit guarantee scheme. Any deposits you hold above the limit are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit www.fscs.org.uk "</p> <p>As an alternative, for <i>credit unions</i> or <i>Northern Ireland credit unions</i> that <i>accept deposits</i> under a single brand or trading name:</p> <p>"Your eligible deposits are protected up to a total of £85,000 <u>£75,000</u> by the Financial Services Compensation Scheme, the UK's deposit guarantee scheme. Any deposits you hold above the limit are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit www.fscs.org.uk "</p>
	Incoming firm that is a <i>credit institution</i>
(2)	<p>"Your eligible deposits with [insert name of firm] are protected up to a total of [insert 100,000 euro or home state equivalent] by [insert name of compensation scheme] the [insert home state of compensation scheme] deposit guarantee scheme and are not protected by the UK Financial Services Compensation Scheme. Any deposits you hold above the [insert 100,000 euro or home state equivalent] limit are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit [insert website address of scheme]."</p>
2	The compensation posters must contain the following statements only:
	<p>UK banks</p> <p>building societies</p>

<p>credit unions</p> <p>Northern Ireland credit unions</p> <p>An overseas firm that:</p> <p>(a) is not an <i>incoming firm</i>; and</p> <p>(b) has a Part 4A permission that includes accepting deposits</p>	
(1)	<p><i>Firms that accept deposits</i> under a single brand or trading name</p> <p>"Your eligible deposits with [insert name of firm] are protected up to a total of £85,000 <u>£75,000</u> by the Financial Services Compensation Scheme, the UK's deposit guarantee scheme. Any deposits you hold above the limit are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit www.fscs.org.uk"</p> <p>As an alternative, for <i>credit unions</i> or <i>Northern Ireland credit unions</i> that <i>accept deposits</i> under a single brand or trading name:</p> <p>"Your eligible deposits are protected up to a total of £85,000 <u>£75,000</u> by the Financial Services Compensation Scheme, the UK's deposit guarantee scheme. Any deposits you hold above the £85,000 limit are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit www.fscs.org.uk"</p>
(2)	<p><i>Firms that accept deposits</i> under multiple brands or trading names</p> <p>"Your eligible deposits with [insert name of firm] are protected up to a total of £85,000 <u>£75,000</u> by the Financial Services Compensation Scheme, the UK's deposit guarantee scheme. This limit is applied to the total of any deposits you have with the following: [insert names of brands as appropriate]. Any total deposits you hold above the limit between these brands are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit www.fscs.org.uk"</p>
<p>Incoming firm that is a credit institution</p>	
(3)	<p><i>Incoming firm</i> that is a <i>credit institution</i> and <i>accepts deposits</i> under a single brand or trading name</p> <p>"Your eligible deposits with [insert name of firm] are protected up to a total of [insert 100,000 euro or home state equivalent] by [insert name of compensation scheme] the [insert home state of compensation scheme] deposit guarantee scheme and are not protected by the UK Financial Services Compensation Scheme. Any deposits you hold above the [insert 100,000 euro or home state equivalent] limit are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit [insert website address of scheme]."</p>

	<p>(4) <i>Incoming firm that accepts deposits</i> under multiple brands or trading names</p> <p>"Your eligible deposits with [insert name of firm] are protected up to a total of [insert 100,000 euro or home state equivalent] by [insert name of compensation scheme] the [insert home state of compensation scheme] deposit guarantee scheme and are not protected by the UK Financial Services Compensation Scheme. This limit is applied to the total of any deposits you have with the following: [insert names of brands as appropriate]. Any total deposits above the [insert 100,000 euro or home state equivalent] limit are unlikely to be covered.</p> <p>Please ask/click here [delete as appropriate] for further information or visit [insert website address of scheme]."</p>
3	<p>Each of the statements in 1 and 2 must appear as written with the first and second statements on separate lines. The second statement must appear in smaller font.</p>
4	<p>In 1(1), 2(1) and 2(2), the limit figures must appear in bold font.</p>

...

ANNEX 4

COVERAGE INFORMATION (CHAPTER 54)

On 1 January 2016 the deposit protection limit is changing from £85,000 to £75,000 ~~£xx,000~~.

If your bank, building society or credit union fails, the Financial Services Compensation Scheme (FSCS) protects your eligible deposits up to the deposit protection limit (currently £85,000 for most depositors).¹

If you have eligible deposits of more than £75,000 ~~£xx,000~~, you are unlikely to be fully protected after 1 January 2016 so you may need to take action if you wish to remain fully covered by the FSCS.

From 1 January 2016, your eligible deposits with [insert name of firm] will be protected up to a total of £75,000 ~~£xx,000~~ by the FSCS. [The limit is applied to the total of your eligible deposits held with the following: insert names of brands as appropriate].

IF YOU HAVE MORE THAN £75,000 ~~£xx,000~~ WITH [insert name of the account holding bank, building society or credit union and all other trading names of the same bank, building society or credit union]:

[Insert details of firm's approach in respect of fixed term deposits. For example where firms choose to adopt measures that the PRA is consulting on in CP23/15 ahead of the PRA making final rules they should set this out here. Firms may also refer to the PRA's consultation to manage the impact on depositors with aggregate deposit balances above £75,000 ~~£xx,000~~.]

PLEASE CONTACT (insert firm contact details) FOR FURTHER INFORMATION ON KEEPING YOUR MONEY PROTECTED.

If you have total eligible deposits of less than £75,000 ~~£xx,000~~ with [insert firm name], then you will not be affected by the limit change.

Further information regarding the protection provided by FSCS is set out below.

General limit of protection

Your eligible deposits held at the same bank, building society or credit union are added up in order to determine the coverage level. If, for instance, you hold eligible deposits in a savings account with £70,000 and a current account with £20,000, you will only be repaid £75,000 ~~£xx,000~~ (or £85,000 for most depositors until 31 December 2015).

From 3 July 2015 until 31 December 2015:

The FSCS protects most depositors, including individuals and small companies, up to £85,000 until 31 December 2015.

Eligible deposits of large companies² and small local authorities³ are eligible for FSCS protection from 3 July 2015 onwards. The £75,000 ~~£xx,000~~ deposit protection limit will apply from 3 July 2015 since these deposits have not previously been protected.

From 1 January 2016:

¹ Exceptions for certain deposits are stated below and on the FSCS's website: <http://www.fscs.org.uk>.

² Large company means a body corporate which does not qualify as a small company under section 382 of the Companies Act 2006

³ Small local authority means a local authority with an annual budget of up to EUR 500,000

From 1 January 2016, the FSCS will protect most eligible deposits up to a total of £75,000 [~~xx,000~~]. Any deposits you hold above the limit are unlikely to be covered.

Depositors with aggregate deposit balances over £75,000 [~~xx,000~~]

Further information will be provided to depositors on how these changes will affect depositors with aggregate balances over £75,000 [~~xx,000~~]. Please contact ([insert firm details]) or the FSCS (details below) for further information.

Temporary high balances

In some cases, an eligible deposit which is categorised as “a “temporary high balance” (for example, as a result of a house sale, inheritance, or insurance payment) may be protected to a higher limit for six months after the amount has been credited to your account or from the moment when such eligible deposits become legally transferable. This applies from 3 July 2015. See the FSCS website for full details.

Exclusions from protection

A deposit is excluded from protection if:

- (1) The holder and any beneficial owner of the deposit have never been identified in accordance with money laundering requirements. For further information, contact your bank, bank building society or credit union.
- (2) The deposit arises out of transactions in connection with which there has been a criminal conviction for money laundering.
- (3) It is a deposit made by a depositor which is one of the following:
 - credit institution
 - financial institution
 - investment firm
 - insurance undertaking
 - reinsurance undertaking
 - collective investment undertaking
 - pension or retirement fund⁴
 - public authority, other than a small local authority.

The following deposits, categories of deposits or other instruments are no longer protected from 3 July 2015:

- deposits of a credit union to which the credit union itself is entitled
- deposits which can only be proven by a financial instrument⁵ unless it is a savings product which is evidenced by a certificate of deposit made out to a named person and which exists in a Member State on 2 July 2014)
- deposits of a collective investment scheme which qualifies as a small company⁶
- deposits of an overseas financial services institution which qualifies as a small company⁷
- deposits of certain regulated firms (investment firms, insurance undertakings and reinsurance undertakings) which qualify as a small business or a small company⁸ – refer to the FSCS for further information on this category.

⁴ Deposits by personal pension schemes, stakeholder pension schemes and occupational pension schemes of micro, small and medium sized enterprises are not excluded

⁵ Listed in Section C of Annex 1 of Directive 2014/65/EU

⁶ Under the Companies Act 1985 or Companies Act 2006

⁷ See footnote above

⁸ See footnote above

Reimbursement

The FSCS aims to repay your eligible deposits (up to the compensation limit) within 7 days, and is required to do so within 20 working days (with some exceptions).

Contact

If you have any questions regarding the change in the compensation limit, please contact the Financial Services Compensation Scheme (FSCS) at:

Address: FSCS,
10th Floor Beaufort House,
15 St Botolph Street,
London,
EC3A 7QU

Tel: 0800 678 1100

Email: ICT@fscs.org.uk

Web: <http://www.fscs.org.uk>.

Annex B

Amendments to the Dormant Account Scheme Part

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

5 LIMITS ON COMPENSATION PAYABLE

...

5.2 The maximum compensation sum payable for the aggregate *protected dormant accounts* of each *eligible claimant* is:

(1) up to and including 31 December 2015;

(a) £85,000 for an *eligible claimant* who would be a *relevant person* if the *protected dormant account* were an *eligible deposit* held by a *DGS member*;
and

(b) £75,000 for any other *eligible claimant*;

(2) on and from 1 January 2016, the same sum as the maximum compensation payable for aggregate *eligible deposits* of each *depositor* under Depositor Protection 4.2 but without reference to the cases in which additional compensation may be payable under Depositor Protection 4.3.

...

5.4 In this Chapter, the following definitions shall apply:

deposit guarantee scheme regulations

has the meaning given in the Depositor Protection Part.

relevant person

has the meaning given in regulation 7A(4) of the *deposit guarantee scheme regulations*.

**PRA RULEBOOK: CRR FIRMS, NON CRR FIRMS AND NON AUTHORISED PERSONS:
DEPOSITOR PROTECTION (AMENDMENT No. 5) 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);
 - (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.

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 and Non Authorised Persons: Depositor
Protection (Amendment No. 5) Instrument 2015**

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

Commencement

- E. This instrument comes into force on 3 July 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms, Non CRR Firms and Non Authorised Persons: Depositor Protection (Amendment No.5) Instrument 2015

By order of the Board of the Prudential Regulation Authority

3 July 2015

Annex A

Amendments to the Depositor Protection Part

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

1 APPLICATION AND DEFINITIONS

...

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

...

investment

has the meaning given in section 22(4) of FSMA.

nominee company

means a body corporate whose business consists solely of acting as a nominee holder of investments or other property.

...

6 PAYING COMPENSATION

...

6.2 The FSCS must pay any compensation to the *depositor*, with the following exceptions:

...

- (5) where the ~~depositor~~ account holder is not absolutely entitled to the *eligible deposit*:
- (a) if another *person* (A) is absolutely entitled to the *eligible deposit*, ~~that person A~~ is the person entitled to compensation in respect of the deposit, and accordingly the FSCS must pay any compensation to A (or, where A (or a person who has authority to act on behalf of A) directs that any compensation be paid to another person, the FSCS may pay the compensation as directed by A (or a person who has authority to act on behalf of A) the person who is absolutely entitled to the eligible deposit, provided that the person A has been identified or is identifiable before the compensation date;

...

6.10 For the purposes of this Part, the cases in which A is absolutely entitled to the *eligible deposit* include where:

- (a) A is a beneficiary under a bare trust;
- (b) the account holder is a *nominee company* which is holding money in the account for A;

- (c) A is a client in respect of money which the account holder is treating as client money of A in accordance with FCA rules, the SRA Accounts Rules 2011 or an equivalent regime; or
- (d) the FSCS is otherwise satisfied that A is absolutely entitled to the *eligible deposit* taking into account any information that the FSCS considers relevant.

PRA RULEBOOK CRR FIRMS: REPORTING PILLAR 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 CRR Firms: Reporting Pillar 2 Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the CRR Firms: Reporting Pillar 2 Instrument 2015.

By order of the Board of the Prudential Regulation Authority

26 June 2015

Annex

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

Part

REPORTING PILLAR 2

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. PILLAR 2 REPORTING REQUIREMENTS**
- 3. SUBMISSION**
- 4. DATA ITEMS**

1 APPLICATION AND DEFINITIONS

- 1.1 This Part applies to every *firm* that is a *CRR firm*.
- 1.2 A *firm* that is neither a *subsidiary of a parent undertaking* incorporated in or formed under the law of any part of the *UK* nor a *parent undertaking* must comply with this Part on an individual basis.
- 1.3 A *firm* that is not a member of a *consolidation group* must comply with this Part on an individual basis.
- 1.4 A *firm* which is a *parent institution in a Member State* must comply with this Part on a *consolidated basis*.
- 1.5 A *firm* controlled by a *parent financial holding company in a Member State* or a *parent mixed financial holding company in a Member State* must comply with this Part on the basis of the *consolidated situation* of that holding company, if the *PRA* is responsible for supervision of the *firm* on a *consolidated basis* under Article 111 of the *CRD*.

- 1.6 In this Part the following definitions shall apply:

Advanced Measurement Approach

means the advanced measurement approach referred to in Article 312(2) of the *CRR*.

consolidation group

means the undertakings included in the scope of consolidation pursuant to Articles 18(1), 18(8), 19(1), 19(3) and 23 of the *CRR* and Groups 2.1 to 2.3.

defined benefit pension scheme

means an *occupational pension scheme* with benefits defined independently of the *firm's* contributions as employer and investment returns.

ICAAP assessment

means a *firm's* written record of the assessments required under Internal Capital Adequacy Assessment.

IRB Approach

has the meaning given in article 143(1) of the *CRR*.

occupational pension scheme

has the meaning given in article 3(1) of the *Regulated Activities Order*.

parent financial holding company in a Member State

means (in accordance with point (26) of Article 3(1) of the *CRD*) a *financial holding company* which is not itself a subsidiary of an *institution* authorised in

the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

parent institution in a Member State

means (in accordance with point (24) of Article 3(1) of the *CRD*) an *institution* authorised in an *EEA State* which has an *institution* or *financial institution* as *subsidiary* or which holds a *participation* in such an *institution* or *financial institution* and which is not itself a *subsidiary* of another *institution* authorised in the same *EEA State* or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

parent mixed financial holding company in a Member State

means (in accordance with point (28) of Article 3(1) of the *CRD*) a *mixed financial holding company* which is not itself a *subsidiary* of an *institution* authorised in the same *EEA State*, or of a *financial holding company* or *mixed financial holding company* set up in the same *EEA State*.

2 PILLAR 2 REPORTING REQUIREMENTS

- 2.1 A *firm* must complete the *data item* FSA071 for the risk assessments required in the ICAA Part.
- 2.2 A *firm* must complete the *data items* FSA078 and FSA079 for concentration risk.
- 2.3 A significant *firm* and any *firm* that is not significant but that has permission from the *PRA* to use the *Advanced Measurement Approach* must complete the *data items* FSA072, FSA073, FSA074 and FSA075 for operational risk, unless the data required in that *data item* has already been reported to the *PRA* by other means.
- 2.4 A *firm* with significant illiquid risk in its trading book must complete the *data item* FSA080 for market risk, unless the data required in that *data item* has already been reported to the *PRA* by other means.
- 2.5 A *firm* with permission from the *PRA* to use the *IRB Approach* for retail claims or contingent retail claims must complete the *data item* FSA082 for credit risk that relates to the *IRB Approach* for retail exposures.
- 2.6 A *firm* with a *defined benefit pension scheme* must complete the *data item* FSA081 for pension obligation risk, unless the data required in that *data item* has already been reported to the *PRA* by other means.

3 SUBMISSION

- 3.1 A *firm* must submit the *data items* it is required to complete by this Part to the *PRA* at the same time as the *firm* submits its *ICAAP assessment* to the *PRA*.
- 3.2 If a *firm* does not submit an *ICAAP assessment* to the *PRA* on an annual basis:
 - (1) a significant *firm* must submit the *data items* it is required to complete by this Part to the *PRA* on an annual basis;

- (2) a *firm* that is not significant but that has permission from the *PRA* to use the *Advanced Measurement Approach* must submit the *data items* it is required to complete by *rule 2.3* to the *PRA* on an annual basis; and
- (3) a *firm* that is not significant must submit the *data items* it is required to complete by this Part to the *PRA* on a regular basis that is proportionate to the nature, scale and complexity of the *firm's* activities.

3.3 *Data items* must be submitted to the *PRA* by electronic means.

3.4 When submitting the required *data item*, a *firm* must use the template for the *data item* set out in Chapter 4.

4 DATA ITEMS

4.1 FSA071 can be found [here](#).

4.2 FSA072 can be found [here](#).

4.3 FSA073 can be found [here](#).

4.4 FSA074 can be found [here](#).

4.5 FSA075 can be found [here](#).

4.6 FSA078 can be found [here](#).

4.7 FSA079 can be found [here](#).

4.8 FSA080 can be found [here](#).

4.9 FSA081 can be found [here](#).

4.10 FSA082 can be found [here](#).

REGULATORY REPORTING

Externally defined glossary terms

Term	Definition source
<i>consolidated basis</i>	<i>Article 4(1)(48) CRR</i>
<i>consolidated situation</i>	<i>Article 4(1)(47) CRR</i>
<i>EEA State</i>	<i>s425 FSMA</i>
<i>financial institution</i>	<i>Article 4(1)(26) CRR</i>
<i>financial holding company</i>	<i>Article 4(1)(20) CRR</i>
<i>institution</i>	<i>Article 4(1)(3) CRR</i>
<i>mixed financial holding company</i>	<i>Article 4(1)(21) CRR</i>
<i>parent undertaking</i>	<i>Article 4(1)(15) CRR</i>
<i>participation</i>	<i>Article 4(1)(35) CRR</i>
<i>subsidiary</i>	<i>Article 4(1)(16) CRR</i>

**PRA RULEBOOK: CRR FIRMS, NON CRR FIRMS AND NON AUTHORISED PERSONS:
DEPOSITOR PROTECTION AND DORMANT ACCOUNT SCHEME (AMENDMENT No. 6)
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);
 - (2) section 137T (General supplementary powers);
 - (3) section 138D(1), (4) and (6) (Actions for damages);
 - (4) section 213 (The Compensation scheme); and
 - (5) 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.

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 and Non Authorised Persons: Depositor Protection and Dormant Account Scheme (Amendment No. 6) Instrument 2015

- D. The PRA makes the rules in Annex A and Annex B to this instrument.

Commencement

- E. This instrument comes into force on 1 August 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms, Non CRR Firms and Non Authorised Persons: Depositor Protection and Dormant Account Scheme (Amendment No.6) Instrument 2015

By order of the Board of the Prudential Regulation Authority

31 July 2015

Annex A

Amendments to the Depositor Protection Part

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

...

17 FIRMS' DISCLOSURE OBLIGATIONS – STATEMENTS OF ACCOUNT

17.1 A *firm* must:

- (1) confirm that *deposits* are *eligible deposits* (if that is the case) on a *depositor's* statement of account;
- (2) include a reference to the *information sheet* and a reference to the *exclusions list* on ~~in~~ a *depositor's* statement of account;
- (3) at least annually:
 - (a) provide to the *depositor*:
 - (i) the *information sheet*; and
 - (ii) the *exclusions list*; and
 - (b) if applicable, inform the *depositor* of the exclusions from *deposit guarantee scheme* protection that fall within 2.2(4)(b) and 2.2(4)(k); and
- (4) include the following information ~~in~~ on a *depositor's* statement of account:

For further information about the compensation provided by the FSCS, refer to the FSCS website at www.FSCS.org.uk .
--

17.2 If the *depositor* receives statements of account, the ~~The~~ information set out in 17.1(3) must be provided in or with such a ~~*depositor's* statement of account.~~

...

57 TRANSITIONAL PROVISIONS – WITHDRAWALS

57.1 ~~This Chapter does not apply to the FSCS.~~

57.2 A *firm* must, as soon as reasonably practicable and in any event no later than 1 October 2015, notify any *affected person* identified in accordance with 57.4 about the change to the *coverage level*.

57.3 A notification under 57.2 must include:

- (1) a statement explaining that on 1 January 2016, the *affected person's eligible deposits* will be covered by the FSCS up to the *coverage level*; and
- (2) an explanation of how the *affected person* may request to reduce their aggregate *eligible deposits* in accordance with 57.6.

57.4 A *firm*:

- (1) must identify its *affected persons* for the purposes of 57.2 by reference to a date that is as close as reasonably practicable to the date on which it starts sending those notifications; and
- (2) may exclude *restricted persons* from the notification in 57.2.

57.5 57.6 applies where the following conditions are met:

- (1) a *person* (or a *person* who has authority to act on behalf of that *person*) makes a request to a *firm* that has the effect of being a request to reduce that *person's* aggregate *eligible deposits*;
- (2) the request is made on or before 31 December 2015;
- (3) that *person* is an *affected person* on the date on which the request is made; and
- (4) the request is not made subsequent to a previous payment made under 57.6.

57.6 If a *firm* receives a request that meets the conditions in 57.5, it must, by the earlier of:

- (1) two months of receipt of that request; and
- (2) 31 January 2016,

enable the *affected person* to reduce their aggregate *eligible deposits* by only an amount determined in accordance with 57.7 and 57.8 without charge, penalty or loss of interest.

57.7 The amount referred to in 57.6 in relation to an *affected person* is the lesser of:

- (1) the amount requested in accordance with 57.5(1);
- (2) the larger of:
 - (a) the excess above the *coverage level* held by that *person* at the date of that request; or
 - (b) the excess above the *coverage level* that is reasonably likely, taking account of the accrual of interest or additional credits required by that *person's* contract with the *firm*, to be held by that *person*, on:
 - (i) 1 January 2016; or
 - (ii) the maturity of an account or product held by that *person* at the date of that request; and
- (3) £10,000.

57.8 In the case of a *joint account*, the amount in 57.7 shall be calculated for each *affected person* on the basis set out in 5.4 and 5.5.

57.9 Where a request is made before 1 October 2015 that has not been actioned by the *firm* at that date, but which meets the conditions in 57.5, the time period in 57.6(1) is deemed to commence on 1 October 2015.

57.10 A *firm* may determine the account or product from which the *eligible deposits* are withdrawn under 57.6, except it may not determine the *eligible deposits* are withdrawn from a transactional account without the consent of the *affected person* (or a *person* who has authority to act on behalf of the *affected person*).

57.11 57.6 does not:

- (1) prevent the *firm*:
 - (a) calculating interest in respect of the period after the reduction under that rule to reflect the reduced amount of the deposit; or
 - (b) adjusting the rate of interest in respect of the period after the reduction under that rule in accordance with a pre-existing link in the deposit contract between the rate of interest and the size of the deposit;
- (2) prevent a *credit union* or a *Northern Ireland credit union* calculating a discretionary dividend on a share account by reference to the *affected person's* balance on a single reference date if this is its usual practice; or
- (3) require a *firm* to enable a *restricted person* to reduce their aggregate *eligible deposits*.

57.12 A contravention of 57.6 by a *firm* is actionable at the suit of a *private person* who suffers loss as a result of the contravention, subject to the defences and other incidents applying to actions for breach of statutory duty.

57.13 A person who is not a *private person* may exercise the right afforded by 57.12, if a case prescribed by regulation 6(2) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 for the purposes of section 138D(4) Financial Services and Markets Act 2000 applies,

57.14 57.6 comes into force on 1 October 2015.

57.15 In this Chapter the following definitions shall apply:

affected person

means a "relevant person", within the meaning given in regulation 7A(4) of the *deposit guarantee scheme regulations*, whose aggregate *eligible deposits*:

- (1) are greater than the *coverage level* (unless the *firm* is required to make payments to or to the order of that *person* before 1 January 2016 that are likely to result in that *person* ceasing to have aggregate *eligible deposits* over the *coverage level* on that date); or
- (2) are reasonably likely, on:
 - (a) 1 January 2016; or
 - (b) the maturity of an account or product held by that *person*,

to be greater than the *coverage level*, taking account of the accrual of interest or additional credits required by that *person's* contract with the *firm*; and

coverage level

means the coverage level set out in 4.2, as that provision is applied on 1 January 2016;

restricted person

means an *affected person* in relation to whom a *firm* will only be able to comply with 57.6:

- (a) in contravention of a legal requirement on the *firm*;
- (b) in contravention on the *firm's* policy on managing the risk of "money laundering", within the meaning given in the *FCA Handbook*; or
- (c) by allowing the withdrawal of a deposit that is held as collateral by the *firm* for an amount owed to it (provided that the *firm* has given the *affected person* or a person for whom the *affected person* is providing surety the option of repaying the indebtedness and reducing the collateral deposit under 57.6 by equivalent amounts).

private person

has the meaning given by regulation 3 of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001.

ANNEX 1

INFORMATION SHEET (CHAPTER 16)

...

⁴Reimbursement

...

Where the FSCS cannot make the repayable amount available within 7 working days, it will, from 1 June 2016 until 31 December 2023, ensure that you have access to an appropriate amount of your covered deposits to cover the cost of living (in the case of a depositor which is an individual) or to cover necessary business expenses or operating costs (in the case of a depositor which is not an individual or a large company) within 5 working days of a request. Again, there are specific exceptions to this obligation.

In the case of a depositor which is a large company, where the FSCS cannot make the repayable amount available within 7 working days, it will, from 3 July 2015 until 1 December 2016, ensure that you have access to your covered deposits within fifteen working days of a request containing sufficient information to enable it to make a payment, save where specific exceptions apply.

In the case of a depositor which is a small local authority, where the FSCS cannot make the repayable amount available within 7 working days, it will, from 3 July 2015 until 1 June 2016, ensure that you have access to your covered deposits within fifteen working days of a request containing sufficient information to enable it to make a payment, save where specific exceptions apply.

...

Annex B

Amendments to the Dormant Account Scheme Part

In this Annex, new text is underlined.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

class J tariff base

means protected dormant accounts multiplied by 0.2 as at 31 December.

...

Appendix 1.1

PRA RULEBOOK: PASSPORTING 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);
 - (2) section 137T (General supplementary powers);
 - (3) paragraphs 19(10) and 20(4C) of Schedule 3 (EEA Passport Rights) Part III (Exercise of Passport Rights by UK firms); and
 - (4) paragraph 5 (4) of Schedule 4 (Treaty Rights: Notice to UK regulator)
- 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.

PRA Rulebook: Passporting Instrument 2015

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

Commencement

- E. This instrument comes into force on 3 August 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: Passporting Instrument 2015.

By order of the Board of the Prudential Regulation Authority

31 July 2015

Annex A

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

Part

PASSPORTING

Chapter content

1. APPLICATION AND DEFINITIONS
2. NOTICE OF INTENTION TO ESTABLISH A BRANCH
3. UK PURE REINSURERS ESTABLISHING A BRANCH
4. NOTICE OF INTENTION TO PROVIDE CROSS BORDER SERVICES
5. NOTICE OF CHANGE OF DETAILS TO A BRANCH
6. NOTICE OF CHANGE OF DETAILS TO CROSS BORDER SERVICES
7. FORM AND METHOD OF NOTIFICATION
8. RECORD KEEPING
9. TREATY FIRMS
10. FORMS

Links

1 APPLICATION AND DEFINITIONS

- 1.1 Unless otherwise stated, this Part applies to a *UK firm* that is a *PRA-authorised person*.
- 1.2 In this Part, the following definitions shall apply:

EEA Passport Rights Regulations

means the Financial Services and Markets Act 2000 (EEA Passport Rights) Regulations 2001.

EEA right

includes Article 4 (3) of the Financial Services and Markets Act (2000) (Gibraltar) Order 2001.

financial institution

has the meaning in Article 4 (26) of the *CRR*.

pure reinsurer

means an *insurer* whose *insurance business* is restricted to reinsurance.

UK firm

includes a *financial institution* that fulfils the conditions in Article 34 *CRD*.

2 NOTICE OF INTENTION TO ESTABLISH A BRANCH

- 2.1 This chapter applies to a *UK firm* other than a *pure reinsurer*.
- 2.2 A *UK firm* wishing to establish a *branch* within the territory of another *EEA State* for the first time under an *EEA right* other than derived from the *CRD* must notify the *PRA* of its intention by submitting the form referred to in 10.1 (Branch Notification Form).
- 2.3 A *UK firm* wishing to establish a *branch* within the territory of another *EEA State* for the first time under an *EEA right* derived from the *CRD* must comply with the information requirements set out in Commission Delegated Regulation (EU) 1151/2014 and notify the *PRA* of its intention by submitting the form in Annex I of Commission Implementing Regulation (EU) 926/2014 and the form referred to in 10.3 (CRD Declaration).

3 UK PURE REINSURERS ESTABLISHING A BRANCH

- 3.1 This chapter applies to a *pure reinsurer*.
- 3.2 A *pure reinsurer* establishing a *branch* within the territory of another *EEA state* for the first time under an *EEA right* must notify the *PRA* by submitting the form referred to in 10.1 (Branch notification form). Whenever possible, this notification must be made as soon as the information specified in that form is known by the *firm*.

4 NOTICE OF INTENTION TO PROVIDE CROSS BORDER SERVICES

- 4.1 A *UK firm* intending to provide *cross border services* within the territory of another *EEA State* for the first time under an *EEA right* other than derived from the *CRD* must notify the *PRA* of its intention by submitting the form referred to in 10.2 (Cross Border Services Notification Form).
- 4.2 A *UK firm* intending to provide *cross border services* within the territory of another *EEA State* for the first time under an *EEA right* derived from the *CRD* must comply with the information requirements set out in Commission Delegated Regulation (EU) 1151/2014 and notify the *PRA* of its intention by submitting the form in Annex V of Commission Implementing Regulation 926/2014 and the form referred to in 10.3 (CRD Declaration).

5 NOTICE OF CHANGE OF DETAILS TO A BRANCH

- 5.1 A *UK firm* other than a *pure reinsurer* exercising an *EEA right* other than derived from the *CRD* that is required by the *EEA Passport Rights Regulations* to submit a notice of a change to a *branch* to the *PRA* must notify the *PRA* by submitting the form referred to in 10.1 (Branch Notification Form).
- 5.2 A *pure reinsurer* exercising an *EEA right* to establish a *branch* in another *EEA State* must notify the *PRA* of any change in the information specified in the Branch Notification Form at 10.1. Whenever possible, this notification must be made as soon as the change in information is known by the *firm*.
- 5.3
- (1) A *UK firm* that has exercised an *EEA right* under the *CRD* and established a *branch* in another *EEA State* must comply with the information requirements set out in Commission Delegated Regulation (EU) 1151/2014 and notify the *PRA* of a change to the *branch* by submitting the form in Annex I of Commission Regulation 926/2014 and the form referred to in 10.3 (CRD Declaration) except where the change relates to a planned termination of the operation of the *branch*.
- (2) A *UK firm* that has exercised an *EEA right* under the *CRD* and established a *branch* in another *EEA State* and that plans to terminate the operation of the *branch* must comply with the information requirements set out in Commission Delegated Regulation (EU) 1151/2014 and notify the *PRA* by submitting the form in Annex IV of Commission Implementing Regulation 926/2014 and the form referred to in 10.3 (CRD Declaration).

6 NOTICE OF CHANGE OF DETAILS TO CROSS BORDER SERVICES

- 6.1 A *UK firm* that is required by the *EEA Passport Rights Regulations* to submit a notice of a change to *cross border services* must notify the *PRA* by submitting the form referred to in 10.2 (Cross Border Services Notification Form).

7 FORM AND METHOD OF NOTIFICATION

- 7.1 This Chapter applies to a *UK firm* other than a *credit union*.

- 7.2 A *UK firm* must submit any notice including a notice of changes under this Part or under the *EEA Passport Rights Regulations* by:
- (1) electronic mail to pra-passporting@bankofengland.co.uk; or
 - (2) post to the *PRA*: The Prudential Regulation Authority, 20 Moorgate, London, EC2R 6DA.

8 RECORD KEEPING

- 8.1 A *UK firm* which is exercising an *EEA right* must make a record of:
- (1) the services or activities it carries on from a *branch* in, or provides cross-border into, the territory of another *EEA State* under that *EEA right*; and
 - (2) the details relating to those services or activities as set out in the *EEA Passport Rights Regulations* or the Commission Delegated Regulation (EU) 1151/2014 and Commission Implementing Regulation (EU) 926/2014 as applicable.
- 8.2 A *UK firm* passporting under *MiFID* must retain the record under 8.1 for five years from the earlier of the date on which:
- (1) it was superseded by a more up-to-date record; or
 - (2) the *UK firm* ceased to have a *branch* in, or carry on *cross border services* into, the territory of any *EEA State* under an *EEA right*.
- 8.3 A *UK firm* passporting under any *EEA right* other than derived from *MiFID* must retain the record under 8.1 for three years from the earlier of the date on which:
- (1) it was superseded by a more up-to-date record; or
 - (2) the *UK firm* ceased to have a *branch* in, or carry on *cross border services* into, any *EEA State* under an *EEA right*.

9 TREATY FIRMS

- 9.1 The *PRA* directs that a written notice from a *Treaty firm* under paragraph 5 (2) of Schedule 4 to *FSMA* must be:
- (1) addressed to the attention of the authorisations team in the *PRA*; and
 - (2) delivered by one of methods set out in 9.2.
- 9.2 The *PRA* directs that the written notice referred to in 9.1 may be delivered by:
- (1) post to the *PRA*: The Prudential Regulation Authority, 20 Moorgate, London, EC2R 6DA; or
 - (2) leaving the application at the reception of the *PRA* at the address set out in (1).
- 9.3 Each direction in SUP 13A.3.7 of the *PRA Handbook* continues to have effect from the date the relevant direction was given to the date on which the direction in 9.1 and 9.2 has effect.

10 FORMS

- 10.1 The Branch Notification Form can be found here (see Appendix 1a).
- 10.2 The Cross Border Services Notification Form can be found here (see Appendix 1b).
- 10.3 The CRD Declaration can be found here (see Appendix 1c).

**PRA RULEBOOK: CRR FIRMS: REVERSE STRESS TESTING (AMENDMENT TO ICAA)
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);
 - (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.

PRA Rulebook: CRR Firms: Reverse Stress Testing (Amendment to ICAA) Instrument 2015

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

Commencement

- E. This instrument comes into force on 3 August 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Reverse Stress Testing (Amendment to ICAA) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

31 July 2015.

Annex

Amendments to the Internal Capital Adequacy Assessment Part

In this Annex new text is underlined.

Part

INTERNAL CAPITAL ADEQUACY ASSESSMENT

Chapter content

...

15 REVERSE STRESS TESTING

...

1 APPLICATION AND DEFINITIONS

1.1 ...

1.2 In this Part, the following definitions shall apply:

...

third country sub-group

means a group of undertakings identified in Article 22 of the CRR which are required to be supervised on a consolidated basis under Article 22 of the CRR.

...

15 REVERSE STRESS TESTING

Application

15.1 This Chapter applies to a CRR firm.

Reverse stress testing

15.2 As part of its business planning and risk management obligations, including under the Risk Control Part of the PRA Rulebook, a firm must reverse stress test its business plan; that is, it must carry out stress tests and scenario analyses that test its business plan to failure. To that end, the firm must:

- (1) identify a range of adverse circumstances which would cause its business plan to become unviable and assess the likelihood that such events could crystallise; and
- (2) where those tests reveal a risk of business failure that is unacceptably high when considered against the firm's risk appetite or tolerance, adopt effective arrangements, processes, systems or other measures to prevent or mitigate that risk.

15.3 Where the firm is a member of:

- (1) a UK consolidation group; or
- (2) a third country sub-group;

it must conduct the reverse stress test on an individual basis as well as on a consolidated basis in relation to the UK consolidation group or the third country sub-group, as the case may be.

15.4 The design and results of a firm's reverse stress test must be documented and reviewed and approved at least annually by the firm's senior management or governing body. A firm must update its reverse stress test more frequently if it is appropriate to do so in the light of substantial changes in the market or in macroeconomic conditions.

...

Part

INTERNAL CAPITAL ADEQUACY ASSESSMENT

Externally defined glossary terms

Term	Definition source
...	...
<u>investment</u>	<u>s22(4) FSMA</u>

PRA RULEBOOK: CHANGE IN CONTROL 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);
 - (2) section 137T (general supplementary powers);
 - (3) section 179 (Requirements for section 178 notices); and
 - (4) section 191E (Requirements for notices under section 191D).
- B. The rule-making powers (section 137G and section 137T of the Act) 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: Change in Control Instrument 2015

- D. The PRA makes the rules and gives the directions in Annex A to this instrument.

Commencement

- E. This instrument comes into force on 3 August 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: Change in Control Instrument 2015.

By order of the Board of the Prudential Regulation Authority

31 July 2015

Annex A

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

Part

CHANGE IN CONTROL

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. OBLIGATIONS ON CONTROLLERS AND PROPOSED CONTROLLERS**
- 3. OBLIGATIONS ON FIRMS**
- 4. ONGOING NOTIFICATION REQUIREMENTS**
- 5. ANNUAL CONTROLLERS REPORT**
- 6. FORMS**

Links

1 APPLICATION AND DEFINITIONS

- 1.1 (1) Unless otherwise stated, this Part applies to every *firm* except:
- (a) an *incoming firm*;
 - (b) a *non-directive friendly society*.
- (2) Chapter 5 (Annual Controllars Report) does not apply to a *credit union*.
- (3) The *PRA* directs that Chapter 2 (Obligations on Controllars) applies to *persons* required to give to the *PRA* a *section 178 notice* or a notice under section 191D of *FSMA*.

- 1.2 In this Part, the following definitions shall apply:

acquiring control

has the meaning given in section 181 of *FSMA*, read in conjunction with the *Exemption Order*.

Annual Controllars Report

means the relevant form referred to in Chapter 6.6

ceasing to have control

has the meaning given in section 183(3) of *FSMA*, read in conjunction with the *Exemption Order*.

change in control

means any situation amounting to *acquiring control*, *ceasing to have control*, *increasing control*, or *reducing control*.

controller

has the meaning given in section 422 of *FSMA*, read in conjunction with the *Exemption Order*.

Controller's Form

means the relevant form referred to in Chapter 6.1 to 6.5.

Exemption Order

means the Financial Services and Markets Act 2000 (Controllars) (Exemption) Order 2009 (SI 2009/774).

increasing control

has the meaning given in section 182 of *FSMA*, read in conjunction with the *Exemption Order*.

investment manager

has the meaning given in the *FCA Handbook* from time to time other than for the purposes of the part of the *FCA Handbook* in Specialist sourcebooks that has the title Listing Rules.

reducing control

has the meaning given in section 183(1) and (2) of *FSMA*, read in conjunction with the *Exemption Order*.

section 178 notice

has the meaning given in section 178(3) of *FSMA*.

UK domestic firm

means a *firm* that has its registered office (or, if it has no registered office, its head office) in the United Kingdom.

2 OBLIGATIONS ON CONTROLLERS AND PROPOSED CONTROLLERS

- 2.1 The *PRA* directs that a *person* submitting a *section 178 notice* in accordance with section 178(1) of *FSMA* must do so using the relevant *Controller's Form*.
- 2.2 (1) The *PRA* directs that a *person* who has submitted a *section 178 notice* must notify the *PRA* immediately if the *person* becomes aware, or has information which reasonably suggests, that the *person* has or may have provided the *PRA* with information which was or may have been false, misleading, incomplete or inaccurate, or has or may have changed in a material particular.
- (2) The notification must include:
- (a) details of the information which is or may be false, misleading, incomplete or inaccurate, or has or may have changed;
 - (b) an explanation of why such information was or may have been provided; and
 - (c) the correct information.
- (3) If the information in (2)(c) is not immediately available for submission with the *section 178 notice*, the *PRA* directs that the information must instead be submitted as soon as possible.
- (4) The requirement in (1) ceases if the *change in control* occurs or will not take place.
- 2.3 The *PRA* directs that a notice under section 191D of *FSMA* must provide details of the extent of control (if any) that the *controller* will have following the *change in control*.
- 2.4 Where a *controller* or proposed *controller* that is an *investment manager* is complying with the directions in 2.1 and 2.3 in connection with the acquiring or disposal of listed shares in the course its fund management activity, the *PRA* directs that it may use the *Controller's form* at 6.5.

3 OBLIGATIONS ON FIRMS

3.1 A *UK domestic firm*, other than a *non-directive firm* or a *building society*, must notify the *PRA* of:

- (1) a *person acquiring control* over the *firm*;
- (2) an existing *controller increasing control* over the *firm*;
- (3) an existing *controller reducing control* over the *firm*; or
- (4) an existing *controller ceasing to have control* over the *firm*.

3.2 A *building society* or a *non-directive firm* must notify the *PRA* of:

- (1) a *person acquiring control* over the *firm*; or
- (2) an existing *controller ceasing to have control* over the *firm*

unless that *person's acquiring* or *ceasing to have control* is exempt from the notification requirement in sections 178 or 191D of *FSMA* by virtue of the *Exemption Order*.

3.3 An *overseas firm* other than an *incoming firm* must notify the *PRA* of:

- (1) a *person acquiring control* over the *firm*;
- (2) an existing *controller increasing control* over the *firm*;
- (3) an existing *controller reducing control* over the *firm*; or
- (4) an existing *controller ceasing to have control* over the *firm*.

3.4 The notifications in 3.1 to 3.3 must:

- (1) be made:
 - (a) as soon as the *firm* becomes aware that a *person*, whether alone or acting in concert, has decided to *acquire control*, to *increase control* or to *reduce control*; or
 - (b) if the *change in control* takes place without the knowledge of the *firm*, within 14 days of the *firm* becoming aware of the *change in control* concerned;
- (2) in relation to *acquiring control* or *increasing control*, contain as much of the following information as the *firm* is able to provide, having made reasonable enquiries from *persons* and other sources as appropriate:
 - (a) the name of the *firm*;
 - (b) the name of the *controller* or proposed *controller* and, if it is a body corporate and is not an authorised person, the names of its directors and its *controllers*;
 - (c) a description of the proposed event including the shareholding and voting power of the *person* concerned, both before and after the *change in control*; and
 - (d) any other information of which the *PRA* would reasonably expect notice;

- (3) in relation to a *reducing control*, contain the following:
- (a) the name of the *controller*; and
 - (b) details of the extent of control (if any) which the *controller* will have following the reduction in *control*.
- 3.6 (1) A *UK domestic firm* must notify the *PRA* immediately if, in the period between a *section 178 notice* being submitted and the occurrence of the *change in control*, the *firm* becomes aware, or has information which reasonably suggests, that the *person* submitting the notice has or may have provided the *PRA* with information which was or may have been false, misleading, incomplete or inaccurate, or has or may have changed in a material particular.
- (2) The notification must include:
- (a) details of the information which is or may be false, misleading, incomplete or inaccurate, or has or may have changed;
 - (b) an explanation why such information was or may have been provided; and
 - (c) the correct information.
- (3) If the information in (2)(c) is not immediately available for submission with the notification, the information must instead be submitted as soon as possible.
- 3.7 During the period referred to in 3.6, a *UK domestic firm* must take reasonable steps to keep itself informed about the circumstances of the *controller* or the proposed *controller* to which the notification related.
- 3.8 A *firm* must notify the *PRA*:
- (1) when a *change in control* which was previously notified under 3.1 to 3.3 has taken place; or
 - (2) if the *firm* has grounds for reasonably believing that the event will not now take place.
- 3.9 The notification under 3.8 must be given within 14 days of the *change in control* or of having the grounds (as applicable).

4 ONGOING NOTIFICATION REQUIREMENTS

- 4.1 A *firm* must notify *PRA* immediately it becomes aware of any of the following matters in respect of one or more of its *controllers*:
- (1) if a *controller*, or any entity subject to his *control*, is or has been the subject of any legal action or investigation which might put into question the integrity of the *controller*;
 - (2) if there is a significant deterioration in the financial position of a *controller*;
 - (3) if a corporate *controller* undergoes a substantial change or series of changes in its *governing body*;

- (4) if a *controller*, who is authorised in another *EEA State* as a MiFID investment firm, *CRD credit institution* or UCITS management company or under the *Insurance Directives* or the *Insurance Mediation Directive*, ceases to be so authorised (registered in the case of an *IMD insurance intermediary*).

4.2 A *firm* must take reasonable steps to keep itself informed about *controllers*, including if applicable:

- (1) monitoring its register of shareholders (or equivalent);
- (2) monitoring notifications to the *firm* in accordance with Part 22 of the Companies Act 2006;
- (3) monitoring public announcements made under the relevant disclosure provisions of the Takeover Code or other rules made by the Takeover Panel;
- (4) monitoring the entitlement of delegates, or persons with voting rights in respect of group insurance contracts, to exercise or control voting power at general meetings.

5 ANNUAL CONTROLLERS REPORT

5.1 A *firm* must submit (or procure that another *firm* in its *group* submits) to the PRA, by electronic means, a written *Annual Controllers Report* which contains the information specified in the form referred to at 6.6, within four months of the *firm's accounting reference date*.

Exemptions

- 5.2 A *friendly society* or a *building society* is only required to submit a report under 5.1 if it is aware that it has a *controller*.
- 5.3 In relation to a *building society*, a *controller* does not include a *person* who is exempt from the obligation to notify a *change in control* under the *Exemption Order*.
- 5.4 An *insurer* need not submit a report under 5.1 to the extent that the information has already been provided to the PRA under *IPRU(INS) 9.30 R* (Additional information on controllers).

6 FORMS

- 6.1 The *Controllers Form* to be used by a limited company or limited liability partnership can be found [here](#).
- 6.2 The *Controllers Form* to be used by a partnership is can be found [here](#).
- 6.3 The *Controllers Form* to be used by an individual (other than in that individual's capacity as a trustee, settler or beneficiary of a trust) can be found [here](#).
- 6.4 The *Controllers Form* to be used by a *person* in their capacity as a trustee, settler or beneficiary of a trust can be found [here](#).
- 6.5 The *Controllers Form* to be used by a *person* in their capacity as an *investment manager* can be found [here](#).
- 6.6 The *Annual Controllers Report* can be found [here](#).

Appendix 1.6

PRA RULEBOOK: CLOSE LINKS 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: Close Links Instrument 2015

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

Commencement

- E. This instrument comes into force on 3 August 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: Close Links Instrument 2015.

By order of the Board of the Prudential Regulation Authority

31 July 2015

Annex A

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

Part

CLOSE LINKS

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. REQUIREMENT TO NOTIFY CHANGES IN CLOSE LINKS**
- 3. ELECTION TO NOTIFY CHANGES IN CLOSE LINKS ON A MONTHLY BASIS**
- 4. ANNUAL CLOSE LINKS REPORT**
- 5. FORMS**

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* except an *incoming firm*.

1.2 In this Part, the following definitions shall apply:

close links

has the meaning given in *threshold condition* 5F(3) (Effective Supervision).

Close Links Annual Report

means the form referred to at 5.3.

Close Links Monthly Report

means the form referred to at 5.2.

Close Links Notification Form

means the form referred to at 5.1.

2 REQUIREMENT TO NOTIFY CHANGES IN CLOSE LINKS

2.1 A *firm* must notify (or procure that another *firm* in its *group* notifies) the *PRA* that it has begun to have or ceased to have *close links* with any *person*.

2.2 Where a *firm* has elected to report changes in *close links* on a monthly basis under 3.1, it must:

(1) within fifteen *business days* of the end of each month, report (or procure that another *firm* in its *group* reports) electronically for that month, by completing the *Close Links Monthly Report* and submitting it through the relevant platform provided by the *PRA*;

(2) on a quarterly basis, submit (or procure that another *firm* in its *group* submits) a *group* organisation chart, unless there have been no changes since the submission of the previous organisation chart to the *PRA*, in which case the *group* organisation chart is not required.

2.3 The *Close Links Monthly Report* must include the information specified in the form.

2.4 Where a *firm* has not elected to report changes in *close links* on a monthly basis under 3.1, it must make (or procure that another *firm* in its *group* makes) a notification by completing the *Close Links Notification Form* as soon as reasonably practicable and no later than one month after it becomes aware that it has begun to have or ceased to have *close links* with any *person*.

2.5 The notification submitted under 2.4 must be made by completing the *Close Links Notification Form* and must include all the relevant information specified therein.

3 ELECTION TO NOTIFY CHANGES IN CLOSE LINKS ON A MONTHLY BASIS

- 3.1 A *firm* wishing to report changes in *close links* on a monthly basis must send a written notice of election to the *firm's* usual supervisory contact at the *PRA*.
- 3.2 A *firm* wishing to cease reporting changes in *close links* on a monthly basis must send a written notice of that intention to its usual supervisory contact at the *PRA* at least one month before changing its *close links* reporting practice.

4 ANNUAL CLOSE LINKS REPORT

- 4.1 A *firm* must submit (or procure that another *firm* in its *group* submits) annually by electronic means to the *PRA* the *Close Links Annual Report*, within four months of the *firm's* *accounting reference date*.
- 4.2 An unincorporated *friendly society* is only required to submit a report under 4.1 if it is aware that it has *close links*.
- 4.3 The *Close Links Annual Report* must include the information specified in the form.

5 FORMS

- 5.1 The *Close Links Notification Form* can be found [here](#).
- 5.2 The *Close Links Monthly Report* can be found [here](#).
- 5.3 The *Close Links Annual Report* can be found [here](#).

Part

CLOSE LINKS

Externally defined glossary terms

Term	Definition source
<i>friendly society</i>	<i>s417 FSMA</i>
<i>group</i>	<i>s421 FSMA</i>
<i>person</i>	<i>Schedule 1 Interpretation Act 1978</i>
<i>threshold condition</i>	<i>s55B(1) FSMA</i>

Appendix 1.7

HANDBOOK (RULEBOOK CONSEQUENTIALS NO. 3) 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);
 - (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.

Amendments

- D. 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	A
Credit Unions sourcebook (CREDS)	B
Senior Management Arrangements, Systems and Controls (SYSC)	C
General Provisions (GEN)	D
Supervision (SUP)	E
Supervision (SUP)	F
General Prudential sourcebook (GENPRU)	G
Interim Prudential sourcebook for Insurers (IPRU-INS)	H
Credit Unions sourcebook (CREDS)	I
Glossary	J

Deletion

- E. Each of the modules, sourcebooks and sections of the PRA’s Handbook listed in Annex K are deleted.

Commencement

- F. Annexes A, B, C, D, E and K to this instrument come into force on 3 August 2015.
Annexes F, G, H, I and J to this instrument come into force on 1 January 2016.

Citation

- G. This instrument may be cited as the Handbook (Rulebook Consequentials No. 3) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

31 July 2015

Annex A

Amendments to the Glossary

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

<i>client money</i>	(1)	...
	(2)	...
	(3)	(in MIPRU): <u>[deleted]</u>
	(a)	in relation to an insurance intermediary when acting as such, money which is client money in (2) ; <u>[deleted]</u>
	(b)	in relation to a home finance intermediary when acting as such, money of any currency which in the course of carrying on home finance mediation activity, the firm holds on behalf of a client, either in a bank account or in the form of cash. <u>[deleted]</u> .
	...	
...		
<i>common platform firm</i>	(A)	In the <i>PRA Handbook</i> (except SYSC 4-9):
		...
	(AB)	In the <i>PRA Handbook</i> (in SYSC 4-9), has the same meaning as in (A) except that it excludes <u>a CRR firms (other than an incoming firm)</u> .
...		
<i>director</i>	(1)	(except in <i>COLL</i> , <i>DTR</i> , <i>LR</i> and <i>PR</i>) (in relation to any of the following (whether constituted in the <i>United Kingdom</i> or under the law of a country or territory outside it)):
	(a)	...
	(b)	...

		(c)	(in SYSC, MIPRU 2 (Insurance mediation activity: responsibility, knowledge, ability and good repute) and SUP 10 (Approved persons)) a <i>partnership</i> ;
		(d)	...
	...		
...			
<i>exposure</i>	(1)		...
	(2)		(in accordance with Article 77 of the <i>Banking Consolidation Directive</i> and for the purposes of the calculation of the <i>credit risk capital component</i> and the <i>counterparty risk capital component</i> (including BIPRU 3 (Standardised credit risk) , BIPRU 4 (The IRB approach) , BIPRU 5 (Credit risk mitigation) , BIPRU 9 (Securitisation) or for the purposes of the calculation of the <i>credit risk capital requirement</i> in MIPRU 4.2 (Capital resources requirement)) an asset or off-balance sheet item. <u>[deleted]</u>
	(3)		(for the purposes of BIPRU 10 (Large exposures requirements)) has the meaning in BIPRU 10.2 (Identification of exposures and recognition of credit risk mitigation) . <u>[deleted]</u>
...			
<i>listed</i>	(A)		In the <i>PRA Handbook</i> :
		(1)	(except in SUP 11, INSPRU and <i>IPRU(INS)</i>) included in an official list.
		(2)	(in SUP 11, INSPRU and <i>IPRU(INS)</i>):
			...
...			
<i>non-directive firm</i>			(in SUP 11 (Controllers and close links) and SUP 16 (Reporting requirements)) (in accordance with the Financial Services and Markets Act 2000 (Controllers) (Exemption) Order 2009 (SI 2009/774)) a <i>UK domestic firm</i> other than:

...		
<i>risk weight</i>	(in relation to an <i>exposure</i> for the purposes of <i>BIPRU</i>) a degree of risk expressed as a percentage assigned to that <i>exposure</i> in accordance with :	
	(a)	...
	(b)	{for a <i>firm</i> to which <i>MIPRU 4</i> applies}, <i>MIPRU 4.2A.10 R</i> to <i>MIPRU 4.2A.13 R</i> [deleted].
...		
<i>securitisation</i>	(1)	...
	(2)	{in accordance with Article 4(36) of the <i>Banking Consolidation Directive</i> (Definitions), in <i>BIPRU</i> and <i>MIPRU 4</i>} a transaction or scheme whereby the credit risk associated with an <i>exposure</i> or pool of <i>exposures</i> is <i>tranching</i> having the following characteristics: [deleted]
	(a)	payments in the transaction or scheme are dependent upon the performance of the <i>exposure</i> or pool of <i>exposures</i>; and [deleted]
	(b)	the subordination of <i>tranches</i> determines the distribution of <i>losses</i> during the ongoing life of the transaction or scheme [deleted].
...		
<i>sponsor</i>	(in <i>BIPRU</i>), in accordance with Article 4(42) of the <i>Banking Consolidation Directive</i> (Definitions) and in relation to a <i>securitisation</i> within the meaning of paragraph (2) of the definition of <i>securitisation</i>) an <i>undertaking</i> other than an <i>originator</i> that establishes and manages an <i>asset backed commercial paper programme</i> or other <i>securitisation</i> scheme that purchases <i>exposures</i> from third party entities <u>has the meaning</u> in article 4(1)(14) of the <i>EU CRR</i>.	

Annex B

Amendments to the Credit Unions sourcebook (CREDS)

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

...		
1.1		Application and purpose
...		
1.1.2	<u>G</u>	<p>(1) CREDS covers only the requirements associated with a Part 4A permission to accept deposits. The Conduct of Business sourcebook (COBS) sets out additional requirements for credit unions that are CTF providers in relation to cash deposit CTFs.<u>[deleted]</u></p> <p>(2) Other permissions are covered elsewhere in the Handbook. So, for example, a credit union seeking a permission to undertake a regulated mortgage activity would need to comply with the requirements in the Mortgages and Home Finance: Conduct of Business sourcebook (MCOB), and a credit union seeking a permission to undertake insurance mediation activity in relation to non-investment insurance contracts would need to comply with the requirements in the Insurance: Conduct of Business sourcebook (ICOBS).<u>[deleted]</u></p> <p>(3) The provisions of the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU) and the Interim Prudential sourcebook for Investment Businesses (IPRU(INV)) may also be relevant to a credit union whose Part 4A permission includes insurance mediation activity or mortgage mediation activity or which is a CTF provider with permission to carry on designated investment business.<u>[deleted]</u></p>
1.1.2B	<u>G</u>	<p>(1) <u>CREDS covers only the requirements associated with a Part 4A permission to accept deposits. The Conduct of Business sourcebook (COBS) sets out additional requirements for credit unions that are CTF providers in relation to cash deposit CTFs.</u></p> <p>(2) <u>Other permissions are covered elsewhere in the Handbook. So, for example, a credit union seeking a permission to undertake a regulated mortgage activity would need to comply with the requirements in the Mortgages and Home Finance: Conduct of Business sourcebook (MCOB), and a credit union seeking a permission to undertake insurance mediation activity in relation to non-investment insurance contracts would need to comply with the requirements in the Insurance: Conduct of Business sourcebook (ICOBS).</u></p> <p>(3) <u>The provisions of the Interim Prudential sourcebook for Investment Businesses (IPRU(INV)) may also be relevant to a credit union whose Part 4A permission includes insurance mediation activity or mortgage mediation activity or which is a CTF provider with permission to carry on designated investment business.</u></p>

Annex C

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

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

...		
1.1A	Application	
...		
<u>1.1A.1A</u>	<u>G</u>	Chapters 4 to 9 are not applicable to <i>CRR firms</i> (<u>other than <i>incoming firms</i></u>). <i>CRR firms</i> are subject to the rules in the General Organisational Requirements Part of the <i>PRA</i> Rulebook.
...		
1 Annex 1	Detailed application of SYSC	
...		
Part 2	Application of the common platform requirements (SYSC 4 to 10)	
...		
2.1A	R	The <i>common platform organisational requirements</i> apply to every <i>firm</i> apart from a <i>CRR firm</i> (<u>other than an <i>incoming firm</i></u>), an <i>insurer</i> , a <i>managing agent</i> and <i>the Society</i> unless provided otherwise in a specific <i>rule</i> .
2.1B	R	SYSC 10 applies to every <i>firm</i> apart from an <i>insurer</i> , a <i>managing agent</i> and <i>the Society</i> unless provided otherwise in a specific <i>rule</i>. [deleted]
...		
Part 3	Tables summarising the application of the common platform requirements to different types of firm	
...		
3.2C	R	For a <i>common platform firm</i> other than a <i>CRR firm</i> (<u>other than an <i>incoming firm</i></u>), Provision SYSC 4 to Provision SYSC 9 apply in accordance with Column A in the table below.
3.2D	G	SYSC 4 to 9 are not applicable to a <u><i>CRR firms</i></u> (<u>other than an <i>incoming firm</i></u>). <u>A <i>CRR firm</i> (other than an <i>incoming firm</i>)</u> s are <u>is</u> subject to the rules in the General Organisational Requirements, Skills, Knowledge and Expertise, Compliance and Internal Audit, Risk Control, Outsourcing and Record Keeping Parts of the <i>PRA</i> Rulebook.

3.2E	R	For a common platform firm , Provision SYSC 10 applies in accordance with Column A in the table below <u>does not apply to PRA-authorised persons and the table below must be read accordingly.</u>
...		
3.3A	G	For all other <i>firms</i> apart from <i>CRR firms (other than incoming firms), insurers, managing agents, the Society and full-scope UK AIFMs of unauthorised AIFs</i> , they apply in accordance with Column B in the table below. For these <i>firms</i> , where a <i>rule</i> is shown modified in Column B as 'Guidance', it should be read as <i>guidance</i> (as if "should" appeared in that rule instead of "must") and should be applied in a proportionate manner, taking into account the nature, scale and complexity of the firm's business.
3.4	R	For the purposes of Provision <u>SYSC</u> 4 to Provision <u>SYSC</u> 9 in the table below, the references <u>to</u> :
		(1) "common platform firm" in Column A must be read as "a common platform firm apart from a CRR firm <u>CRR firm (other than an incoming firm)</u> "; and
		(2) "all other firms" in Column B must be read as "all other firms apart from CRR firms a <u>CRR firm (other than an incoming firm)</u> ".
		(3) <u>rules or guidance that apply to the UK branch of a non-EEA bank in accordance with Column B must not be applied by the UK branch of a non-EEA bank.</u>
		(4) SYSC 7.1.4A G is to be read as SYSC 7.1.4AA G.
3.5	R	For the purposes of Provision <u>SYSC</u> 4 to Provision <u>SYSC</u> 9 in the table below, Column B applies to <i>credit unions</i> only.
...		
7.1		Risk control
...		
<u>7.1.4A</u>	<u>G</u>	For a common platform firm included within the scope of SYSC 20 (Reverse stress testing), the strategies, policies and procedures for identifying, taking up, managing, monitoring and mitigating the risks to which the firm is or might be exposed include conducting reverse stress testing in accordance with SYSC 20. A common platform firm which falls outside the scope of SYSC 20 should consider conducting reverse stress tests on its business plan as well. This would further senior personnels understanding of the firm's vulnerabilities and would help them design measures to prevent or mitigate the risk of business failure. <u>[deleted]</u>
<u>7.1.4AA</u>	<u>G</u>	<u>For a common platform firm included within the scope of chapter 15 of the Internal Capital Adequacy Assessment Part of the PRA Rulebook, the</u>

		<p><u>strategies, policies and procedures for identifying, taking up, managing, monitoring and mitigating the risks to which the <i>firm</i> is or might be exposed include conducting reverse stress testing in accordance with chapter 15 of the Internal Capital Adequacy Assessment Part of the <i>PRA</i> Rulebook. A <i>common platform firm</i> which falls outside the scope of chapter 15 of the Internal Capital Adequacy Assessment Part of the <i>PRA</i> Rulebook should consider conducting reverse stress tests on its business plan as well. This would further <i>senior personnel's</i> understanding of the <i>firm's</i> vulnerabilities and would help them design measures to prevent or mitigate the risk of business failure.</u></p>	
...			
12.1	Application		
...			
12.1.13A	R	When applying SYSC 12.1.13R, <u>a <i>CRR firms</i> (other than an <i>incoming firm</i>)</u> must read references to:	
		(1)	...
...			
20.1	Application and purpose		
	Application		
20.1.1	R	(1)	SYSC 20 applies to:
		(a)	a <i>firm</i> which is <u>[deleted]</u> :
		(i)	a <i>bank</i> <u>[deleted]</u> ; or
		(ii)	a <i>building society</i> <u>[deleted]</u> ; or
		(iii)	a <i>designated investment firm</i> which meets any of the criteria set out in (2) on an individual basis, or in (3) on a consolidated basis <u>[deleted]</u> ; and
		(b)	an <i>insurer</i> unless it is:
		(i)	a <i>non-directive friendly society</i> ; or
		(ii)	a <i>Swiss general insurer</i> ; or
		(iii)	an <i>EEA-deposit insurer</i> ; or
		(iv)	an <i>incoming EEA firm</i> ; or
		(v)	an <i>incoming Treaty firm</i> .
		(2)	Subject to (4), SYSC 20 applies to a <i>designated investment firm</i> if <u>[deleted]</u> :

		(a)	it has assets under management or administration of at least £10 billion (or the equivalent amount in foreign currency) [deleted] ; or
		(b)	the total annual fee and commission income arising from its regulated activities is at least £250 million (or the equivalent amount in foreign currency) [deleted] ; or
		(c)	it has assets or liabilities of at least £2 billion (or the equivalent amount in foreign currency) [deleted] .
		(3)	Subject to (4), where all of the designated investment firms within the same consolidation group or non-EEA sub-group , taken together as if they were one firm , meet any of the criteria in (2), SYSC 20 applies to each of these designated investment firms as if it individually met the inclusion criteria in (2) [deleted] .
		(4)	Any designated investment firm which is included within the scope of SYSC 20 in accordance with (2) or (3) in any given year will continue to be subject to SYSC 20 for the following two years irrespective of whether or not it continues to meet the inclusion criteria ³ in any of those subsequent years [deleted] .

...

<u>20.1.4A</u>	<u>G</u>	The reverse stress testing requirements are an integral component of a <i>firm's</i> business planning and risk management under SYSC. For BIPRU firms as referred to in SYSC 20.1.1R (1)(a) , this chapter amplifies SYSC 7.1.1 G to SYSC 7.1.8 G on risk control. For <i>insurers</i> as referred to in SYSC 20.1.1R (1)(b), this chapter amplifies SYSC 14.1.17 G to SYSC 14.1.25 G on business planning and risk management.
...		
21.1		Risk control: guidance on governance arrangements
		Additional guidance on governance arrangements
...		
<u>21.1.1A</u>	<u>G</u>	References to " <i>firm</i> " in SYSC 21 should be read as excluding <i>CRR firms (other than incoming firms)</i> .
...		

Annex D

Amendments to General Provisions (GEN)

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

...		
2.2	Interpreting the Handbook	
...		
	Cross-references in the Handbook	
<u>2.2.13B</u>	<u>R</u>	<u>A reference in the <i>Handbook</i> to a provision in the <i>PRA</i> Rulebook is a reference to that provision as amended from time to time.</u>
...		

Annex E

Amendments to the Supervision manual (SUP)

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

...		
10B.6		PRA governing functions
...		
		Insurance mediation
10B.6.19	G	A firm carrying on insurance mediation activity, other than a sole trader, must allocate to a director or senior manager the responsibility for the firm's insurance mediation activity (MIPRU 2.2.1 R). MIPRU 2.2.2 R (1) provides that the firm may allocate this responsibility to one or more of the persons performing a governing function (other than the non-executive director function). <u>[deleted]</u>
10B.6.20	G	Where a person performing a governing function is also responsible for the firm's insurance mediation activity, the words "(insurance mediation)" will be inserted after the relevant PRA controlled function (see MIPRU 2.2.5 G). <u>[deleted]</u>
...		

16.1	Application
-------------	--------------------

...

16.1.3 R

(1) Section(s)	(2) Categories of firm to which section applies	(3) Applicable rules and guidance
...
<i>SUP</i> 16.4 and <i>SUP</i> 16.5 [FCA only]	All categories of <i>firm</i> except:	Entire sections
	(-a) a <i>credit union</i> ;	
	(a) an <i>ICVC</i> ;	
	(b) an <i>incoming EEA firm</i> ;	
	(c) an <i>incoming Treaty firm</i> ;	
	(d) a <i>non-directive friendly society</i> ;	
	(e) [deleted]	
	(f) a <i>sole trader</i> ;	
	(g) a <i>service company</i> ;	
	(h) a <i>UCITS qualifier</i> ;	
	(i) a <i>firm with permission to carry on only retail investment activities</i> ;	
	(j) a <i>firm with permission to carry on only insurance mediation activity, home finance mediation activity, or both</i> ;	
	(ja) an <i>FCA-authorized person with permission to carry on only credit-related regulated activity</i> ;	
	(k) a <i>firm falling within a combination of (i),(j) and (ja)</i> .	
...

...

16.3 General provisions on reporting

...

SUP 16.3.2A	G	This chapter has been split into the following sections, covering:	
		(1)	annual controllers reports (SUP 16.4) [deleted];
		(2)	annual close links reports (SUP 16.5) [deleted];
		...	
...			

16.3.26	G	Examples of reports covering a <i>group</i> are: [deleted]	
		(1)	The compliance reports required from <i>banks</i> under SUP 16.6.4R; [deleted]
		(2)	annual controllers reports required under SUP 16.4.5R; [deleted]
		(3)	annual close links reports required under SUP 16.5.4R; [deleted]
		(4)	consolidated financial reports required from <i>banks</i> under SUP 16.12.5R; [deleted]
		(5)	consolidated reporting statements required from <i>securities and futures firms</i> under SUP 16.12.11R; [deleted]
		(6)	Reporting in relation to <i>defined liquidity groups</i> under SUP 16.12. [deleted]
<u>16.3.26A</u>	G	<u>Examples of reports covering a <i>group</i> are:</u>	
		(1)	<u>The compliance reports required from <i>banks</i> under SUP 16.6.4R;</u>
		(2)	<u>[deleted];</u>
		(3)	<u>[deleted];</u>
		(4)	<u>consolidated financial reports required from <i>banks</i> under SUP 16.12.5R;</u>
		(5)	<u>consolidated reporting statements required from <i>securities and futures firms</i> under SUP 16.12.11R;</u>
		(6)	<u>Reporting in relation to <i>defined liquidity groups</i> under SUP 16.12.</u>

...

Sch 1 Record keeping requirements

...

Sch 1.2 G

...

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
...				
<i>SUP 13.11</i> [FCA] [PRA]	<i>UK firm exercising EEA right</i>	(a) the services or activities it carries on from a <i>branch</i> in, or provide <i>cross border services</i> into, another <i>EEA State</i> under that <i>EEA right</i> , and the <i>requisite details</i> or relevant details relating to those services or activities (if applicable)	Not specified	Three years from the earlier of the date on which:(a) it was superseded by a more up-to-date record; or
				(a) the <i>UK firm</i> ceased to have a <i>branch</i> in, or carry <i>cross border services</i> into, any <i>EEA State</i> under an <i>EEA right</i>
<i>SUP 13.11.1</i> [FCA] [PRA]	Exercise of passport rights by <i>UK firms</i>	(1) Services or activities carried on from a <i>branch</i> in, or provided ⁶ cross-border into, another <i>EEA State</i> under an <i>EEA right</i>	Not specified	Five years (for <i>firms</i> passporting under <i>MiFID</i>) or three years (for other <i>firms</i>) from earlier of:(1) record being superseded;
		(2) The details relating to those services or activities (as set out in <i>SUP 13.6</i> and <i>SUP 13.7</i>).		(2) <i>firm</i> ceasing to have any <i>EEA branches</i> or cross- border services.

TP 1 Transitional provisions

...

TP
1.2

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
...
10A <u>[FCA only]</u>	SUP 16.4 SUP 16.5	R	SUP 16.4 (Annual controllers report) and SUP 16.5 (Annual close links report) do not apply to a <i>firm</i> with <i>permission</i> to carry on only <i>insurance mediation activity</i> , <i>mortgage mediation activity</i> , or both	(1) in respect of mortgage mediation activities, 31 October 2004 - 31 March 2005; (2) in respect of <i>insurance mediation activities</i> , 14 January 2005 - 31 March 2005,	1 April 2005
14C <u>[FCA only]</u>	SUP 16.10.4	R	A <i>firm</i> whose <i>accounting reference date</i> falls between 1 April 2005 and 30 June 2005 (inclusive) need not comply with SUP 16.10.4R until its <i>accounting reference date</i> in	1 April 2005-30 June 2005	1 April 2005

Annex F

Amendments to the Supervision manual (SUP)

Each of the following sections of the Supervision manual is deleted:

SUP 16.12 (Integrated Regulatory Reporting)
SUP 16.16 (Prudent valuation reporting)
SUP 16 Annex 24 (Data items for SUP 16.12)
SUP 16 Annex 25A (Guidance notes for data items in SUP 16 Annex 24 R)
SUP 16 Annex 26 (Guidance on designated liquidity groups in SUP 16.12)
SUP 16 Annex 31A (Prudent Valuation Return)
SUP 16 Annex 31B (Guidance notes for data items in SUP 16 Annex 31A R)

The Supervision manual is amended as follows. New text is underlined and deleted text is struck through.

...			
16.1	Application		
...			
16.1.2	G	The only categories of <i>firm</i> to which no section of this chapter applies are: <u>[deleted]</u>	
		(1)	an <i>ICVC</i> ; <u>[deleted]</u>
		(2)	an <i>incoming EEA firm</i> or <i>incoming Treaty firm</i> , unless it is: <u>[deleted]</u>
		(a)	a <i>firm</i> of a type listed in <i>SUP 16.1.3 R</i> as a type of <i>firm</i> to which <i>SUP 16.6</i> , <i>SUP 16.7A</i> , <i>SUP 16.9</i> , <i>SUP 16.12</i> , or <i>SUP 16.14</i> applies; or <u>[deleted]</u>
		(b)	an <i>insurer</i> with <i>permission to effect or carry out life policies</i> ; <u>[deleted]</u>
		(c)	a <i>firm</i> with <i>permission to establish, operate or wind up a personal pension scheme or a stakeholder pension scheme</i> ; <u>[deleted]</u>
		(3)	a <i>UCITS qualifier</i> ; <u>[deleted]</u>
<u>16.1.2A</u>	<u>G</u>	The only categories of <i>firm</i> to which no section of this chapter applies are:	
		(1)	<u>an <i>ICVC</i></u> :

		(2)	<u>an incoming EEA firm or incoming Treaty firm, unless it is:</u>						
		(a)	<u>a firm of a type listed in SUP 16.1.3 R as a type of firm to which SUP 16.6, SUP 16.7A, SUP 16.9, the Regulatory Reporting Part of the PRA Rulebook or SUP 16.14 applies; or</u>						
		(b)	<u>an insurer with permission to effect or carry out life policies;</u>						
		(c)	<u>a firm with permission to establish, operate or wind up a personal pension scheme or a stakeholder pension scheme;</u>						
		(3)	<u>a UCITS qualifier.</u>						
16.1.3	R	Application of different sections of SUP 16 (excluding SUP 16.13, SUP 16.15, SUP 16.16 and SUP 16.17)							
		<table border="1"> <tr> <td>...</td> <td>...</td> <td>...</td> </tr> <tr> <td>SUP 16.12 [FCA only]</td> <td>A firm undertaking the <i>regulated activities</i> as listed in SUP 16.12.4 R, unless exempted in SUP 16.12.1 G</td> <td>Sections as relevant to <i>regulated activities</i> as listed in SUP 16.12.4 R⁶</td> </tr> </table>		SUP 16.12 [FCA only]	A firm undertaking the <i>regulated activities</i> as listed in SUP 16.12.4 R, unless exempted in SUP 16.12.1 G	Sections as relevant to <i>regulated activities</i> as listed in SUP 16.12.4 R ⁶
...							
SUP 16.12 [FCA only]	A firm undertaking the <i>regulated activities</i> as listed in SUP 16.12.4 R, unless exempted in SUP 16.12.1 G	Sections as relevant to <i>regulated activities</i> as listed in SUP 16.12.4 R ⁶							
16.1.3A	R	The reference to <i>SUP 16.12</i> in the table above in <i>SUP 16.1.3R</i> in respect of Sections <i>SUP 16.1</i> , <i>SUP 16.2</i> and <i>SUP 16.3</i> , at (1)(b)(i) must be read as <u>“the Regulatory Reporting Part of the PRA Rulebook”</u> .							
...									
16.3	General provisions on reporting								
16.3.1	G	The effect of <i>SUP 16.1.1R</i> is that this section applies to every <i>firm</i> except: <u>[deleted]</u>							
		(1)	<u>an ICVC; [deleted]</u>						
		(2)	<u>an incoming EEA firm or incoming Treaty firm, unless it is: [deleted]</u>						
		(a)	<u>a firm of a type listed in SUP 16.1.3 R as a firm to which SUP 16.6 or SUP 16.12 applies; [deleted]</u>						
		(b)	<u>an insurer with permission to effect or carry out life policies; [deleted]</u>						
		(3)	<u>a UCITS qualifier. [deleted]</u>						
16.3.1A	G	The effect of <i>SUP 16.1.1R</i> is that this section applies to every <i>firm</i> except:							
		(1)	<u>an ICVC;</u>						

		(2)	<u>an incoming EEA firm or incoming Treaty firm, unless it is:</u>
		(a)	<u>a firm of a type listed in SUP 16.1.3 R as a firm to which SUP 16.6 or the Regulatory Reporting Part of the PRA Rulebook applies;</u>
		(b)	<u>an insurer with permission to effect or carry out life policies;</u>
		(3)	<u>a UCITS qualifier.</u>
		Structure of the chapter	
...			
16.3.2A	G	This chapter has been split into the following sections, covering:	
		...	
		(7)	<u>integrated regulatory reporting (SUP 16.12)[deleted];</u>
...			
		Reports from groups	
16.3.25	G	If this chapter requires the submission of a report or <i>data item</i> covering a <i>group</i>, a single report or <i>data item</i> may be submitted, and so satisfy the requirements of all <i>firms</i> in the <i>group</i>. Such a report or <i>data item</i> should contain the information required from all of them, meet all relevant due dates and indicate all the <i>firms</i> on whose behalf it is submitted; if necessary a separate covering sheet should list the <i>firms</i> on whose behalf a report or <i>data item</i> is submitted. Nevertheless, the requirement to provide a report or <i>data item</i>, and the responsibility for the report or <i>data item</i>, remains with each <i>firm</i> in the <i>group</i>. However, reporting requirements that apply to a <i>firm</i>, by reason of the <i>firm</i> being a member of a <i>financial conglomerate</i>, are imposed on only one member of the <i>financial conglomerate</i> (see, for example, SUP 16.12.32 R). [deleted]	
<u>16.3.25A</u>	<u>G</u>	<u>If this chapter requires the submission of a report or <i>data item</i> covering a <i>group</i>, a single report or <i>data item</i> may be submitted, and so satisfy the requirements of all <i>firms</i> in the <i>group</i>. Such a report or <i>data item</i> should contain the information required from all of them, meet all relevant due dates and indicate all the <i>firms</i> on whose behalf it is submitted; if necessary a separate covering sheet should list the <i>firms</i> on whose behalf a report or <i>data item</i> is submitted. Nevertheless, the requirement to provide a report or <i>data item</i>, and the responsibility for the report or <i>data item</i>, remains with each <i>firm</i> in the <i>group</i>. However, reporting requirements that apply to a <i>firm</i>, by reason of the <i>firm</i> being a member of a <i>financial conglomerate</i>, are imposed on only one member of the <i>financial conglomerate</i>.</u>	
...			
<u>16.3.26A</u>	<u>G</u>	<u>Examples of reports covering a <i>group</i> are:</u>	
		(1)	the compliance reports required from <i>banks</i> under SUP 16.6.4 R;

		(2)	[deleted];
		(3)	[deleted];
		(4)	consolidated financial reports required from banks under SUP 16.12.5 R [deleted];
		(5)	consolidated reporting statements required from securities and futures firms under SUP 16.12.11R [deleted];
		(6)	reporting in relation to defined liquidity groups under SUP 16.4.5 R [deleted];

...

TP 1 Transitional provisions

...

TP 1.2

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
...					
12W [PRA]	SUP 16.12.5 R to SUP 16.12.7 R [deleted]	R	If BIPRU TP 30.4 R (Liquidity floor for certain banks) applies to a firm the regulatory intervention point mentioned in that rule is added to the list in paragraph (a) of the definition of <i>firm-specific liquidity stress</i> in the case of that firm for as long as BIPRU TP 30.4 R applies to it. [deleted]	For as long as BIPRU TP 30.4 R applies to the firm [deleted]	At the end of period set out in column (5) [deleted]
12X [FCA]	SUP 16.12.5 R to SUP 16.12.7 R	R	(1) This rule deals with the effect of the abolition of <i>data item</i> FSA044 by the Liquidity Standards (Miscellaneous Amendments) Instrument 2010 and of changes to the definition of <i>DLG by default</i> made by that instrument.	See column 4	See column 4
			(2) The abolition of that <i>data item</i> does not have effect in relation		

				to a <i>firm's</i> reporting period for that <i>data item</i> that has begun but not ended as at 1 January 2011.		
			(3)	The changes to the definition of <i>DLG by default</i> do not have effect in relation to the reporting period of a <i>firm</i> that has begun but not ended as at 1 November 2010.		

...

Annex G

Amendments to the General Prudential sourcebook (GENPRU)

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

...		
1.3	Valuation	
...		
General requirements: valuation adjustments or, in the case of an insurer or a UK ISPV, valuation adjustments or reserves		
...		
1.3.35	G	Reconciliation differences under GENPRU 1.3.34 R should not be reflected in the valuations under GENPRU 1.3 but should be disclosed to the <i>appropriate regulator</i> in prudential returns. <i>Firms</i> which are subject to the reporting requirement under SUP 16.16 should disclose those reconciliation differences in the Prudent Valuation Return which they are required to submit to the <i>appropriate regulator</i> under SUP 16.16.4 R. [deleted]
<u>1.3.35A</u>	<u>G</u>	<u>Reconciliation differences under GENPRU 1.3.34 R should not be reflected in the valuations under GENPRU 1.3 but should be disclosed to the <i>appropriate regulator</i> in prudential returns. <i>Firms</i> which are subject to the reporting requirement under Chapter 13 of the Regulatory Reporting Part of the PRA Rulebook should disclose those reconciliation differences in the Prudent Valuation Return which they are required to submit to the PRA under Chapter 13 of the Regulatory Reporting Part of the PRA Rulebook.</u>
...		
3.1	Application	
...		
3.1.2	G	GENPRU 3.1 implements the <i>Financial Groups Directive</i>. However, material on the following topics is to be found elsewhere in the <i>Handbook</i> as follows: [deleted]
		(1) further material on <i>third-country financial conglomerates</i> can be found in GENPRU 3.2; [deleted]
		(2) SUP 15.9 contains notification <i>rules</i> for members of <i>financial conglomerates</i>; [deleted]
		(3) material on reporting obligations can be found in SUP 16.12.32 R and SUP 16.12.33 R; and [deleted]
		(4) material on systems and controls in <i>financial conglomerates</i> can be found in SYSC 12. [deleted]

3.1.2A	<u>G</u>	<u>GENPRU 3.1 implements the <i>Financial Groups Directive</i>. However, material on the following topics is to be found elsewhere in the <i>Handbook</i> as follows:</u>	
		<u>(1)</u>	<u>further material on <i>third-country financial conglomerates</i> can be found in GENPRU 3.2;</u>
		<u>(2)</u>	<u>SUP 15.9 contains notification <i>rules</i> for members of <i>financial conglomerates</i>;</u>
		<u>(3)</u>	<u>material on reporting obligations can be found in Chapter 12 of the Regulatory Reporting Part of the <i>PRA</i> Rulebook; and</u>
		<u>(4)</u>	<u>material on systems and controls in <i>financial conglomerates</i> can be found in SYSC 12.</u>

Annex H

Amendments to the Interim Prudential sourcebook for Insurers (IPRU-INS)

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

Volume One: Rules		
...		
Chapter 9: Financial Reporting		
...		
PART V		
Group Capital Adequacy		
...		
9.42D	(1)	An insurer must provide the following information from the report prepared in accordance with SUP 16.12.33R <u>rule 12.3 of the Regulatory Reporting Part of the PRA Rulebook</u> in respect of the financial year in question of the financial conglomerate identified at Stage C of the decision tree in rule 9.42C:
		...

Annex I

Amendments to the Credit Unions sourcebook (CREDS)

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

...		
5.2	Components of capital	
<u>5.2.1AA</u>	<u>R</u>	<u>In CREDS 5.2.1 R (7) the reference to <i>SUP 16.12.5 R</i> must be read as “rule 7.1 of the Regulatory Reporting Part of the <i>PRA</i> Rulebook” and the reference to CREDS 8.2.3 G must be read as CREDS 8.2.3A G.</u>
...		
8.1	Application and purpose	
...		
8.1.2	G	The purpose of this section is to provide additional rules and guidance relating to reporting requirements that are specific to credit unions. Credit unions also need to comply with the relevant provisions of SUP relating to reporting, including SUP 16.3 and SUP 16.12. [deleted]
<u>8.1.2A</u>	<u>G</u>	<u>The purpose of this section is to provide additional rules and guidance relating to reporting requirements that are specific to credit unions. Credit unions also need to comply with the relevant provisions of SUP relating to reporting, including SUP 16.3 and the Regulatory Reporting Part of the PRA Rulebook.</u>
8.2	Reporting requirements	
8.2.1	G	SUP 16.12.5 R states that a credit union must submit a quarterly return. The content, reporting frequency and due date in relation to that report are shown in CREDS 8.2.2 G. The form can be found at SUP 16 Annex 14(1)R. [deleted]
		[Note: a transitional provision applies to SUP 16.12.5 R: see CREDS TP 1.17.]
		[Note: a transitional provision applies in respect of the form to be used at SUP 16 Annex 14(1)R (see CREDS TP 1.4).]
<u>8.2.1A</u>	<u>G</u>	<u>Rule 7.1 of the Regulatory Reporting Part of the PRA Rulebook requires that a credit union must submit a quarterly return. The content, reporting frequency and due date in relation to that report are shown in CREDS 8.2.2A G. The form can be found in Chapter 16 of the Regulatory Reporting Part of the PRA Rulebook.</u>
...		

8.2.2	G	This table belongs to CREDS 8.2.1 G. [deleted]			
		Content of report	Form	Frequency	Due date
		Key financial data	CQ	Quarterly	One month after quarter end
8.2.2A	G	This table belongs to CREDS 8.2.1A G.			
		Content of report	Form	Frequency	Due date
		Key financial data	CQ	Quarterly	One month after quarter end
...					
8.2.3	G	SUP 16.12.5 R states that a credit union must submit an annual return. The content, reporting frequency and due date in relation to that report are shown in CREDS 8.2.4 G. The form can be found at SUP 16 Annex 14(2)R. [deleted]			
		[Note: transitional provisions apply to the requirements in SUP 16.12.5 R (see) and in respect of the form to be used at SUP 16 Annex 14(2) R (see) CREDS TP.]			
		[Note: a transitional provision applies to SUP 16.12.5 R: (see CREDS TP 1.18).]			
8.2.3A	G	<u>Rule 7.1 of the Regulatory Reporting Part of the PRA Rulebook requires that a credit union must submit an annual return. The content, reporting frequency and due date in relation to that report are shown in CREDS 8.2.4A G. The form can be found in Chapter 16 of the Regulatory Reporting Part of the PRA Rulebook.</u>			
8.2.4	G	This table belongs to CREDS 8.2.3 G. [deleted]			
		Content of report	Form	Frequency	Due date
		Extended financial data	CY	Annually	Six months after financial year end
8.2.4A	G	This table belongs to CREDS 8.2.3A G.			
		Content of report	Form	Frequency	Due date
		Extended financial data	CY	Annually	Six months after financial year end
...					
8.2.6	R	(1)	Every credit union must send to the PRA a copy of its audited accounts published in accordance with section 3A of the Friendly and Industrial and Provident Societies Act 1968 or provided in accordance with article 49 of the Credit Unions (Northern Ireland) Order 1985. [deleted]		

		(2)	The accounts must: [deleted]
		(a)	be made up for the period beginning with the date of the <i>credit union's</i> registration or with the date to which the <i>credit union's</i> last annual accounts were made up, whichever is the later, and ending on the <i>credit union's</i> most recent financial year end; and [deleted]
		(b)	accompany the annual return submitted to the <i>PRA</i> under <i>SUP 16.12.5 R</i> (see <i>CREDS 8.2.3 G</i>), unless they have been submitted already [deleted]
<u>8.2.6A</u>	<u>R</u>	(1)	<u>Every <i>credit union</i> must send to the <i>PRA</i> a copy of its audited accounts published in accordance with section 3A of the Friendly and Industrial and Provident Societies Act 1968 or provided in accordance with article 49 of the Credit Unions (Northern Ireland) Order 1985.</u>
		(2)	The accounts must:
		(a)	<u>be made up for the period beginning with the date of the <i>credit union's</i> registration or with the date to which the <i>credit union's</i> last annual accounts were made up, whichever is the later, and ending on the <i>credit union's</i> most recent financial year end; and</u>
		(b)	<u>accompany the annual return submitted to the <i>PRA</i> under rule 7.1 of the Regulatory Reporting Part of the <i>PRA</i> Rulebook (see <i>CREDS 8.2.3A G</i>), unless they have been submitted already</u>
8.2.7	<u>R</u>		Every <i>credit union</i> must supply free of charge, to every member or person interested in the funds of the <i>credit union</i> who applies for it, a copy of the latest audited accounts of the <i>credit union</i> sent to the <i>PRA</i> under <i>CREDS 8.2.6 R</i>. [deleted]
<u>8.2.7A</u>	<u>R</u>		<u>Every <i>credit union</i> must supply free of charge, to every member or person interested in the funds of the <i>credit union</i> who applies for it, a copy of the latest audited accounts of the <i>credit union</i> sent to the <i>PRA</i> under <i>CREDS 8.2.6A R</i>.</u>
8.2.8	<u>G</u>	(1)	Financial penalties may be imposed for the late submission of: [deleted]
		(a)	the quarterly and annual returns referred to in <i>SUP 16.12.5 R</i>; and [deleted]
		(b)	the audited accounts referred to in <i>CREDS 8.2.6 R</i>. [deleted]
		(2)	Details of the policy and procedures on financial penalties are given in <i>DEPP</i>. [deleted]
<u>8.2.8A</u>	<u>G</u>	(1)	<u>Financial penalties may be imposed for the late submission of:</u>
		(a)	<u>the quarterly and annual returns referred to in rule 7.1 of the Regulatory Reporting Part of the <i>PRA</i> Rulebook; and</u>
		(b)	<u>the audited accounts referred to in <i>CREDS 8.2.6A R</i>.</u>

	(2)	<u>Details of the policy and procedures on financial penalties are given in the PRA's 'Statement of Policy: The Prudential Regulation Authority's approach to enforcement: statutory statements of policy and procedure (April 2013)'.</u>			
...					
App 1.1	Key Definitions				
...					
<i>total non-deferred shares</i> [FCA only]	means the total of members' share balances in a <i>credit union</i> shown in the most recent annual return to have been sent to the PRA under SUP 16.12.5 R-(see CREDS 8.2.3 G), excluding any <i>deferred shares</i> in the <i>credit union</i> .				
<i>total non-deferred shares</i> [PRA only]	<u>means the total of members' share balances in a <i>credit union</i> shown in the most recent annual return to have been sent to the PRA (see CREDS 8.2.3A G), excluding any <i>deferred shares</i> in the <i>credit union</i>.</u>				
...					
Sch 2.2A G	G	<u>In the above table in Sch 2.2 G, the reference to CREDS 8.2.1 G shall be read as CREDS 8.2.1A G, the reference to CREDS 8.2.3 G shall be read as CREDS 8.2.3A G, and the reference to CREDS 8.2.6 G shall be read as CREDS 8.2.6A G.</u>			
...					
TP 1	Transitional provision				
...					
(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional Provision	Transitional provisions: dates in force	Handbook provisions: coming into force
...					
3 [FCA] [PRA]	SUP 16.12.7 R	R	The change in the applicable due date for the submission by a <i>credit union</i> of an annual return under SUP 16.12.5 R from 7 months to 6 months does not apply to an annual return in respect of the financial year ending on or before 31 July 2012.	31 July 2012	8 January 2012
4 [FCA] [PRA]	SUP 16 Annex 14 R	R	SUP 16 Annex 14 R, as it was in force on 31 December 2011, continues to apply to:	8 January 2012	8 January 2012

			(i) quarterly returns for <i>credit unions</i> in respect of the quarter ending on or before 31 December 2011, and (ii) annual returns in respect of the financial year ending on or before 7 January 2012		
--	--	--	---	--	--

Annex J

Amendments to the Glossary

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

<p><i>total non-deferred shares</i></p>	<p>(in <i>CREDS</i>) means the total of members' share balances in a <i>credit union</i> shown in the most recent annual return to have been sent to the <i>appropriate regulator</i> under <i>SUP 16.7.62 R</i> or <u>Regulatory Reporting 7.1</u> in the <i>PRA Rulebook</i> <i>SUP 16.12.5R</i> (see <i>CREDS 8.2.3A G</i>), excluding any <i>deferred shares</i> in the <i>credit union</i>.</p>
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Annex K

Deletions to the PRA Handbook

Each of the following modules, sourcebooks and sections of the PRA's Handbook is deleted:

COBS 21 (Permitted Links)
MIPRU (Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries)
SUP 11 (Controllers and close links)
SUP 16.4 (Annual controllers report)
SUP 16.5 (Annual Close Links Reports)
SUP 13 (Exercise of passport rights by UK firms)
SUP 13A (Qualifying for authorisation under the Act)
SUP 14 (Incoming EEA firms changing details, and cancelling qualification for authorisation)
SUP 16 Annex 32 (Bidding in emissions auctions return)
SUP App 3 (Guidance on passporting issues)
SYSC 10 (Conflicts of interest)

Appendix 1.8

PRA RULEBOOK: GLOSSARY INSTRUMENT (No. 3) 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: Glossary Instrument (No. 3) 2015

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

Commencement

- E. This instrument comes into force on 3 August 2015.

Citation

- F. This instrument may be cited as the Glossary Instrument (No. 3) 2015.

By order of the Board of the Prudential Regulation Authority

31 July 2015

Annex A

Amendments to the Glossary

In the Glossary Part of the PRA Rulebook, insert the following new definitions.

advising on investments

means the *regulated activity*, specified in article 53 of the *Regulated Activities Order* (Advising on investments).

advising on pension transfers and pension opt-outs

means advising on *investments* in respect of *pension transfers* and *pension opt-outs*.

agreeing to carry on a regulated activity

means the *regulated activity*, specified in article 64 of the *Regulated Activities Order* (Agreeing to carry on specified kinds of activity).

AIF

means an *alternative investment fund*.

AIFM

means *alternative investment fund manager*.

AIFM investment management functions

means investment management functions of an *AIFM* as set out in 1(a) (portfolio management) or (b) (risk management) of Annex I to *AIFMD*.

AIFMD

means Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010.

alternative investment fund

has the meaning given in article 4(1)(a) of *AIFMD*.

alternative investment fund manager

has the meaning given in article 4(1)(b) of *AIFMD*.

annual report and accounts

means

- (1) (in relation to a company incorporated in the *UK*) an annual report and annual accounts as those terms are defined in section 471 of the Companies Act 2006 together with an auditor's report prepared in relation to those accounts under sections 495 to 497A of the same Act;
- (2) (in relation to any other body) any similar or analogous documents which it is required to prepare whether by its constitution or by the law under which it is established.

arranging (bringing about) deals in investments

means the *regulated activity* specified in article 25(1) of the *Regulated Activities Order*.

arranging safeguarding and administration of assets

that part of *safeguarding and administering investments* which consists solely of arranging for one or more other *persons* to carry on both:

- (a) the safeguarding of assets belonging to another; and
- (b) the administration of those assets.

Article 12(1) relationship

means a relationship where undertakings are linked by a relationship within the meaning of Article 12(1) of Directive 83/349 EEC.

Article 18(5) relationship

means a relationship where undertaking are linked by participations or capital ties other than those referred to in paragraphs (1) and (2) of Article 18 of the *CRR*.

commodity future

has the meaning given in the *PRA Handbook* as at 31 July 2015.

commodity option

has the meaning given in the *PRA Handbook* as at 31 July 2015.

consolidated basis

has the meaning in article 4(1)(48) of the *CRR*.

consolidation group

means the undertakings included in the scope of consolidation pursuant to Articles 18(1), 18(8), 19(1), 19(3) and 23 of the *CRR* and Groups 2.1- 2.3.

contract of differences

means the investment specified in article 85 of the *Regulated Activities Order*.

contractually based investment

has the meaning provided in Article 3(1) of the *Regulated Activities Order*.

coordinator

means, in relation to a *financial conglomerate*, the competent authority appointed as coordinator in accordance with Article 10(1) of the *Financial Groups Directive*.

core UK group

means all counterparties that:

- (a) are listed in a *firm's core UK group permission*;
- (b) in relation to a *firm*, satisfy the conditions in Article 113(6) of the *CRR*; and
- (c) in respect of which exposures are exempted, under Article 400(1)(f) of the *CRR*, from the application of Article 395(1) of the *CRR*.

core UK group permission

means a permission given by the *PRA* under Article 113(6) of the *CRR*.

CREDS

means the Credit Unions sourcebook in the *PRA Handbook* as at 31 July 2015.

dealing in investments as agent

means the *regulated activity*, specified in article 21 of the *Regulated Activities Order* (Dealing in investments as agent).

designated investment

means a *security* or a *contractually-based investment* (other than a *funeral plan contract* and a right to or interest in a *funeral plan contract*), that is, any of the following *investments*, specified in Part III of the *Regulated Activities Order* (Specified Investments), and a *long-term care insurance contract* which is a *pure protection contract*.

- (1) life policy (subset of article 75 (Contracts of insurance));
- (2) *share*;
- (3) debenture (article 77);
- (4) alternative debenture (article 77A);
- (5) government and public security (article 78);
- (6) instruments giving entitlements to investments (article 79);

- (7) certificate representing certain securities (article 80);
- (8) unit in a collective investment scheme (article 81);
- (9) rights under a *stakeholder pension scheme* (article 82(1))
- (10) rights under a *personal pension scheme* (article 82(2));
- (11) Greenhouse gas allowances which are auctioned (article 82A), where they are a financial instrument.
- (12) *option*; for the purposes of the *permission* regime, this is sub-divided into:
 - (a) *option* (excluding a *commodity option* and an *option* on a *commodity future*);
 - (b) *commodity option* and *option* on a *commodity future*;
- (13) *future*; for the purposes of the *permission* regime, this is sub-divided into:
 - (a) *future* (excluding a *commodity future* and a *rolling spot forex contract*);
 - (b) *commodity future*;
 - (c) *rolling spot forex contract*;
- (14) *contract for differences*; for the purposes of the *permission* regime, this is sub-divided into:
 - (a) *contract for differences* (excluding a *spread bet* and a *rolling spot forex contract*);
 - (b) *spread bet*;
 - (c) *rolling spot forex contract*;
- (15) rights to or interests in investments in (1) to (14) (article 89) but not including rights to or interests in rights under a *long-term care insurance contract* which is a *pure protection contract*.

designated investment business

means any of the following activities, specified in Part II of the *Regulated Activities Order* (Specified Activities), which is carried on by way of business:

- (1) *dealing in investments as principal*, but disregarding the exclusion in article 15 (Absence of holding out etc);
- (2) *dealing in investments as agent* but only in relation to *designated investments*;

- (3) the *regulated activity* of bidding in emissions auctions (article 24A of the *Regulated Activities Order*) where it is carried on by a *MiFID investment firm* (other than a UCITS investment firm, as defined in the *FCA Handbook*) in relation to a *financial instrument*;
- (4) *arranging (bringing about) deals in investments*, but only in relation to *designated investments*;
- (5) *making arrangements with a view to transactions in investments*, but only in relation to *designated investments*;
- (6) *operating a multilateral trading facility*;
- (7) *managing investments*, but only if the assets consist of or include (or may consist of or include) *designated investments*;
- (8) assisting in the administration and performance of a *contract of insurance*, but only if the *contract of insurance* is a *designated investment*;
- (9) *safeguarding and administering investments*, but only if the assets consist of or include (or may consist of or include) *designated investments*; for the purposes of the *permission* regime, this is subdivided into:
 - (a) *safeguarding and administration of assets (without arranging)*;
 - (b) *arranging safeguarding and administration of assets*;
- (10) sending dematerialised instructions (article 45(1));
- (11) causing dematerialised instructions to be sent (article 45(2));
- (12) *establishing, operating or winding up a stakeholder pension scheme*;
- (13) *establishing, operating or winding up a personal pension scheme*;
- (14) providing basic advice on a stakeholder product (article 52B);
- (15) *advising on investments*, but only in relation to *designated investments*; for the purposes of the *permission* regime, this is subdivided into:
 - (a) *advising on investments (except pension transfers and pension opt-outs)*;
 - (b) *advising on pension transfers and pension opt-outs*;
- (16) *agreeing to carry on a regulated activity* in (1) to (11) and (15) (article 64);
- (17) *managing a UCITS*;
- (18) acting as trustee or depositary of a UCITS (article 51ZB);

- (19) *managing an AIF;*
- (20) *acting as trustee or depositary of an AIF (article 51ZD);*
- (21) *establishing, operating or winding up a collective investment scheme.*

dormant account fund operator

a person with a *Part 4A permission* for operating a dormant account fund.

eligible counterparty

has the meaning given in the *FCA Handbook* as at 31 July 2015 for the purposes other than for the purposes of the part of the *FCA Handbook* (as at 31 July 2015) in High Level Standards that has the title Principles for Businesses.

establishing, operating or winding up a personal pension scheme

means the *regulated activity*, specified in article 52(b) of the *Regulated Activities Order* (Establishing etc. a pension scheme).

establishing, operating or winding-up a collective investment scheme

means the *regulated activity* specified in article or 51ZE of the *Regulated Activities Order* (Establishing etc a collective investment scheme).

establishing, operating or winding up a stakeholder pension scheme

means the *regulated activity*, specified in article 52 (a) of the *Regulated Activities Order* (Establishing etc. a pension scheme).

financial conglomerate

has the meaning given in point (14) of Article 2 of the *Financial Groups Directive*.

Financial Groups Directive

means Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate.

funeral plan contract

means the investment specified in articles 59(2), 60 and 87 of the *Regulated Activities Order*.

future

means the investment specified in article 84 of the *Regulated Activities Order*.

GENPRU

means the General Prudential sourcebook for Banks, Building Societies, Insurers and Investment Firms in the *PRA Handbook* as at 31 July 2015.

IMD reinsurance intermediary

has the meaning given in Article 2(6) of the *Insurance Mediation Directive*.

investment

means (in accordance with sections 22(4) of *FSMA* (Regulated activities) and section 93(2) of the Financial Services Act 2012) any investment, including any asset, right or interest.

life policy

has the meaning given in the *PRA Handbook* as at 31 July 2015.

long-term care insurance contract

a *long-term insurance contract*:

- (a) which provides, would provide at the *policyholder's* option, or is sold or held out as providing, benefits that are payable or provided if the *policyholder's* health deteriorates to the extent that he cannot live independently without assistance and that is not expected to change; and
- (b) under which the benefits are capable of being paid for periodically for all or part of the period that the *policyholder* cannot live without assistance;

where 'benefits' are services, accommodation or goods necessary or desirable for the continuing care of the *policyholder* because he cannot live independently without assistance.

long-term insurance contract

means a "contract of long-term insurance" as defined in Article 3(1) of the *Regulated Activities Order*.

making arrangements with a view to transactions in investments

means the *regulated activity*, specified in article 25(2) of the *Regulated Activities Order* (Arranging deals in investments).

managing a UCITS

means the *regulated activity*, specified in article 51ZA of the *Regulated Activities Order* (Managing a UCITS).

managing an AIF

means the *regulated activity*, specified in article 51ZC of the *Regulated Activities Order* (Managing an AIF).

managing investments

means the *regulated activity*, specified in article 37 of the *Regulated Activities Order* (Managing investments).

non-core large exposures group or NCLEG

has the meaning given in the Large Exposures Part.

operating a dormant account fund

means any of the *regulated activities* specified in:

(1) article 63N(1)(a) of the *Regulated Activities Order* (meeting of repayment claims); or

(2) article 63N(1)(b) of the *Regulated Activities Order* (managing dormant account funds (including the investment of such funds)).

operating a multilateral trading facility

means the *regulated activity* in article 25D of the *Regulated Activities Order*.

option

means the investment specified in article 83 of the *Regulated Activities Order*.

pension opt-out

has the meaning given in the *PRA Handbook* as at 31 July 2015.

pension transfer

has the meaning given in the *PRA Handbook* as at 31 July 2015.

personal pension scheme

has the meaning provided in Article 3(1) of the *Regulated Activities Order*.

professional client

has the meaning given in the *FCA Handbook* as at 31 July 2015.

pure protection contract

means:

(1) a *long-term insurance contract* in respect of which the following conditions are met:

(a) the benefits under the contract are payable only on death or in respect of incapacity due to injury, sickness or infirmity;

(b) the contract has no surrender value, or the consideration consists of a single premium and the surrender value does not exceed that premium; and

- (c) the contract makes no provision for its conversion or extension in a manner which would result in it ceasing to comply with (a) or (b); or
- (2) a *reinsurance contract* covering all or part of a risk to which a *person* is exposed under a *long-term insurance contract*.

reinsurance contract

means a *contract of insurance* covering all or part of a risk to which a *person* is exposed under a *contract of insurance*.

reinsurance mediation

has the meaning given in Article 2(4) of the *Insurance Mediation Directive*.

retail client

means a *client* who is neither a *professional client* or an *eligible counterparty*.

rolling spot forex contract

has the meaning given in the *PRA Handbook* as at 31 July 2015.

safeguarding and administering investments

means the *regulated activity*, specified in article 40 of the *Regulated Activities Order* (Safeguarding and administering investments).

safeguarding and administration of assets (without arranging)

that part of *safeguarding and administering investments* which consists of both:

- (a) the safeguarding of assets belonging to another; and
- (b) the administration of those assets.

security

has the meaning provided in article 3(1) of the *Regulated Activities Order* (Interpretation).

specified investment

has the meaning given in the *PRA Handbook* as at 31 July 2015.

spread bet

has the meaning given in the *PRA Handbook* as at 31 July 2015.

stakeholder pension scheme

has the meaning provided in Article 3(1) of the Regulated Activities Order.

UCITS

undertakings for collective investment in transferable securities that are established in accordance with the *UCITS Directive*.

UCITS Directive

means the European Parliament and Council Directive of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (*UCITS*) (No 2009/65/EC) as amended.

Amend the following definitions, where underlining indicates new text and deleted text is struck through.

branch

means

- (1) (in relation to a *credit institution*):
 - (a) a place of business which forms a legally dependent part of a *credit institution* and which carries out directly all or some of the transactions inherent in the business of *credit institutions*;
 - (b) for the purposes of the *CRD* and in accordance with Article 38 of the *CRD*, any number of places of business set up in the same *EEA State* by a *credit institution* with headquarters in another *EEA State* are to be regarded as a single branch; ~~or~~
- (2) (in relation to an *investment firm*) has the meaning given in Article 4(1)(26) of *MiFID*.
- (3) (in relation to an *insurance undertaking*) any permanent presence of the *insurance undertaking* in an *EEA State* other than that in which it has its head office is to be regarded as a single *branch*, whether that presence consists of a single office which, or two or more offices each of which:
 - (a) is managed by the *insurance undertaking's* own staff; or
 - (b) is an agency of the *insurance undertaking*; or
 - (c) is managed by a person who is independent of the *insurance undertaking*, but has permanent authority to act for the *insurance undertaking* as an agency would.
- (4) (in relation to an *IMD insurance intermediary*):
 - (a) a place of business which is a part of an *IMD insurance intermediary*, not being the principal place of business, which has no separate legal personality and which provides insurance mediation for which the *IMD insurance intermediary* has been registered;

(b) for the purposes of the *Insurance Mediation Directive*, all the places of business set up in the same *EEA State* by an *IMD insurance intermediary* with headquarters in another *EEA State* are to be regarded as a single *branch*.

(5) (in relation to an *IMD reinsurance intermediary*):

(a) a place of business which is a part of an *IMD reinsurance intermediary*, not being the principal place of business, which has no separate legal personality and which provides *reinsurance mediation* for which the *IMD reinsurance intermediary* has been registered;

(b) for the purposes of the *Insurance Mediation Directive*, all the places of business set up in the same *EEA State* by an *IMD reinsurance intermediary* with headquarters in another *EEA State* are to be regarded as a single *branch*.

Contract of insurance

(1) (in relation to a *specified investment*) the *investment*, specified in article 75 of the *Regulated Activities Order (Contracts of insurance)*, which is rights under a *contract of insurance* in (2) below.

(2) (in relation to a contract) has the meaning given in Article 3(1) of the *Regulated Activities Order*.

IMD insurance intermediary

has the meaning given in article 2(45) of the *Insurance Mediation Directive*.

Annex B

Amendments to the Depositor Protection Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

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

...

~~personal pension scheme~~

~~has the meaning given in article 3(1) of the Regulated Activities Order.~~

...

~~stakeholder pension scheme~~

~~has the meaning given in article 3(1) of the Regulated Activities Order.~~

...

Annex C

Amendments to the Fundamental Rules Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

~~cross border services~~

~~means:~~

~~(1) (in relation to a *UK firm*) services provided within an *EEA State* other than the *UK* under the freedom to provide services; and~~

~~(2) (in relation to an *incoming EEA firm* or an *incoming Treaty firm*) services provided within the *UK* under the freedom to provide services.~~

...

Annex D

Amendments to the General Provisions Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

~~*eligible counterparty*~~

~~has the meaning given in the *FCA Handbook* for the purposes other than for the purposes of the part of the *FCA Handbook* in High Level Standards that has the title Principles for Businesses.~~

...

~~*professional client*~~

~~has the meaning given in the *FCA Handbook*.~~

...

~~*retail client*~~

~~means a *client* who is neither a *professional client* or an *eligible counterparty*.~~

...

Annex E

Amendments to the Groups Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

~~Article 12(1) relationship~~

~~means a relationship where undertakings are linked by a relationship within the meaning of Article 12(1) of Directive 83/349 EEC.~~

~~Article 18(5) relationship~~

~~means a relationship where undertaking are linked by participations or capital ties other than those referred to in paragraphs (1) and (2) of Article 18 of the CRR.~~

...

Annex F

Amendments to the Internal Capital Adequacy Assessment Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

~~*Article 12(1) relationship*~~

~~means a relationship where undertakings are linked by a relationship within the meaning of Article 12(1) Directive 83/349/EEC.~~

...

~~*consolidation group*~~

~~means the undertakings included in the scope of consolidation pursuant to Articles 18(1), 18(8), 19(1), 19(3) and 23 of the CRR and Groups 2.1–2.3.~~

...

~~*financial conglomerate*~~

~~has the meaning given in point (14) of Article 2 of Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate.~~

...

Annex G

Amendments to the Large Exposures Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

~~core UK group~~

~~means all counterparties that:~~

~~(a) are listed in a firm's core UK group permission;~~

~~(b) in relation to a firm, satisfy the conditions in Article 113(6) of the CRR; and~~

~~(c) in respect of which exposures are exempted, under Article 400(1)(f) of the CRR,
from the application of Article 395(1) of the CRR.~~

...

~~core UK group permission~~

~~means a permission given by the PRA under Article 113(6) of the CRR.~~

...

Annex H

Amendments to the Notifications Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

branch

~~(1) (in relation to a *credit institution*) means:~~

~~(a) a place of business which forms a legally dependent part of a *credit institution* and which carries out directly all or some of the transactions inherent in the business of *credit institutions*;~~

~~(b) for the purposes of the *CRD* and in accordance with Article 38 of the *CRD*, any number of places of business set up in the same *EEA State* by a *credit institution* with headquarters in another *EEA State* are to be regarded as a single branch;~~

~~(2) (in relation to an *investment firm*) has the meaning given in Article 4(1)(26) of *MiFID*; and~~

~~(3) (in relation to an *insurance undertaking*) any permanent presence of the *insurance undertaking* in an *EEA State* other than that in which it has its head office is to be regarded as a single *branch*, whether that presence consists of a single office which, or two or more offices each of which:~~

~~(a) is managed by the *insurance undertaking's* own staff; or~~

~~(b) is an agency of the *insurance undertaking*; or~~

~~(c) is managed by a *person* who is independent of the *insurance undertaking*, but has permanent authority to act for the *insurance undertaking* as an agency would.~~

...

consolidation group

~~means the *undertakings* included in the scope of consolidation pursuant to Articles 18(1), 18(8), 19(1), 19(3) and 23 of the *CRR* and Groups 2.1–2.3.~~

Coordinator

~~means, in relation to a *financial conglomerate*, the *competent authority* appointed as coordinator in accordance with Article 10(1) of the *Financial Groups Directive*.~~

...

~~*financial conglomerate*~~

~~has the meaning given in point (14) of Article 2 of the *Financial Groups Directive*.~~

~~*Financial Groups Directive*~~

~~means Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of *credit institutions, insurance undertakings* and *investment firms* in a *financial conglomerate*.~~

...

Annex I

Amendments to the Policyholder Protection Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

AIF

~~means an alternative investment fund.~~

AIFM

~~means alternative investment fund manager.~~

AIFMD

~~means Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010.~~

alternative investment fund

~~means (in accordance with article 4(1)(a) of *AIFMD*) a collective investment undertaking, including investment compartments thereof, which:~~

~~(a) raises capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those~~

~~investors; and~~

~~(b) does not require authorisation pursuant to article 5 of the *UCITS Directive*.~~

alternative investment fund manager

~~means (in accordance with article 4(1)(b) of *AIFMD*) a legal person whose regular business is performing *AIFM investment management functions* for one or more *AIF*.~~

AIFM investment management functions

~~means investment management functions of an AIFM as set out in 1(a) (portfolio management) or (b) (risk management) of Annex I to AIFMD.~~

...

investment

~~means (in accordance with sections 22(4) of FSMA (Regulated activities) and section 93(2) of the Financial Services Act 2012) any investment, including any asset, right or interest.~~

...

UCITS Directive

~~means the European Parliament and Council Directive of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (No 2009/65/EC) as amended.~~

Annex J

Amendments to the Public Disclosure Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

annual report and accounts

~~(1) (in relation to a company incorporated in the UK) an annual report and annual accounts as those terms are defined in:~~

~~(a) section 262(1) of the Companies Act 1985, together with an auditor's report prepared in relation to those accounts under section 235 of the same Act where these provisions are applicable; or~~

~~(b) section 471 of the Companies Act 2006 together with an auditor's report prepared in relation to those accounts under sections 495 to 497 of the same Act;~~

~~(2) (in relation to any other body) any similar or analogous documents which it is required to prepare whether by its constitution or by the law under which it is established.~~

Annex K

Amendments to the FSCS Management Expenses Levy Limit and Base Costs Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

~~operating a dormant account fund~~

~~means any of the regulated activities specified in:~~

~~(1) article 63N(1)(a) of the Regulated Activities Order (meeting of repayment claims); or~~

~~(2) article 63N(1)(b) of the Regulated Activities Order (managing dormant account funds (including the investment of such funds)).~~

Annex L

Amendments to the Dormant Account Scheme Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

~~dormant account fund operator~~

~~a person with a Part 4A permission for operating a dormant account fund.~~

...

~~operating a dormant account fund~~

~~means any of the regulated activities specified in:~~

~~(1) article 63N(1)(a) of the Regulated Activities Order (meeting of repayment claims); or~~

~~(2) article 63N(1)(b) of the Regulated Activities Order (managing dormant account funds (including the investment of such funds)).~~

Annex M

Amendments to the Management Expenses in Respect of Relevant Schemes Part

In this Annex deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

~~dormant account fund operator~~

~~a person with a Part 4A permission for operating a dormant account fund.~~

...

~~operating a dormant account fund~~

~~means any of the regulated activities specified in:~~

~~(1) article 63N(1)(a) of the Regulated Activities Order (meeting of repayment claims); or~~

~~(2) article 63N(1)(b) of the Regulated Activities Order (managing dormant account funds (including the investment of such funds)).~~

**PRA RULEBOOK: CRR FIRMS NON-CRR FIRMS: INDIVIDUAL ACCOUNTABILITY INSTRUMENT
(NO 3) 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 59 (Approval for particular arrangements);
 - (2) section 60 (Applications for approval);
 - (3) section 61 (Determination of applications);
 - (4) section 63F (Issuing of certificates);
 - (5) section 64A (Rules of conduct);
 - (6) section 137G (The PRA’s general rules);
 - (7) section 137T (General supplementary powers); and
 - (8) section 395 (the PRA’s procedures).
- 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: Individual Accountability Instrument (No 3) 2015

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

Commencement

- E. This instrument comes into force as follows:

Annex	Comes into force
Annex A	1 September 2015
Annexes B to F	7 March 2016
Annex G	7 March 2017

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms Non-CRR Firms: Individual Accountability Instrument (No 3) 2015.

By order of the Board of the Prudential Regulation Authority

31 July 2015

Annex A

Amendments to the Certification Part

In this Annex deleted text is struck through.

Part

CERTIFICATION

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. PERFORMANCE OF CERTIFICATION FUNCTIONS**

Links

...

2 PERFORMANCE OF CERTIFICATION FUNCTIONS

- 2.1 ~~A firm must take reasonable care to ensure that none of its employees performs a certification function under an arrangement entered into by the firm in relation to the carrying on by the firm of a regulated activity, unless the employee has a valid certificate issued by the firm. [Not in force]~~

...

Annex B

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

Part

SENIOR MANAGEMENT FUNCTIONS

Chapter content

1. APPLICATION AND DEFINITIONS
2. GENERAL
3. EXECUTIVE
4. OVERSIGHT
5. GROUP ENTITIES
6. CREDIT UNIONS
7. UK BRANCH OF OVERSEAS FIRM
- ~~7.~~ 8. COMBINATION OF SENIOR MANAGEMENT FUNCTIONS

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* that is:

- (1) a *CRR firm*; ~~or~~
- (2) a *credit union*; or
- (3) a *third country CRR firm* in relation to the activities of its establishment in the *UK*.

1.2 In this Part, the following definitions shall apply:

...

FCA responsibilities

means any of

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

...

1.3 This Part does not apply to a function performed by:

...

- (4) a *person* acting as a nominee in relation to a voluntary arrangement under Part II (~~45~~ (Company Voluntary Arrangements) of the Insolvency (Northern Ireland) Order 1989.

2 GENERAL

2.1 Each of the functions in ~~3-6~~ to 7 is a *controlled function*.

2.2 (1) A *firm* (other than a *credit union* or a *third country CRR firm*) must ensure that one or more *person* performs each of the following *PRA senior management functions* on its behalf:

- (a) the *Chief Executive function*;
- (b) the *Chief Finance function*; and
- (c) the *Chairman function*.

...

- 2.4 (1) If a *person* has been approved to perform a *PRA senior management function* in relation to a *firm* and also performs *FCA activities* a function which would, except for SUP10C.9.8R of the *FCA Handbook*, be an *FCA governing function*, performance of the *PRA senior management function* will include the performance of those *FCA activities*, provided the following conditions are met:

.....

- 2.5 If a *PRA approved person* who has been performing a *PRA senior management function* which includes performance of *FCA activities* in the circumstances set out in 2.4, ceases to perform a *PRA senior management function* but continues to perform the *FCA activities*, 2.4 will continue to apply in respect of the performance of the *FCA activities* until the earlier of:

...

3 EXECUTIVE

....

- 3.2 The *Chief Executive function* (SMF1) is the function of having responsibility, under the immediate authority of the *governing body*, alone or jointly with others, for carrying out the management of the conduct of the whole of the business (or relevant activities) of a *firm* (other than a *third country CRR firm*).

....

- 3.6 The *Head of Key Business Area function* (SMF6) is the function of having responsibility, for management of a business area or division of a *firm* (other than a *third country CRR firm*), where:

...

4 OVERSIGHT

- 4.1 This Chapter does not apply to a *credit union* or a *third country CRR firm*.

....

7 UK BRANCH OF OVERSEAS FIRM

- 7.1 This Chapter applies only to a *third country CRR firm* in relation to the activities of its establishment in the *UK*.

- 7.2 The *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* on its behalf.
- (2) If a vacancy arises in respect of the *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.

8.7 COMBINATION OF SENIOR MANAGEMENT FUNCTIONS

- 87.1 Except as otherwise provided in this Chapter, a *person* may perform more than one *PRA senior management function* on behalf of a *firm*.
- 87.2 A *firm* must ensure that a *person* who performs the *Chairman function* on its behalf does not simultaneously perform the *Chief Executive function* within the same *firm*.

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

Annex C

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

Part

ALLOCATION OF RESPONSIBILITIES

Chapter content

1. APPLICATION AND DEFINITIONS
2. STATEMENT OF RESPONSIBILITIES
3. ALLOCATION OF RESPONSIBILITIES
4. PRESCRIBED RESPONSIBILITIES
5. PRESCRIBED RESPONSIBILITIES: SMALL FIRMS
6. PRESCRIBED RESPONSIBILITIES: UK BRANCHES
- ~~7.~~ RECORDS
- ~~8.~~ CHAIRMAN'S OFFICE

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* that is:

- (1) a *CRR firm*; ~~or~~
- (2) a *credit union*; or
- (3) a *third country CRR firm* in relation to the activities of its establishment in the *UK*.

1.2 In this Part, the following definitions shall apply:

...

FCA other local responsibility senior management function

means the *controlled function* specified in SUP 10C.8.1R of the *FCA Handbook*.

...

FCA responsibilities

means any of:

- (1) ~~any of the responsibilities-functions~~ set out in SYSC 4.7.7R (Table of *FCA Prescribed senior management responsibilities*) of the *FCA Handbook*; ~~and~~
- (2) ~~the any responsibilities~~ responsibility 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*.

....

statement of responsibilities

means a statement of the affairs of a *relevant authorised person* or a *third country CRR firm* for which it is intended that a *person* who performs (or is subject to an application to perform) a *PRA senior management function* is (or will be) responsible.

UK branch prescribed responsibility

means one of the responsibilities in 6.2.

2 STATEMENT OF RESPONSIBILITIES

...

- 2.2 A *firm* must ensure that the *statement of responsibilities* accompanying an application for approval to perform a *PRA senior management function* in relation to it includes any *prescribed responsibilities, small firm prescribed responsibilities, UK branch prescribed responsibilities, FCA responsibilities* and other responsibilities allocated to, and which are to form part of the responsibilities of, that *person*.
- 2.3 A *firm* must ensure that any responsibilities allocated to, and that form part of the responsibilities of, a *person* who performs a *PRA senior management function* in relation to it are consistent with the scope of that *PRA senior management function* and of any *prescribed responsibilities, small firm prescribed responsibilities, UK branch prescribed responsibilities, FCA responsibilities* and other responsibilities allocated to that *person*.

....

3 ALLOCATION OF RESPONSIBILITIES

- 3.1 (1) A *firm* (other than a *small CRR firm, or a credit union or a third country CRR firm*) must allocate each of the *prescribed responsibilities* set out in 4.1 (other than 4.1(13) to (19)) to one or more *persons* who perform:
- (a) a *PRA senior management function*; or
 - (b) subject to 3.65(1), an *FCA designated senior management function*.
- on behalf of the *firm*.
- (2) If the circumstances set out in a *prescribed responsibility* in 4.2 (1), (2), or (3) apply to a *firm* (other than a *small CRR firm, or a credit union or a third country CRR firm*), the *firm* must allocate the *prescribed responsibility* to one or more *persons* who perform:
- (a) a *PRA senior management function*; or
 - (b) subject to 3.65(1), an *FCA designated senior management functions*
- on behalf of the *firm*.
- 3.2 (1) A *firm* (other than a *small CRR firm, or a credit union or a third country CRR firm*) must allocate each of the *prescribed responsibilities* in 4.1(13) to (19) to one or more *persons* who perform:
- (a) an *oversight PRA senior management function*; or
 - (c) the *FCA Chairman of nomination committee function*
- on behalf of the *firm*.
- 3.3 (1) A *small CRR firm* must allocate each of the *small firm prescribed responsibilities* to one or more *persons* who perform:
- (a) a *PRA senior management function*; or
 - (b) subject to 3.65(2), an *FCA designated senior management function*
- on behalf of the *small CRR firm*.

- (2) A *credit union* must allocate each of the *small firm prescribed responsibilities* to one or more *persons* who perform:
- (a) the *Credit Union Senior Manager function*; or
 - (b) subject to 3.65(2), an *FCA designated senior management function* on behalf of the *credit union*.

3.4 A *firm* which is a *ring-fenced body* must ensure that the *ring-fenced body prescribed responsibility* is allocated to each *person* who:

- (1) performs a *PRA senior management function* or, subject to 3.65(1), an *FCA designated senior management function*; and
- (2) is responsible for managing any area of the *ring-fenced body's* business that is subject to a *ring-fencing obligation*

on behalf of the *firm*.

3.5 A *third country CRR firm* must allocate each of the *UK branch prescribed responsibilities* to one or more *persons* who perform:

- (1) a *PRA senior management function*; or
- (2) subject to 3.6(3), an *FCA designated senior management function*

on behalf of the *third country CRR firm*.

~~3.63-5~~ (1) A *firm* must not allocate a *prescribed responsibility* to a *person* who performs an *FCA other overall responsibility senior management function*.

(2) A *small CRR firm* or a *credit union* must not allocate a *small firm prescribed responsibility* to a *person* who performs an *FCA other overall responsibility senior management function*.

(3) A *third country CRR firm* must not allocate a *prescribed responsibility* to a *person* who performs an *FCA other local responsibility senior management function*.

...

5 PRESCRIBED RESPONSIBILITIES: SMALL FIRMS

...

5.2 Each of the responsibilities set out in this rule is a *small firm responsibility*:

...

- (5) responsibility for managing the firm's financial resources; and

...

6 PRESCRIBED RESPONSIBILITIES: UK BRANCHES

6.1 This chapter applies only to a *third country CRR firm* in relation to the activities of its establishment in the *UK*.

6.2 Each of the responsibilities set out in this rule is a *UK branch prescribed responsibility*.

- (1) responsibility for the *firm's* performance of its obligations under the *senior management regime*, including implementation and oversight;
- (2) responsibility for the *firm's* performance of its obligations under the *certification rules*;
- (3) responsibility for compliance with the *firm's* obligations in relation to its *management responsibilities map*;
- (4) responsibility for management of the *firm's* risk management processes in the UK;
- (5) responsibility for the *firm's* compliance with the *UK regulatory system* applicable to the *firm*;
- (6) responsibility for the escalation of correspondence from the *PRA*, *FCA* and other *regulators* in respect of the *firm* to the *governing body* and or the *management body* of the *firm*, or ,where appropriate , of the *parent undertaking* or *holding company* of the *firm's group*;
- (7) responsibility for management of the *firm's* systems and controls in the UK;
- (8) responsibility for the allocation of all *UK branch prescribed responsibilities* in accordance with 3.5;
- (9) responsibility for management of the *firm's* liquidity or, where a liquidity waiver is in place, the submission of information to the *PRA* on the *firm's* liquidity position;
- (10) responsibility for the production and integrity of the *firm's* financial information and its regulatory reporting in respect of its *regulated activities*.

76 RECORDS

- 76.1 A *firm* must at all times have a comprehensive and up-to-date single document (a *management responsibilities map*) that describes the *firm's* management and governance arrangements including:
-
- 76.2 A *management responsibilities map* must in particular include:
- ...
- (2) if any *PRA senior management functions* or *FCA designated senior management functions* are performed by more than one *person*, or any *prescribed responsibilities*, ~~or *small firm prescribed responsibilities*~~ or *UK branch prescribed responsibilities*, as the case may be, are allocated to more than one *person*, details of how the performance or discharge of the responsibilities is to be carried out by those *persons*;
 - (3) matters reserved to the *management body* (including the terms of reference of its committees) including, in the case of a *third country CRR firm*, the equivalent body (or its committees) responsible for the management of the *third country CRR firm's* business and activities in the *UK*;
-
- 76.3 If the content of a *statement of responsibilities* is modified or revised, a *firm* must send a copy of that revised *statement of responsibilities* to the *PRA* as soon as possible.

76.4 A *firm* must retain a copy of each version of:

...

87 CHAIRMAN'S OFFICE

87.1 A *firm* (other than a *third country CRR firm*) must ensure that the office of the *Chairman function* has resources that are adequate as to both quality and quantity to enable it to fulfil its role within the *firm*.

Annex D

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

Part

SENIOR MANAGERS REGIME – APPLICATIONS AND NOTIFICATIONS

Chapter content

1. APPLICATION AND DEFINITIONS
2. APPLICATION TO PERFORM A PRA SENIOR MANAGEMENT FUNCTION
3. APPLICATION TO VARY A CONDITIONAL APPROVAL
4. WITHDRAWAL OF A SENIOR MANAGEMENT APPROVAL APPLICATION OR AN APPLICATION TO VARY A CONDITIONAL APPROVAL
5. CEASING TO PERFORM A PRA SENIOR MANAGEMENT FUNCTION
6. CHANGE IN DETAILS OR RESPONSIBILITIES RELATING TO PRA APPROVED PERSON
7. PROCEDURE FOR MAKING APPLICATIONS AND NOTIFICATIONS
8. FORMS

Links

1 APPLICATION AND DEFINITIONS

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

- (1) a *CRR firm*; ~~and~~
- (2) a *credit union*; or
- (3) a *third country CRR firm* in relation to the activities of its establishment in the *UK*.

...

2 APPLICATION TO PERFORM A PRA SENIOR MANAGEMENT FUNCTION

....

2.7

- (2) Except in the case of an application made by a *third country CRR firm*, a statement of responsibilities must be in the form set out [here](#).

....

8 FORMS

8.1 (1) Form A (long form) may be found [here](#).

(2) Form A (shortened form) B may be found [here](#).

(3) Form B C may be found [here](#).

(4) Form C D may be found [here](#).

(5) Form D E may be found [here](#).

(6) Form E F may be found [here](#).

(7) Form I J may be found [here](#).

(8) Form J K may be found [here](#).

Annex E

Amendments to the Fitness and Propriety Part

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

Part

FITNESS AND PROPRIETY

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS**
- 3. CONDUCT STANDARDS**
- 4. NOTIFIED NON-EXECUTIVE DIRECTORS – NOTIFICATIONS**
- 5. [REGULATORY REFERENCES - not yet in force]**
- 6. FITNESS AND PROPRIETY TRANSITIONAL PROVISIONS**

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* that is:

- (1) a *CRR firm*; ~~or~~
- (2) a *credit union*; ~~or~~
- (3) a *third country CRR firm* in relation to the activities of its establishment in the *UK*.

...

...

2 FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS

...

2.4 A *firm* other than a *third country CRR firm* must ensure that each member of its *management body* is at all times fit and proper.

[Article 91(1) CRD IV]

2.5 A *third country CRR firm* must ensure that each person who performs a *PRA senior management function* in relation to its *UK* establishment is at all times fit and proper.

2.56 In deciding whether a *person* is fit and proper, a *firm* must be satisfied that the *person*:

...

2.67 Before deciding whether a *person* is fit and proper, a *firm* must take reasonable steps to obtain appropriate references covering at least the past 5 years from that *person's* current and previous employers, and from organisations at which that *person* served as, or is currently, a non-executive director.

2.78 In deciding whether a *person* (P) is fit and proper in connection with a *senior management application* or on appointment as a *notified non-executive director* or *credit union non-executive director*, a *firm* must:

...

2.89 If a *firm* engages a *person* for a continuous period of time it is only required to comply with 2.67 and 2.78 the first time it determines that *person* is fit and proper in relation to a *senior management function*, *non-executive director function* or *certification function*.

...

4 NOTIFIED NON-EXECUTIVE DIRECTORS - NOTIFICATIONS

...

4.23 If the notification referred to in 4.2 is in respect of a *person* who, on becoming a *notified non-executive director*, ceases to perform a *PRA senior management function* or an *FCA designated senior management function*, the *firm* is not required to provide information needed to assess the fitness and propriety of that *person* unless there has been a change in the information provided in respect of that *person* regarding fitness and propriety provided to the *PRA* or the *FCA* at the time the application for the approval for performance of the *PRA senior management function* or the *FCA designated senior management function* was made.

- 4.34 If a *firm* becomes aware of information which would reasonably be material to the assessment of a current or former *notified non-executive director's* fitness and propriety under this Part, it must inform the *PRA* in writing as soon as practicable.
- 4.45 Where a *firm* replaces an *notified non-executive director* because the *firm* considers that *person* no longer fulfils the requirements of 2.4, the *firm* must notify the *PRA* as soon as reasonably practicable.
- 4.56 Where a *notified non-executive director* assumes a new role with the *firm* or ceases to be a *director* of the firm, the *firm* must notify the *PRA* in writing as soon as reasonably practicable.

...

6 FITNESS AND PROPRIETY TRANSITIONAL PROVISIONS

- 6.1 The requirement to obtain regulatory references in accordance with 2.67 does not apply to a *firm* in respect of any *person* to the extent that:
- ...
- 6.2 The requirement to obtain regulatory references in accordance with 2.67 does not apply to a *firm* in respect of any *person* who has *continued approval*.
- 6.3 The requirements of 2.3, 2.67, 2.78 and 4.2 do not apply to a *director* who, in relation to the *firm*:

...

Annex F

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

Part

CONDUCT RULES

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. INDIVIDUAL CONDUCT RULES**
- 3. SENIOR MANAGER CONDUCT RULES**

Links

1 APPLICATION AND DEFINITIONS

1.1 (1) This Part applies to every function a *person* (P) performs in relation to a *firm* (A) that is:

(a) a *CRR firm*;

(b) a *credit union*; or

(c) ~~[not yet in force]~~ a *third country CRR firm* in relation to the activities of its establishment in the *UK*.

...

Annex G

Amendments to the Certification Part

In this Annex new text is underlined.

Part

CERTIFICATION

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. PERFORMANCE OF CERTIFICATION FUNCTIONS**

Links

...

2 PERFORMANCE OF CERTIFICATION FUNCTIONS

- 2.1 [Not in force] A *firm* must take reasonable care to ensure that none of its *employees* performs a *certification function* under an arrangement entered into by the *firm* in relation to the carrying on by the *firm* of a *regulated activity*, unless the *employee* has a valid *certificate* issued by the *firm*.

...

**PRA RULEBOOK: NON-SOLVENCY II FIRMS: SENIOR INSURANCE MANAGERS REGIME
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 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: Senior Insurance Managers Regime Instrument 2015

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

Commencement

- E. Annexes A to B and D to F of this instrument come into force on 07 March 2016.
F. Annex C of this instrument comes into force on 7 March 2017.

Citation

- G. This instrument may be cited as the PRA Rulebook: Non-Solvency II Firms: Senior Insurance Managers Regime Instrument 2015.

By order of the Board of the Prudential Regulation Authority

31 July 2015.

Annex A

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

Part

NON-SOLVENCY II FIRMS - SENIOR INSURANCE MANAGEMENT FUNCTIONS

Chapter content

1. APPLICATION AND DEFINITIONS
2. SMALL INSURER SENIOR MANAGEMENT FUNCTION

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *small non-directive insurer*.

1.2 In this Part, the following definitions shall apply:

FCA activities

means a function which would, except for SUP10A.11.12R of the *FCA Handbook*, be an *FCA governing function*.

Small Insurer Senior Management function

has the meaning given in 2.2.

Small Insurer Senior Management function holder

means any *person* who is responsible for discharging the *Small Insurer Senior Management function*.

2 SMALL INSURER SENIOR MANAGEMENT FUNCTION

2.1 The function in 2.2 is a *controlled function* and a *senior insurance management function*.

2.2 The *Small Insurer Senior Management function* (SIMF 25) is the function of:

- (1) having responsibility for the conduct of the *regulated activities*; or
- (2) chairing the *governing body*,

of a *small non-directive insurer*.

2.3 Each *person* who performs a *Small Insurer Senior Management function* must be approved by the *PRA* to perform that function.

- 2.4
- (1) A *firm* must ensure that one or more *persons* performs the *Small Insurer Senior Management function* on its behalf.
 - (2) A *firm* must ensure that there is a *person* appointed to the *Small Insurer Senior Management function* who has ultimate responsibility for the conduct of its *regulated activities*.
 - (3) If a vacancy arises in respect of that aspect of the *Small Insurer Senior Management function* referred to in (2) above, a *firm* must ensure that it appoints a *person* to fill that vacancy as soon as practicable.

2.5 To the extent that:

- (1) a *firm* appoints a *person* to perform a function which, but for this rule, would be the *Small Insurer Senior Management function*;
- (2) the appointment is solely to provide cover for a holder of the *Small Insurer Senior Management function* whose absence is:
 - (a) temporary; or

- (b) reasonably unforeseen; and
- (3) the appointment is for less than 12 weeks in a consecutive 12-month period,

the description of the *Small Insurer Senior Management function* does not relate to those activities of that *person*.

2.6 If, in relation to a *firm*:

- (1) a *Small Insurer Senior Management function holder* also performs *FCA activities*, performance of the *Small Insurer Senior Management function* will include the performance of those *FCA activities*, provided the following conditions are met:
 - (a) the *PRA's* approval to perform that *Small Insurer Senior Management function* has been granted and continues in force;
 - (b) at the time of approval being granted by the *PRA*, that *person* was not subject to an *FCA approval* to perform the particular *FCA governing function*;
 - (c) the *firm* made the notification required by SUP10A.11.12R (4) of the *FCA Handbook*; and
 - (d) that *person* performs and is continuing to perform the *FCA activities*.
- (2) a *Small Insurer Senior Management function holder* has been performing *FCA activities* in the circumstances set out in (1), and that *person*:
 - (a) ceases to perform the *Small Insurer Senior Management function*;
 - (b) within three *months* of ceasing performance, is approved to perform a new *Small Insurer Senior Management function* at the *firm*; and
 - (c) continues to perform the *FCA activities*,

performance of the new *Small Insurer Senior Management function* will include the performance of those *FCA activities*, provided the conditions in (1) (a) to (d) are met.

2.7 If a *Small Insurer Senior Management function holder* to whom 2.6 applies ceases to perform a *Small Insurer Senior Management function* but continues to perform the *FCA activities*, 2.6 will continue to apply in respect of the performance of the *FCA activities* until the earlier of:

- (1) approval by the *FCA* in respect of the performance by that *person* of those *FCA activities* as an *FCA governing function* in relation to the *firm*; or
- (2) three *months* from the time that the *person* ceased to perform that *Small Insurer Senior Management function*.

Annex B

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

Part

NON-SOLVENCY II FIRMS - FITNESS AND PROPRIETY

Chapter content

1. APPLICATION
2. FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS
3. OBLIGATION TO PROVIDE REFERENCES
4. DISCLOSURE AND REPLACEMENTS

Links

1 APPLICATION

1.1 Unless otherwise stated, this Part applies to a *small non-directive insurer*.

2 FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS

2.1 A *firm* must ensure that all *persons* who perform a *senior insurance management function* are fit and proper *persons*.

2.2 In deciding whether a *person* is fit and proper pursuant to 2.1, a *firm* must be satisfied that the *person*:

- (1) has the personal characteristics (including being of good repute and integrity);
- (2) possesses the level of competence, knowledge and experience;
- (3) has the qualifications; and
- (4) has undergone or is undergoing all training,

required to enable such *person* to perform his or her *senior insurance management function* effectively and in accordance with any relevant regulatory requirements, including those under the *regulatory system*, and to enable sound and prudent management of the *firm*.

2.3 Before deciding, and in considering on an on-going basis, whether a *person* is fit and proper pursuant to 2.1 and 2.2, a *firm* must consider the *person's* past business conduct, including whether the *person* performs his or her *senior insurance management functions* in accordance with the relevant conduct standards specified in Non-Solvency II Firms - Conduct Standards 2.

2.4 In deciding whether a *person* (P) is fit and proper to perform a *senior insurance management function*, a *firm* must:

- (1) obtain P's consent for the *firm* to request the fullest information in relation to P that it is lawfully able to request under the Police Act 1997 and related subordinated legislation of the *UK* or any part of the *UK*;
- (2) if P has lived or worked outside the *UK* for a material time in the previous five years, obtain P's consent for the *firm* to request the fullest information in relation to P that it is lawfully able to request under equivalent overseas legislation; and
- (3) request, and have regard to, such information.

2.5 If a *firm* engages a *person* for a continuous period of time as a *senior insurance management function holder* it is only required to comply with 2.4 the first time it determines that *person* is fit and proper in relation to a *senior insurance management function*.

3 OBLIGATION TO PROVIDE REFERENCES

3.1 [Not yet in force]

4 DISCLOSURE AND REPLACEMENTS

4.1 A *firm* must ensure that any application it makes for the approval of a *person* to perform a *senior insurance management function* provides the *PRA* with:

- (1) all the information needed to assess whether such *person* is fit and proper; and

- (2) its record of the significant responsibilities allocated to that *person*.
- 4.2 If a *firm* becomes aware of information which would reasonably be expected to be material to the assessment of a current or former *senior insurance management function holder's* fitness and propriety under this Part, it must inform the *PRA* as soon as practicable.
- 4.3 If a *firm* becomes aware of a significant change to a *senior insurance management function holder's* responsibilities, it must inform the *PRA* as soon as practicable.
- 4.4 Where a *firm* replaces a *senior insurance management function holder* because the *firm* considers that that *person* no longer fulfils the requirements in 2.2, the *firm* must notify the *PRA* as soon as reasonably practicable.

Annex C

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

Part

NON-SOLVENCY II FIRMS - ALLOCATION OF RESPONSIBILITIES

Chapter content

1. APPLICATION AND DEFINITIONS
2. ALLOCATION OF RESPONSIBILITIES
3. PRESCRIBED RESPONSIBILITIES

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *small non-directive insurer*.

1.2 In this Part, the following definitions shall apply:

small non-directive insurer prescribed responsibility

means each of the responsibilities in 3.1.

2 ALLOCATION OF RESPONSIBILITIES

2.1 A *firm* must allocate each of the *small non-directive insurer prescribed responsibilities* to one or more *persons* who, in relation to that *firm*, are approved under section 59 of FSMA by either:

- (1) the *PRA*; or
- (2) in relation to *relevant senior management functions* only, the *FCA*.

2.2 A *firm* must have and maintain up-to-date records of the significant responsibilities allocated to each of those *persons*, including those allocated in accordance with 2.1.

2.3 The *firm* must provide the *PRA* with a copy of the records in 2.2 upon request.

3 PRESCRIBED RESPONSIBILITIES

3.1 Each of the responsibilities set out in this rule is a *small non-directive insurer prescribed responsibility*:

- (1) responsibility for providing the *governing body* with an up-to-date business plan and all relevant management information;
- (2) responsibility for management of the *firm's* financial resources;
- (3) responsibility for ensuring the *governing body* is kept informed of its legal and regulatory obligations; and
- (4) responsibility for the oversight of systems and controls, along with risk management policies and procedures, that are proportionate to the nature, scale, and complexity of the risks inherent in the *firm's* business model.

Annex D

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

Part

NON-SOLVENCY II FIRMS - CONDUCT STANDARDS

Chapter content

1. APPLICATION
2. CONDUCT STANDARDS

Links

1 APPLICATION

- 1.1 This Part applies, in relation to a *small non-directive insurer*, to any *person* who is approved under section 59 of *FSMA* by either:
- (1) the *PRA*; or
 - (2) the *FCA*, in relation to a *relevant senior management function*.

2 CONDUCT STANDARDS

- 2.1 **Conduct Standard 1:** You must act with integrity.
- 2.2 **Conduct Standard 2:** You must act with due skill, care and diligence.
- 2.3 **Conduct Standard 3:** You must be open and co-operative with the *FCA*, the *PRA* and other regulators.
- 2.4 **Conduct Standard 4:** You must take reasonable steps to ensure that the business of the *firm* for which you are responsible is controlled effectively.
- 2.5 **Conduct Standard 5:** You must take reasonable steps to ensure that the business of the *firm* for which you are responsible complies with the relevant requirements and standards of the *regulatory system*.
- 2.6 **Conduct Standard 6:** You must take reasonable steps to ensure that any delegation of your responsibilities is to an appropriate *person* and that you oversee the discharge of the delegated responsibility effectively.
- 2.7 **Conduct Standard 7:** You must disclose appropriately any information of which the *FCA* or the *PRA* would reasonably expect to have notice.
- 2.8 **Conduct Standard 8:** When exercising your responsibilities, you must pay due regard to the interests of current and potential future *policyholders* in ensuring the provision by the *firm* of an appropriate degree of protection for their insured benefits.

Annex E

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

Part

NON-SOLVENCY II FIRMS - RUN-OFF FIRMS

Chapter content

1. APPLICATION AND DEFINITIONS
2. TRANSITIONAL APPLICATION OF RULES IN RELATION TO RUN-OFF FIRMS

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *run-off firm*; and
- (2) in relation to a *run-off firm*, to 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*.

1.2 In this Part, the following definitions shall apply:

application rules

means the specifications within:

- (1) Non-Solvency II Firms - Senior Insurance Management Functions 1.1;
- (2) Non-Solvency II Firms - Fitness and Propriety 1.1; and
- (3) Non-Solvency II Firms - Allocation of Responsibilities 1.1.

run-off firm

means a *firm* to which, but for the application of Transitional Measures 2.1 to 2.3, the *Solvency II rules* would apply.

Solvency II rules

means the *PRA* rules in the Valuation, Technical Provisions, Own Funds, Solvency Capital Requirement – General Provisions, Solvency Capital Requirement – Standard Formula, Solvency Capital Requirement – Internal Models, Minimum Capital Requirement, Undertakings in Difficulty, Investments, Composites, Conditions Governing Business, Insurance Special Purpose Vehicles, Group Supervision, Reporting, Surplus Funds, Insurance – Conduct Standards, Insurance – Senior Insurance Management Functions, Insurance – Allocation of Responsibilities and Insurance – Fitness and Propriety Parts of the Solvency II Firms Sector of the *PRA* Rulebook.

2 TRANSITIONAL APPLICATION OF RULES IN RELATION TO RUN-OFF FIRMS

2.1 Notwithstanding the *application rules*, the following Parts apply to a *run-off firm* for so long as it remains a *run-off firm*:

- (1) Non-Solvency II Firms - Senior Insurance Management Functions;
- (2) Non-Solvency II Firms - Fitness and Propriety; and
- (3) Non-Solvency II Firms - Allocation of Responsibilities.

2.2 Notwithstanding Non-Solvency II Firms - Conduct Standards 1.1, the rules in Non-Directive - Conduct Standards apply to any *person* subject to this Part.

Annex F

In the Glossary Part of the *PRA* Rulebook, insert the following new definitions in the appropriate alphabetical order:

non-directive insurer

means a firm with a Part 4A permission for effecting contracts of insurance or carrying out contracts of insurance, other than:

- (1) a *UK Solvency II firm*;
- (2) a *UK ISPV*; and
- (3) a *third country branch undertaking*.

small non-directive insurer

means a *non-directive insurer* in respect of which the value of assets relating to all *regulated activities* carried on by the *firm* as shown in its most recent reported annual accounts was £25,000,000 or less.

Amend the following definition, where underlining indicates new text:

senior insurance management function

means

- (1) (in the Solvency II Firms Sector of the *PRA* Rulebook) that aspect of any *key function* relating to the carrying on of a *regulated activity* by a *firm* which is specified by the *PRA* in Insurance – Senior Insurance Management Functions 3-10 pursuant to section 59 of *FSMA*;
- (2) (in the Non-Solvency II Firms Sector of the *PRA* Rulebook) 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*.

**PRA RULEBOOK: SOLVENCY II FIRMS: SENIOR INSURANCE MANAGERS REGIME (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 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: Solvency II Firms: Senior Insurance Managers Regime (No. 2) Instrument 2015

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

Commencement

- E. This instrument comes into force on 7 March 2016.

Citation

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

By order of the Board of the Prudential Regulation Authority

31 July 2015.

Annex A

[Note: This Annex contains updates to the rules made in PS3/15 Appendix 3 (PRA Rulebook: Solvency II Firms: Senior Insurance Managers Regime Instrument 2015). In this Annex, underlining indicates new text and striking through indicates deleted text.]

Part

INSURANCE – SENIOR INSURANCE MANAGEMENT FUNCTIONS

Chapter content

1. APPLICATION AND DEFINITIONS
2. GENERAL
3. EXECUTIVE
4. OVERSIGHT
5. GROUP ENTITIES
6. HEAD OF THIRD COUNTRY BRANCH
7. CHIEF ACTUARY
8. WITH-PROFITS ACTUARY
9. CHIEF UNDERWRITING OFFICER
10. UNDERWRITING RISK OVERSIGHT
11. LLOYD'S
12. UK ISPVs

Links

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 11;
- (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 11;
- (4) a *third country branch undertaking* (other than a *Swiss general insurer*); and
- (5) ~~an~~ a *UK ISPV*, in accordance with 12.

1.2 In this Part, the following definitions shall apply:

Chairman function

has the meaning given in 4.1.

Chairman of Audit Committee function

has the meaning given in 4.3.

Chairman of Remuneration Committee function

has the meaning given in 4.4.

Chairman of Risk Committee function

has the meaning given in 4.2.

Chief Actuary function

has the meaning given in 7.1.

Chief Executive function

has the meaning given in 3.1.

Chief Finance function

has the meaning given in 3.2.

Chief Risk function

has the meaning given in 3.3.

Chief Underwriting Officer function

has the meaning given in 9.2.

FCA activities

means a function which would, except for SUP10A.11.12R of the *FCA Handbook*, be an *FCA governing function*.

Group Entity Senior Insurance Manager function

has the meaning given in 5.1.

Head of Internal Audit function

has the meaning given in 3.4.

Head of Third Country Branch function

has the meaning given in 6.2.

Senior Independent Director function

has the meaning given in 4.5.

Underwriting Risk Oversight function

has the meaning given in 10.2.

With-Profits Actuary function

has the meaning given in 8.2.

2 GENERAL

- 2.1 Each of the functions in 3 - 10 is a *controlled function* and a *senior insurance management function*.
- 2.2 *Senior insurance management function* holders must each be approved by the PRA to perform the applicable *senior insurance management function*.
- 2.3 (1) A *firm* (other than a *third country branch undertaking*) must ensure that one or more *persons* performs each of the following *senior insurance management functions* on its behalf:
- (a) the *Chief Executive function*; ~~and~~
 - (b) the *Chief Finance function*; and
 - (c) the *Chairman function*.
- (2) If a vacancy arises in respect of one or more of the *senior insurance management functions* set out in (1), a *firm* must ensure that it appoints a *person* to fill that vacancy as soon as practicable.
- 2.4 To the extent that:
- (1) a *firm* appoints a *person* to perform a *key function* which, but for this rule, would be a *senior insurance management function*;
 - (2) the appointment is solely to provide cover for a *senior insurance management function holder* whose absence is:
 - (a) temporary; or
 - (b) reasonably unforeseen; and

(3) the appointment is for less than 12 weeks in a consecutive 12-month period,
the description of the applicable *senior insurance management function* does not relate to those activities of that *person*.

2.5 (1) If, in relation to a *firm*, a *senior insurance management function holder* also performs *FCA activities*, performance of the *senior insurance management function* will include the performance of those *FCA activities*, provided the following conditions are met:

- (a) the *PRA*'s approval to perform that *senior insurance management function* has been granted and continues in force;
- (b) at the time of approval being granted by the *PRA*, that *person* was not subject to an *FCA approval* to perform the particular *FCA governing function*;
- (c) the *firm* made the notification required by SUP10A.11.12 R (4) of the *FCA Handbook*; and
- (d) that *person* performs and is continuing to perform the *FCA activities*.

(2) If, in relation to a *firm*, a *senior insurance management function holder* has been performing *FCA activities* in the circumstances set out in (1), and that *person*:

- (a) ceases to perform the *senior insurance management function*;
- (b) within three *months* of ceasing performance, is approved to perform a new *senior insurance management function* at the *firm*; and
- (c) continues to perform the *FCA activities*.

performance of the new *senior insurance management function* will include the performance of those *FCA activities*, provided the conditions in (1) (a) to (d) are met.

2.6 If a *senior insurance management function holder* to whom 2.5 applies ceases to perform a *senior insurance management function* but continues to perform the *FCA activities*, 2.5(1) will continue to apply in respect of the performance of the *FCA activities* until the earlier of:

- (1) approval by the *FCA* in respect of the performance by that *person* of those *FCA activities* as an *FCA governing function* in relation to the *firm*; or
- (2) three *months* from the time that the *person* ceased to perform that *senior insurance management function*.

3 EXECUTIVE

- 3.1 The *Chief Executive function* (SIMF1) is the function of having responsibility, under the immediate authority of the *governing body*, alone or jointly with others, for carrying out the management of the conduct of the whole of the business (or relevant activities) of a *firm*.
- 3.2 The *Chief Finance function* (SIMF2) is the function of having responsibility for the management of the financial resources of a *firm* and reporting to the *governing body* of a *firm* in relation to its financial affairs.
- 3.3 The *Chief Risk function* (SIMF4) is the function of having responsibility for overall management of the risk management system specified in Conditions Governing Business 3.

- 3.4 The *Head of Internal Audit function* (SIMF5) is the function of having responsibility for the management of the internal audit *function* specified in Conditions Governing Business 5.

4 OVERSIGHT

[Not yet in force]

- 4.1 The *Chairman function* (SIMF9) is the function of having responsibility for chairing, and overseeing the performance of the *governing body* of a *firm*.
- 4.2 The *Chairman of Risk Committee function* (SIMF10) is the function of having responsibility for chairing, and overseeing the performance of any committee responsible for the oversight of the risk management system specified in Conditions Governing Business 3.
- 4.3 The *Chairman of Audit Committee function* (SIMF11) is the function of having responsibility for chairing and overseeing the performance of any committee responsible for the oversight of the internal audit *function* specified in Conditions Governing Business 5.
- 4.4 The *Chairman of Remuneration Committee function* (SIMF12) is the function of having responsibility for chairing and overseeing the performance of any committee responsible for the oversight of the design or implementation of the remuneration policies and practices of a *firm*.
- 4.5 The *Senior Independent Director function* (SIMF14) is the function of performing the role of a senior independent *director*, and having particular responsibility for leading the assessment of performance of the *person* performing the *Chairman function*.

5 GROUP ENTITIES

- 5.1 The *Group Entity Senior Insurance Manager function* (SIMF7) is the function of having a significant influence on the management or conduct of one or more aspects of the affairs of a *firm* in relation to its *regulated activities* (other than in the course of the performance of another *senior insurance management function*) and which is performed by a *person* employed by, or an officer (~~other than a non-executive director~~) of:
- (1) a *parent undertaking* or holding company of a *firm*; or
 - (2) another *undertaking* which is a *member* of the *firm's group*.

6 HEAD OF THIRD COUNTRY BRANCH

- 6.1 This Chapter applies only to a *firm* that is a *third country branch undertaking* (other than 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 *third country branch undertaking* that are subject to the *regulatory system*.
- 6.3
- (1) A *third country branch undertaking* 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 *third country branch undertaking* must ensure that it appoints a *person* to fill that vacancy as soon as possible.

6.4 A *third country branch undertaking* that transacts *with-profits insurance business* must have at least one *person* approved to perform the *With-Profits Actuary function* (SIMF21).

6.5 A *third country branch undertaking* is not required to have any *person(s)* approved to perform any of the other *senior insurance management functions*.

7 CHIEF ACTUARY

7.1 The *Chief Actuary function* (SIMF20) is the function of having responsibility for the actuarial *function* specified in Conditions Governing Business 6.

8 WITH-PROFITS ACTUARY

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

8.2 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 Actuaries 5.1.

9 CHIEF UNDERWRITING OFFICER

9.1 This Chapter applies only to *firms* that carry on *general insurance business* and to *managing agents*.

9.2 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:

- (1) in relation to *firms* that carry on *general insurance business*, are borne by the *firm*; or
- (2) in relation to *managing agents*, are borne by *members*.

10 UNDERWRITING RISK OVERSIGHT

10.1 This Chapter applies only to the *Society*.

10.2 The *Underwriting Risk Oversight function* (SIMF23) is the function of overseeing and influencing underwriting plans by *managing agents* in respect of risks borne by *members*.

11 LLOYD'S

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

12 UK ISPVs

12.1 This Chapter applies only to *firms* that are UK ISPVs.

12.2 The following *senior insurance management functions* do not apply to ~~an~~ a UK ISPV:

- (1) *Chief Risk function* (SIMF4);
- (2) *Head of Internal Audit function* (SIMF5);
- (3) *Chairman of Risk Committee function* (SIMF10);
- (4) *Chairman of Audit Committee function* (SIMF11);
- (5) *Chairman of Remuneration Committee function* (SIMF12);

- (6) Senior Independent Direction function (SIMF14);
- (7) Head of Third Country Branch function (SIMF19);
- (48) With-Profits Actuary function (SIMF21); and
- (59) Chief Underwriting Officer function (SIMF22).

Annex B

[Note: This Annex contains updates to the rules made in PS3/15 Appendix 3 (PRA Rulebook: Solvency II Firms: Senior Insurance Managers Regime Instrument 2015). In this Annex, underlining indicates new text and striking through indicates deleted text.]

Part**INSURANCE – FITNESS AND PROPRIETY**

Chapter content

1. APPLICATION AND DEFINITIONS
2. FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS
3. OBLIGATION TO PROVIDE REFERENCES
4. DISCLOSURE AND REPLACEMENTS
5. LLOYD'S
6. FITNESS AND PROPRIETY TRANSITIONAL PROVISIONS

Links

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 5;
- (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 5;
- (4) a *third country branch undertaking* (other than a *Swiss general insurer*); and
- (5) ~~an~~ a *UK ISPV*.

1.2 In this Part, the following definitions shall apply:

continued approval

has the meaning given in Senior Insurance Managers Regime – Transitional Provisions.

2 FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS

2.1 A *firm* must ensure that all *persons* who perform *key functions* are at all times fit and proper *persons*.

[Note: Art. 42(1) of the *Solvency II Directive*]

2.2 In deciding whether a *person* is fit and proper pursuant to 2.1, a *firm* must be satisfied that the *person*:

- (1) has the personal characteristics (including being of good repute and integrity);
- (2) possesses the level of competence, knowledge and experience;
- (3) has the qualifications; and
- (4) has undergone or is undergoing all training,

required to enable such *person* to perform his or her *key function* effectively and in accordance with any relevant regulatory requirements, including those under the *regulatory system*, and to enable sound and prudent management of the *firm*.

[Note: Art. 42(1) of the *Solvency II Directive*]

2.3 Before deciding, and in considering on an on-going basis, whether a *person* is fit and proper pursuant to 2.1 and 2.2, a *firm* must consider:

- (1) the *person's* past business conduct; and
- (2) whether the *person* performs his or her *key functions* in accordance with the relevant *conduct standards* specified in Insurance - Conduct Standards 3.

[Note: Art. 42(1) of the *Solvency II Directive*]

2.4 ~~Before~~In deciding whether a *person* (P) is fit and proper to ~~become~~ be appointed as a senior insurance management function holder or a notified non-executive director, a *firm* must:

- (1) obtain P's consent for the *firm* to request the fullest information in relation to P that it is lawfully able to request under the Police Act 1997 and related subordinated legislation of the *UK* or any part of the *UK*;
 - (2) if P has lived or worked outside the *UK* for a material time in the previous five years, obtain P's consent for the *firm* to request the fullest information in relation to P that it is lawfully able to request under equivalent overseas legislation; and
 - (3) request, and have regard to, such information.
- 2.5 Before deciding whether a *person* is fit and proper to ~~become~~ be appointed as a senior insurance management function holder or a notified non-executive director, a *firm* must take reasonable steps to obtain appropriate references from that *person*'s current and previous employers, and from organisations at which that *person* served as, or is currently, a non-executive director, covering at least the past five years.
- 2.6 Where a *firm* (A) seeks a reference pursuant to 2.5 from an *FCA-authorised person* or a *PRA-authorised person* (B), A must also request that B discloses all matters of which B is aware that are relevant to the assessment of that *person*'s fitness and propriety.
- 2.7 If a *firm* engages a *person* for a continuous period of time as a *senior insurance management function holder* or a *notified non-executive director* it is only required to comply with 2.4 - 2.6 the first time it determines that *person* is fit and proper to act as a *senior insurance management function holder* or a *notified non-executive director*.

3 OBLIGATION TO PROVIDE REFERENCES

- 3.1 [Not yet in force]

4 DISCLOSURE AND REPLACEMENTS

- 4.1 (1) A *firm* (other than ~~an~~ a *UK* ISPV) shall notify the *PRA* of any changes to the identity of *key function holders* and shall provide the *PRA* with:
- (a) all the information needed to assess whether such *person* is fit and proper pursuant to 2.2; and
 - (b) the information referred to in Insurance - Allocation of Responsibilities 5.1(3) in respect of that *person*.
- (2) ~~An~~A *UK* ISPV shall notify the *PRA* of any changes to the identity of *key function holders* who are effectively running the *firm* and shall provide the *PRA* with all the information needed to assess whether such *person* is fit and proper pursuant to 2.2.

[Note: Art. 42(2) of the Solvency II Directive]

- (3) Where a *firm* has complied with 4.1(1) in connection with the appointment of a *person* as a *key function holder*, and such *person* transfers from that *key function* to a different *key function* or is appointed to an additional *key function*, in either case within the same *firm*, for the purposes of 4.1(1) the *firm* need only supply, in connection with such subsequent appointment:
- (a) updates to the information previously provided; and

- (b) if the *key function holder* is also to perform a *senior insurance management function* or an *FCA controlled function*, the information required in connection with an application for approval to do so.

4.2 Where:

- (1) a *person* who is to become a *key function holder* is also to be approved by the *PRA* to perform a *senior insurance management function* or by the *FCA* to perform an *FCA controlled function*; and
- (2) the *firm* includes the information referred to in 4.1 in its application to the *PRA* for the approval of that *person* to perform the *senior insurance management function*, or in the application to the *FCA* for the approval of that *person* to perform the *FCA controlled function*.

this shall ~~discharge the obligation~~ satisfy the requirement in 4.1 in respect of that *key function* appointment.

4.3 If a *firm* becomes aware of information which would reasonably be expected to be material to the assessment of a current or former *key function holder's* fitness and propriety under this Part, it must inform the *PRA* as soon as practicable.

[Note: Art. 42(3) of the Solvency II Directive]

4.4 Where a *firm* replaces a *key function holder* because the *firm* considers that that *person* is no longer fit and proper pursuant to 2.1 and 2.2, the *firm* must notify the *PRA* as soon as reasonably practicable.

[Note: Art. 42(3) of the Solvency II Directive]

5 LLOYD'S

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

6 FITNESS AND PROPRIETY TRANSITIONAL PROVISIONS

6.1 The requirements of 2.4 - 2.6 do not apply to a *firm* in respect of any *person* who has *continued approval* in relation to that *firm*.

Annex C

[Note: This Annex contains updates to the rules made in PS3/15 Appendix 3 (PRA Rulebook: Solvency II Firms: Senior Insurance Managers Regime Instrument 2015). In this Annex, underlining indicates new text and striking through indicates deleted text.]

Part**INSURANCE – ALLOCATION OF RESPONSIBILITIES**

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. ALLOCATION OF RESPONSIBILITIES**
- 3. SIMR PRESCRIBED RESPONSIBILITIES**
- 4. IDENTIFICATION OF KEY FUNCTIONS**
- 5. RECORDS**
- 6. LLOYD'S**

Links

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 6;
- (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 6; and
- (4) a *third country branch undertaking* (other than a *Swiss general insurer*).

1.2 In this Part, the following definitions shall apply:

governance map

has the meaning given in 5.1.

SIMR prescribed responsibility

- (1) for a *firm* (other than a *third country branch undertaking*) means the responsibilities in 3.1;
- (2) for a *third country branch undertaking* (other than a *UK-deposit insurer* or a *Swiss general insurer*) means the responsibilities set out in 3.1 to the extent only that they are relevant to the operations effected by its *third country branch*, save in relation to 3.1(4) which shall also take account of the operations of the *third country branch undertaking* to the same extent as is necessary to ensure compliance by the *third country branch undertaking* with Third Country Branches 13;
- (3) for a *UK-deposit insurer*, means the responsibilities set out in 3.1 to the extent only that they are relevant to the operations effected by its *third country branch* and all its *third country undertaking EEA branches*, save in relation to 3.1(4) which shall also take account of the operations of the *third country branch undertaking* to the same extent as is necessary to ensure compliance by the *third country branch undertaking* with Third Country Branches 13.

2 ALLOCATION OF RESPONSIBILITIES

2.1 A *firm* (other than a *third country branch undertaking*) must allocate each ~~element~~ of the *SIMR prescribed responsibilities* set out in 3.1 (other than 3.1(10) and (11)), 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 *third country branch undertaking*) must allocate each ~~element~~ of the *SIMR prescribed responsibilities* set out in 3.1(10) and (11) to one or more *non-executive directors* who perform a *senior insurance management function* set out in Insurance – Senior Insurance Management Functions 4 or an *FCA governing function* at that *firm*.

- 2.3 A *third country branch undertaking (other than a Swiss general insurer)* must allocate each element of the *SIMR prescribed responsibilities* set out in 3.1(1), (4), (5), (6) and (7) 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*.

3 SIMR PRESCRIBED RESPONSIBILITIES

- 3.1 Each of the responsibilities set out in this rule is an *SIMR prescribed responsibility*:
- (1) responsibility for ensuring that the *firm* has complied with its obligation in Insurance - Fitness and Propriety 2.1 to ensure that every *person* who performs a *key function* (including ~~these every person~~ in respect of whom an application under section 59 of *FSMA* is made) is a fit and proper *person*;
 - (2) responsibility for leading the development of the *firm's* culture by the *governing body* as a whole;
 - (3) responsibility for overseeing the adoption of the *firm's* culture in the day-to-day management of the *firm*;
 - (4) responsibility for the production and integrity of the *firm's* financial information and its regulatory reporting;
 - (5) responsibility for management of the allocation and maintenance of the *firm's*;
 - (a) capital; and
 - (b) liquidity;
 - (6) responsibility for the development and maintenance of the *firm's* business model by the *governing body*;
 - (7) responsibility for performance of the *firm's* *ORSA*;
 - (8) responsibility for leading the development and monitoring effective implementation of policies and procedures for the induction, training and professional development of all members of the *firm's* *governing body*;
 - (9) responsibility for monitoring effective implementation of policies and procedures for the induction, training and professional development of all of the *firm's* *key function holders* (other than members of the *firm's* *governing body*);
 - (10) responsibility for oversight of the independence, autonomy and effectiveness of the *firm's* policies and procedures on whistleblowing including the procedures for protection of staff who raise concerns from detrimental treatment; and
 - (11) responsibility for ~~developing and~~ overseeing the development and implementation of the *firm's* remuneration policies and practices.

4 IDENTIFICATION OF KEY FUNCTIONS

- 4.1 A *firm* must identify:
- (1) each of the *functions* that the *firm* considers to be a *key function*; and

- (2) any such *key function* that amounts to effectively running the *firm* (or, for a *third country branch undertaking other than a Swiss general insurer*, 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*).

4.2 A *firm* must keep its identification of *key functions* pursuant to 4.1 up-to-date.

4.3 A *firm* must keep a record of its reasoning for the identification of *key functions* pursuant to 4.1.

5 RECORDS

5.1 A *firm* must have and maintain a *governance map*, which is a clear and coherent document or series of documents with the following details:

- (1) a list of the *key functions* identified by the *firm* in accordance with 4.1 highlighting those that amount to effectively running the *firm* (or, for a *third country branch undertaking other than a Swiss general insurer*, 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*);
- (2) the names of the *persons* who effectively run the *firm* (or, for a *third country branch undertaking other than a Swiss general insurer*, effectively run 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*) or who are responsible for other *key functions* listed pursuant to 5.1(1);
- (3) for each *person* named pursuant to 5.1(2), a summary of the significant responsibilities allocated to that *person* (including, if applicable, any *SIMR prescribed responsibilities* that have been allocated to that *person* in accordance with 2);
- (4) where any responsibilities covered by 5.1(3) are allocated to more than one *person*, details of how those responsibilities are shared or divided between the *persons* concerned;
- (5) reporting lines and lines of responsibility for each *person* listed pursuant to 5.1(2);
- (6) where a *firm* (other than a *third country branch undertaking*) is a member of a *group*:
 - (a) how the *firm's* management and governance arrangements fit together with those of its *group* and the extent to which the *firm's* management and governance arrangements are provided by or shared with other members of its *group*; and
 - (b) for the *persons* listed pursuant to 5.1(2), details of the reporting lines and the lines of responsibility (if any) to *persons* who are employees or officers of other *group* members or to committees or other bodies of the *group* or of other *group* members.

5.2 A *firm* must update the *governance map*:

- (1) at least quarterly; and
- (2) in the event of a significant change to:

- (a) the *firm's* governance structure;
- (b) the significant responsibilities allocated to a *key function holder*, or
- (c) the reporting lines or lines of responsibility for a *key function holder*.

5.3 A *firm* must, as soon as reasonably practicable, provide the following to the *PRA*:

- (1) upon request by the *PRA*, a copy of the *governance map*; and
- (2) in the event of an update pursuant to 5.2(2), a copy of the relevant part of the *governance map*.

6 LLOYD'S

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

Annex D

[Note: In this Annex, the text is all new and is not underlined.]

Part

INSURANCE - CONDUCT STANDARDS

Chapter content

1. APPLICATION
2. SCOPE OF CONDUCT STANDARDS
3. CONDUCT STANDARDS
4. LLOYD'S

Links

1 APPLICATION

- 1.1 Unless otherwise stated, this Part applies to:
- (1) a *UK Solvency II firm*;
 - (2) in accordance with General Application 3, the *Society*, as modified by 4;
 - (3) in accordance with General Application 3, *managing agents*, as modified by 4;
 - (4) a *third country branch undertaking* (other than a *Swiss general insurer*);
 - (5) a *UK ISPV*; and
 - (6) in relation to 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*.

2 SCOPE OF CONDUCT STANDARDS

- 2.1 If you are a natural person subject to this Part, you must comply at all times with all of the *conduct standards*.
- 2.2 A *firm* must require:
- (1) any *person* performing a *key function* to observe the *conduct standards* specified in 3.1 – 3.3;
 - (2) any *key function holder* (other than a *notified non-executive director* and an *authorised UK representative*) to observe the *conduct standards* specified in 3.4 – 3.8, in addition to complying with (1); and
 - (3) any *notified non-executive director* to observe the *conduct standards* specified in 3.7 and 3.8, in addition to complying with (1).

3 CONDUCT STANDARDS

- 3.1 **Individual Conduct Standard 1:** You must act with integrity.
- 3.2 **Individual Conduct Standard 2:** You must act with due skill, care and diligence.
- 3.3 **Individual Conduct Standard 3:** You must be open and co-operative with the *FCA*, the *PRA* and other regulators.
- 3.4 **Senior Insurance Manager Conduct Standard 1:** You must take reasonable steps to ensure that the business of the *firm* for which you are responsible is controlled effectively.
- 3.5 **Senior Insurance Manager Conduct Standard 2:** You must take reasonable steps to ensure that the business of the *firm* for which you are responsible complies with the relevant requirements and standards of the *regulatory system*.

- 3.6 **Senior Insurance Manager Conduct Standard 3:** You must take reasonable steps to ensure that any delegation of your responsibilities is to an appropriate *person* and that you oversee the discharge of the delegated responsibility effectively.
- 3.7 **Senior Insurance Manager Conduct Standard 4:** You must disclose appropriately any information of which the *FCA* or the *PRA* would reasonably expect to have notice.
- 3.8 **Senior Insurance Manager Conduct Standard 5:** When exercising your responsibilities, you must pay due regard to the interests of current and potential future *policyholders* in ensuring the provision by the *firm* of an appropriate degree of protection for their insured benefits.

4 LLOYD'S

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

Annex E

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

Part

GLOSSARY

Links

Glossary

conduct standards

- (1) for a UK Solvency firm, the Society, managing agents 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 - 3.3 and, taking account only of matters relevant to the operations of the third country branch, Insurance – Conduct Standards 3.4 – 3.8; and
- (3) for a UK-deposit insurer, means the standards of expected conduct specified in Insurance - Conduct Standards 3.1 - 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 – 3.8.

FCA approval

means at any time an approval granted to and in effect for a person by the FCA under section 59 of FSMA (Approval for particular arrangements) for the performance of a controlled function specified by the FCA.

FCA controlled function

means a controlled function specified by the FCA under section 59 of FSMA.

FCA governing function

has the meaning given in SUP 10A.4.4R of the FCA Handbook.

governing body

means the board of directors, committee of management or other governing body of an unincorporated association or body corporate and includes, in relation to the Society, a committee to which the Council directly delegates authority to carry out the Society's regulatory functions.

notified non-executive director

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

relevant senior management function

means, for the purposes of section 64A of FSMA, any of the following FCA controlled functions to the extent applicable, pursuant to the FCA Handbook, to a UK Solvency II firm, the Society, a managing agent, a third country branch undertaking (other than a Swiss general insurer), an ISPV or a small non directive insurer:

- (1) CF1 Director function;
- (2) CF2A Chair of the Nomination committee function;
- (3) CF2B Chair of the With-Profits committee function;
- (4) CF3 Chief executive function;
- (5) CF5 Director of unincorporated association function;
- (6) CF6 Small friendly society function;
- (7) CF10 Compliance oversight function;
- (8) CF28 Systems and control function; and

(9) CF51 Actuarial conduct function holder in Solvency II third country Insurance undertakings.

**PRA RULEBOOK: SOLVENCY II FIRMS: SENIOR INSURANCE MANAGERS REGIME –
SOLVENCY II (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 – Solvency II (No. 2) Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016 and will remain in force up to and including 6 March 2016.

Citation

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

By order of the Board of the Prudential Regulation Authority

31 July 2015.

Annex A

[Note: This Annex contains updates to the rules made in PS3/15 Appendix 3 (PRA Rulebook: Solvency II Firms: Senior Insurance Managers Regime – Solvency II Instrument 2015). In this Annex, underlining indicates new text and striking through indicates deleted text.]

Part

INSURANCE – FITNESS AND PROPRIETY

Chapter content

- 1. APPLICATION**
- 2. FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS**
- 3. OBLIGATION TO PROVIDE REFERENCES**
- 4. DISCLOSURE AND REPLACEMENTS**
- 5. LLOYD'S**
- 6. FITNESS AND PROPRIETY TRANSITIONAL PROVISIONS**

Links

1 APPLICATION

- 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 5;
 - (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 5;
 - (4) a *third country branch undertaking* (other than a *Swiss general insurer*); and
 - (5) ~~an~~ a *UK ISPV*.

2 FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS

- 2.1 A *firm* must ensure that all *persons* who perform *key functions* are at all times fit and proper *persons*.

[Note: Art. 42(1) of the *Solvency II Directive*]

- 2.2 In deciding whether a *person* is fit and proper pursuant to 2.1, a *firm* must be satisfied that the *person*:
- (1) has the personal characteristics (including being of good repute and integrity);
 - (2) possesses the level of competence, knowledge and experience;
 - (3) has the qualifications; and
 - (4) has undergone or is undergoing all training,

required to enable such *person* to perform his or her *key function* effectively and in accordance with any relevant regulatory requirements, including those under the *regulatory system*, and to enable sound and prudent management of the *firm*.

[Note: Art. 42(1) of the *Solvency II Directive*]

- 2.3 Before deciding, and in considering on an on-going basis, whether a *person* is fit and proper pursuant to 2.1 and 2.2, a *firm* must consider the *person's* past business conduct.

[Note: Art. 42(1) of the *Solvency II Directive*]

- 2.4 [Not yet in force]
- 2.5 [Not yet in force]
- 2.6 [Not yet in force]
- 2.7 [Not yet in force]

3 OBLIGATION TO PROVIDE REFERENCES

- 3.1 [Not yet in force]

4 DISCLOSURE AND REPLACEMENTS

- 4.1 (1) A *firm* (other than ~~an~~ a UK ISPV) shall notify the *PRA* of any changes to the identity of *key function holders* and shall provide the *PRA* with:
- (a) all the information needed to assess whether such *person* is fit and proper pursuant to 2.2; and
 - (b) the information referred to in Insurance - Allocation of Responsibilities 5.1(3) in respect of that *person*.
- (2) ~~An~~ UK ISPV shall notify the *PRA* of any changes to the identity of *key function holders* who are effectively running the *firm* and shall provide the *PRA* with all the information needed to assess whether such *person* is fit and proper pursuant to 2.2.

[Note: Art. 42(2) of the Solvency II Directive]

(3) [Not yet in force]

4.2 [Not yet in force]

Where:

(1) ~~_____ a *key function holder* is to be approved by the *PRA* to perform a *senior insurance management function*; and~~

(2) ~~_____ the *firm* includes the information referred to in 4.1 in its application to the *PRA* for the approval of that *person* to perform the *senior insurance management function*;~~

~~this shall discharge the obligation in 4.1 in respect of that *key function* appointment.~~

- 4.3 If a *firm* becomes aware of information which would reasonably be expected to be material to the assessment of a current or former *key function holder's* fitness and propriety under this Part, it must inform the *PRA* as soon as practicable.

[Note: Art. 42(3) of the Solvency II Directive]

- 4.4 Where a *firm* replaces a *key function holder* because the *firm* considers that that *person* is no longer fit and proper pursuant to 2.1 and 2.2, the *firm* must notify the *PRA* as soon as reasonably practicable.

[Note: Art. 42(3) of the Solvency II Directive]

5 LLOYD'S

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

6 FITNESS AND PROPRIETY TRANSITIONAL PROVISIONS

6.1 [Not yet in force]

Annex B

[Note: This Annex contains updates to the rules made in PS3/15 Appendix 3 (PRA Rulebook: Solvency II Firms: Senior Insurance Managers Regime – Solvency II Instrument 2015). In this Annex, underlining indicates new text and striking through indicates deleted text.]

Part

INSURANCE – ALLOCATION OF RESPONSIBILITIES

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. ALLOCATION OF RESPONSIBILITIES**
- 3. SIMR PRESCRIBED RESPONSIBILITIES**
- 4. IDENTIFICATION OF KEY FUNCTIONS**
- 5. RECORDS**
- 6. LLOYD'S**

Links

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 6;
- (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 6; and
- (4) a *third country branch undertaking* (other than a *Swiss general insurer*).

1.2 In this Part, the following definitions shall apply:

governance map

has the meaning given in 5.1.

2 ALLOCATION OF RESPONSIBILITIES

2.1 [Not yet in force]

2.2 [Not yet in force]

2.3 [Not yet in force]

3 SIMR PRESCRIBED RESPONSIBILITIES

3.1 [Not yet in force]

4 IDENTIFICATION OF KEY FUNCTIONS

4.1 A *firm* must identify:

- (1) each of the *functions* that the *firm* considers to be a *key function*; and
- (2) any such *key function* that amounts to effectively running the *firm* (or, for a *third country branch undertaking other than a Swiss general insurer*, 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*).

4.2 A *firm* must keep its identification of *key functions* pursuant to 4.1 up-to-date.

4.3 A *firm* must keep a record of its reasoning for the identification of *key functions* pursuant to 4.1.

5 RECORDS

5.1 A *firm* must have and maintain a *governance map*, which is a clear and coherent document or series of documents with the following details:

- (1) a list of the *key functions* identified by the *firm* in accordance with 4.1 highlighting those that amount to effectively running the *firm* (or, for a *third country branch undertaking other than a Swiss general insurer*, 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*);

- (2) the names of the *persons* who effectively run the *firm* (or, for a *third country branch undertaking other than a Swiss general insurer*, effectively run 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*) or who are responsible for other *key functions* listed pursuant to 5.1(1);
- (3) for each *person* named pursuant to 5.1(2), a summary of the significant responsibilities allocated to that *person*;
- (4) where any responsibilities covered by 5.1(3) are allocated to more than one *person*, details of how those responsibilities are shared or divided between the *persons* concerned;
- (5) reporting lines and lines of responsibility for each *person* listed pursuant to 5.1(2);
- (6) where a *firm* (other than a *third country branch undertaking*) is a member of a *group*:
 - (a) how the *firm's* management and governance arrangements fit together with those of its *group* and the extent to which the *firm's* management and governance arrangements are provided by or shared with other members of its *group*; and
 - (b) for the *persons* listed pursuant to 5.1(2), details of the reporting lines and the lines of responsibility (if any) to *persons* who are employees or officers of other *group* members or to committees or other bodies of the *group* or of other *group* members.

5.2 A *firm* must update the *governance map*:

- (1) at least quarterly; and
- (2) in the event of a significant change to:
 - (a) the *firm's* governance structure;
 - (b) the significant responsibilities allocated to a *key function holder*; or
 - (c) the reporting lines or lines of responsibility for a *key function holder*.

5.3 A *firm* must, as soon as reasonably practicable, provide the following to the *PRA*:

- (1) upon request by the *PRA*, a copy of the *governance map*; and
- (2) in the event of an update pursuant to 5.2(2), a copy of the relevant part of the *governance map*.

6 LLOYD'S

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

**PRA RULEBOOK: SOLVENCY II FIRMS: SENIOR INSURANCE MANAGERS REGIME –
TECHNICAL RULES 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 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 exercise of the 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).
- 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: Solvency II Firms: Senior Insurance Managers Regime – Technical Rules Instrument 2015

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

Commencement

- E. Annex A comes into force on 7 March 2016.
F. Annex B comes into force on 1 January 2016.
G. Annex C comes into force on 19 August 2015.

Citation

- H. This instrument may be cited as the PRA Rulebook: Solvency II Firms: Senior Insurance Managers Regime – Technical Rules Instrument 2015.

By order of the Board of the Prudential Regulation Authority

31 July 2015.

Annex A

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

Part

SENIOR INSURANCE MANAGERS REGIME – APPLICATIONS AND NOTIFICATIONS

Chapter content

1. APPLICATION AND DEFINITIONS
2. APPLICATION TO PERFORM A SENIOR INSURANCE MANAGEMENT FUNCTION
3. WITHDRAWAL OF A SENIOR INSURANCE MANAGEMENT APPROVAL APPLICATION
4. CEASING TO PERFORM A SENIOR INSURANCE MANAGEMENT FUNCTION
5. CHANGE IN DETAILS RELATING TO SENIOR INSURANCE MANAGEMENT FUNCTION
HOLDERS
6. PROCEDURE FOR MAKING APPLICATIONS AND NOTIFICATIONS
7. FORMS
8. LLOYD'S

Links

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 8;
- (3) in accordance with Insurance General Application 3, a *managing agent*, as modified by 8;
- (4) a *third country branch undertaking* (other than a *Swiss general insurer*); and
- (5) a *UK ISPV*.

1.2 In this Part, the following definitions shall apply:

commencement date

has the meaning given in Senior Insurance Managers Regime – Transitional Provisions.

current approved person approval

means

- (1) an approval granted to a *person* under section 59 of *FSMA* (Approval for particular arrangements):
 - (a) by the *PRA* for the performance of a *senior insurance management function*; or
 - (b) by the *FCA* for the performance of a *significant influence function*;
- (2) a deemed approval given by either the *PRA* following the submission of a *grandfathering notification* under Senior Insurance Managers Regime - Transitional Provisions or by the *FCA* under any equivalent rules in the *FCA Handbook*; or
- (3) for the purposes of 2.5(2) and 2.6(1), an approval granted to that *person* under section 59 of *FSMA* by either the *PRA* or the *FCA* to perform a *controlled function* prior to the *commencement date* but which ceased (i) on or before the *commencement date*; and (ii) during the six-month period specified in 2.5(2) and 2.6(1), as the case may be.

grandfathering notification

has the meaning given in Senior Insurance Managers Regime – Transitional Provisions.

regulatory body

means any authority, body or *person* having, or who has had, responsibility for the supervision or regulation of any *regulated activities* or other financial services, whether within the *United Kingdom* or overseas.

senior insurance management approval application

means an application for approval to perform a *senior insurance management function* under section 59 of *FSMA*.

scope of responsibilities form

means the form to be completed by a *firm* containing the information referred to in Insurance – Allocation of Responsibilities 5.1(3).

significant influence function

has the meaning given in the *FCA Handbook*.

2 APPLICATION TO PERFORM A SENIOR INSURANCE MANAGEMENT FUNCTION

- 2.1 The *PRA* directs that a *firm* must make a *senior insurance management approval application* in accordance with 2.2, before the activities requiring approval commence.
- 2.2 The *PRA* directs that a *firm* must use Form A (long form) for a *senior insurance management approval application* unless:
- (1) the *firm* must use Form E under 2.3; or
 - (2) the *firm* must use Form A (shortened form) under 2.6.
- 2.3 The *PRA* directs that, subject to 2.4 and 2.5, a *firm* must use Form E for a *senior insurance management approval application* if it is being made in respect of a *person* who has a *current approved person approval* and is either:
- (1) ceasing to perform a *senior insurance management function* and taking up a new *senior insurance management function* for the same *firm* or another member of its *group*; or
 - (2) ceasing to perform a *significant influence function* and taking up a *senior insurance management function* for the *firm* or another member of its *group*.
- 2.4 The *PRA* directs that a *firm* must not use Form E for a *senior insurance management approval application* if:
- (1) a notification has been made or should be made to the *PRA* under any of the rules in Notifications 11 or to the *FCA* under any equivalent provisions of the *FCA Handbook*;
 - (2) any of the circumstances in 4.2(2)(a)-(d) apply in relation to:
 - (a) any *controlled function* that that *person* is ceasing to perform; or
 - (b) any *controlled function* that that *person* is continuing to perform in relation to that *firm* or a *firm* in the same *group*.
- 2.5 The *PRA* directs that a *firm* must not use Form E if the *person* to whom the *senior insurance management approval application* relates:
- (1) has never before been approved:
 - (a) by the *PRA* to perform a *controlled function*; or

(b) by the *FCA* to perform a *significant influence function*

for any *firm*;

or

(2) has not been the subject of a *current approved person approval* in relation to any *firm* for more than six *months* prior to the date of application.

2.6 (1) The *PRA* directs that a *firm* must use Form A (shortened form) for a *senior insurance management approval application* if:

(a) the *person* to whom the application relates:

(i) has at the time of application a *current approved person approval*; or

(ii) has had a *current approved person approval* within the previous six *months*; and

(b) there have been no matters arising in relation to the fitness and propriety of the *person* to whom the *senior insurance management approval application* relates which mean that the information provided to the *FCA* or *PRA* regarding fitness and propriety in connection with a *current approved person approval* may have changed since the application for the *current approved person approval* was made.

(2) A *firm* must not use Form A (shortened form) if the circumstances set out in 2.3 apply.

2.7 The *PRA* directs that the form submitted for a *senior insurance management approval application* must be accompanied by a *scope of responsibilities form* or, where such form has already been provided under Key Function Holder – Notifications 2.2, an updated version of it.

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.

3 WITHDRAWAL OF A SENIOR INSURANCE MANAGEMENT APPROVAL APPLICATION

3.1 The *PRA* directs that a *firm* withdrawing an outstanding *senior insurance management approval application* must do so using Form B.

4 CEASING TO PERFORM A SENIOR INSURANCE MANAGEMENT FUNCTION

4.1 A *firm* must notify the *PRA* no later than seven *business days* after a *person* ceases to perform a *senior insurance management function*, using:

(1) Form E if a *person* ceases to perform a *senior insurance management function* and the *firm* is also making an application for the same *person* to perform a new *senior insurance management function*; and

(2) in all other cases, Form C.

- 4.2 (1) A *firm* must notify the *PRA* as soon as practicable after it becomes aware, or has information which reasonably suggests, that it will submit a qualified Form C in respect of a *senior insurance management function holder*.
- (2) Form C is qualified if the information it contains:
- (a) relates to the fact that the *firm* has dismissed or suspended the *senior insurance management function holder* from its employment;
 - (b) relates to the resignation by the *senior insurance management function holder* while under investigation by the *firm*, the *PRA* or any other *regulatory body*;
 - (c) includes a notification under any of the provisions set out in 2.4(1); or
 - (d) otherwise reasonably suggests that it may affect the *PRA*'s assessment of the *senior insurance management function holder's* fitness and propriety.

5 CHANGE IN DETAILS RELATING TO SENIOR INSURANCE MANAGEMENT FUNCTION HOLDERS

- 5.1 If a *senior insurance management function holder's* title, name or national insurance number changes, the *firm* for which the *person* performs a *senior insurance management function* must notify the *PRA* of that change within seven *business days* of the *firm* becoming aware of the matter, using Form D.
- 5.2 If, in relation to a *firm* which has submitted an application on either Form A (long or shortened form) or Form E, as required by 2.2, any of the details relating to *senior insurance management functions* are to change, the *firm* must notify the *PRA* using Form D as soon as reasonably practicable after the *firm* becomes aware of the proposed change.

6 PROCEDURE FOR MAKING APPLICATIONS AND NOTIFICATIONS

- 6.1 The *PRA* directs that, save as required by 6.2, a *firm* must make any applications, notifications or submissions required by this Part by submitting the form specified using the *ONA system*.
- 6.2 If, under any direction or rule in this Part:
- (1) a *firm* is required to make an application, notification or submission online; and
 - (2) the information technology systems used by the *PRA* fail and online submission is unavailable for 24 hours or more,
- until such time as facilities for online submission are restored, a *firm* must submit the specified form in the way set out in Notifications 7.

7 FORMS

- 7.1 (1) Form A may be found [here](#).
- (2) Form B may be found [here](#).
- (3) Form C may be found [here](#).

- (4) Form D may be found [here](#).
- (5) Form E may be found [here](#).
- (6) The *scope of responsibilities form* may be found [here](#).

8 LLOYD'S

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

Annex B

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

Part

KEY FUNCTION HOLDER – NOTIFICATIONS

Chapter content

1. APPLICATION AND DEFINITIONS
2. KEY FUNCTION HOLDER NOTIFICATION
3. PROCEDURE FOR MAKING APPLICATIONS AND NOTIFICATIONS
4. FORMS
5. LLOYD'S
6. TRANSITIONAL ARRANGEMENTS FOR KEY FUNCTION HOLDERS

Links

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 5;
- (3) in accordance with Insurance General Application 3, a *managing agent*, as modified by 5;
- (4) a *third country branch undertaking* (other than a *Swiss general insurer*); and
- (5) a *UK ISPV*.

1.2 In this Part, the following definitions shall apply:

commencement date

has the meaning given in Senior Insurance Managers Regime – Transitional Provisions.

continuing approval

has the meaning given in the *Transitional Order*.

grandfathering key function holder

means, in relation to a *firm*, a *key function holder* who is seeking *continuing approval*.

grandfathering notification

has the meaning given in Senior Insurance Managers Regime – Transitional Provisions.

key function holder notification form

means Form M.

new SIMF applicant

means, in relation to a *firm*, a *key function holder* (other than a *grandfathering key function holder*) who submits an application for a *senior insurance management function* prior to the *commencement date*.

scope of responsibilities form

means the form containing the information referred to in Insurance – Allocation of Responsibilities 5.1(3).

senior insurance management approval application

means an application for approval to perform a *senior insurance management function* under section 59 of *FSMA*.

transitional key function holder

means, in relation to a *firm*, a *person* who is a *key function holder* as at 1 January 2016.

Transitional Order

has the meaning given in Senior Insurance Managers Regime – Transitional Provisions.

2 KEY FUNCTION HOLDER NOTIFICATION

- 2.1 This Chapter does not apply to:
- (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; or
 - (3) *new SIMF applicants*.
- 2.2 A *firm* must provide the information required by Insurance – Fitness and Propriety 4.1 for each *key function holder* as soon as reasonably practicable after the appointment of the *key function holder*.
- 2.3 The *PRA* directs that, subject to 2.4, the information referred to in 2.2 must be provided to the *PRA* in the *key function holder notification form* in accordance with 3.3.
- 2.4 The *PRA* directs that:
- (1) where the *key function holder* is to be approved by the *PRA* to perform a *senior insurance management function*, the *firm* must provide the information referred to in 2.2 to the *PRA* in whichever Form is required for the *senior insurance management function application*, pursuant to Senior Insurance Managers Regime - Applications and Notifications 2, which must be accompanied by a *scope of responsibilities form*; and
 - (2) where the *key function holder* is to be approved by the *FCA* to perform an *FCA controlled function*, the *firm* is not required to submit a *key function holder notification form* to the *PRA* to the extent the *firm* provides the information referred to in 2.2 to the *FCA* as part of the application to the *FCA*, with a *scope of responsibilities form*.

3 PROCEDURE FOR MAKING APPLICATIONS AND NOTIFICATIONS

- 3.1 The *PRA* directs that, save as required by 3.2 and 3.3, a *firm* must make any applications, notifications or submissions required by this Part by submitting the form specified using the *ONA system*.
- 3.2 If, under any direction or rule in this Part:
- (1) a *firm* is required to make an application, notification or submission online; and
 - (2) the information technology systems used by the *PRA* fail and online submission is unavailable for 24 hours or more,

until such time as facilities for online submission are restored, a *firm* must submit the specified form in the way set out in Notifications 7.

- 3.3 The notifications required under 2.3 and 6.5 should be submitted in accordance with Notifications 7.

4 FORMS

- 4.1 The *key function holder notification form*, Form M, may be found [here](#).

5 LLOYD'S

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

6 TRANSITIONAL ARRANGEMENTS FOR KEY FUNCTION HOLDERS

- 6.1 This Chapter applies only to:

- (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; and
- (3) *new SIMF applicants*.

- 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* in accordance with 6.3 – 6.5.

- 6.3 In respect of a *grandfathering key function holder*, the requirement in 6.2 will be satisfied where the *firm* submits a *grandfathering notification* in accordance with Senior Insurance Managers Regime - Transitional Provisions 2.1, or the update to the *grandfathering notification* in accordance with Senior Insurance Managers Regime - Transitional Provisions 5 (as the case may be), provided that the *firm* also submits a *scope of responsibilities form* to the *PRA* in respect of that *grandfathering key function holder* by 7 September 2016.

- 6.4 In respect of a *new SIMF applicant*, the *PRA* directs that a *firm* must provide the information referred to in 6.2 to the *PRA* in whichever form is required for the *senior insurance management approval application*, pursuant to Senior Insurance Managers Regime - Applications and Notifications 2, which must be accompanied by a *scope of responsibilities form*.

- 6.5 In respect of a *transitional key function holder* who is not a *grandfathering key function holder* or a *new SIMF applicant*, 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 C

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

Part

SENIOR INSURANCE MANAGERS REGIME - TRANSITIONAL PROVISIONS

Chapter content

1. APPLICATION AND DEFINITIONS
2. GENERAL
3. GRANDFATHERING NOTIFICATION REQUIREMENTS
4. PROCEDURE FOR MAKING GRANDFATHERING NOTIFICATIONS
5. WITHDRAWING OR UPDATING A GRANDFATHERING NOTIFICATION
6. TABLE OF FUNCTIONS FOR GRANDFATHERING
7. FORMS
8. TRANSITIONAL ARRANGEMENTS FOR NEW SENIOR INSURANCE MANAGEMENT
FUNCTIONS
9. LLOYD'S

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) 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:
 - (a) a *UK Solvency II firm*;
 - (b) a *third country branch undertaking* (other than a *Swiss general insurer*); or
 - (c) a *UK ISPV*;
- (2) the *Society*, as modified by 9; and
- (3) *managing agents*, as modified by 9.

1.2 In this Part, the following definitions shall apply:

candidate

means a *person* in respect of whom a *firm* has made a *pending application*.

commencement date

means 7 March 2016.

continued approval

means approval to perform a *senior insurance management function* under section 59 of FSMA, granted pursuant to a *grandfathering notification*.

effective date

means 19 August 2015.

equivalent function

means a *senior insurance management function* or an *FCA function* that, in either case, is specified in 6 as equivalent, for the purposes of articles 2(3)(b) and 11(c) of the *Transitional Order*, to a *pre-implementation controlled function*.

FCA activities

means a function which would, except for any of the following provisions in SUP TP 7.2.3R of the *FCA Handbook*, be an *FCA governing function*:

- (1) Part 1 (Solvency II firms other than insurance special purpose vehicles and third-country insurance and reinsurance undertakings) Notes 1 and 2;
- (2) Part 2 (Insurance special purpose vehicles) Notes 1 and 2; and
- (3) Part 3 (Third-country insurance and reinsurance undertakings) Note 1.

FCA controlled function

means a *controlled function* specified by the *FCA* under section 59 of *FSMA*.

FCA function

means any of the functions specified in column 3 (FCA controlled functions) of the table set out in 6.

grandfathering notification

means a notice required to be sent to the *PRA* under article 2(1) or 11(b) of the *Transitional Order*, including any update to such a notice.

pending application

means an application for approval under section 60 of *FSMA* which:

- (1) has been received by the *FCA* or *PRA* from the *firm* on or before the *commencement date*, and
- (2) has not been determined or withdrawn.

pre-implementation controlled function

means any of the *controlled functions* listed in column 1 of the table in 6.

senior insurance management function

means a function specified as a *controlled function* in Insurance - Senior Insurance Management Functions 2 in relation to the carrying on of a *regulated activity* by a *firm*.

Transitional Order

means the Financial Services (Banking Reform) Act 2013 (Transitional and Savings Provisions) Order 2015 (SI 2015/492).

2 GENERAL

- 2.1 The *PRA* directs that a *firm* must make a *grandfathering notification* using Form K before 8 February 2016.
- 2.2 The *PRA* directs that the notice required by article 6(1) of the *Transitional Order* must be provided to the *PRA* using Form K.
- 2.3 The *PRA* directs that the notice required by article 11(b) of the *Transitional Order* in respect of a *candidate* for whom *continued approval* is sought must be provided to the *PRA* in Form K as part of a *grandfathering notification*.

3 GRANDFATHERING NOTIFICATION REQUIREMENTS

- 3.1 Where a *grandfathering notification* is required pursuant to 2.1, a *firm* must ensure that it sets out the following details in respect of each *approved person* or *candidate*:
 - (1) each of the *pre-implementation controlled functions* for which the *person* is approved, or (in the case of a *candidate*) has a *pending application*, in relation to the *firm*;
 - (2) each *senior insurance management function* to be performed by the *person* on and after the *commencement date* in relation to the *firm*;

- (3) each *FCA function* (if any) to be performed by the *person* on and after the *commencement date* in relation to the *firm*.
- 3.2 The *PRA* directs that a *firm* must not specify in a *grandfathering notification* a *senior insurance management function* or *FCA function* for a *person* which is not an *equivalent function* in the table in 6 or the table in SUP TP 7.2.3R in the *FCA Handbook* in relation to:
- (1) (for an *approved person*) any *pre-implementation controlled functions* for which the *person* has approval in relation to the *firm*; or
 - (2) (for a *candidate*) any *pre-implementation controlled functions* in respect of which there is a *pending application*.
- 3.3 The *PRA* directs that a *firm* must list in the *grandfathering notification* each *approved person* or *candidate* who, on the *commencement date*, will be acting in the capacity of a *non-executive director* but who will not be performing a *senior insurance management function* or *FCA function*.

4 PROCEDURE FOR MAKING GRANDFATHERING NOTIFICATIONS

- 4.1 The *PRA* directs that, save as required by 4.2 and 8.2, a *firm* must make any applications, notifications or submissions required by this Part using the *ONA system*.
- 4.2 If, under any direction or rule in this Part:
- (1) a *firm* is required to make an application, notification or submission online; and
 - (2) the information technology systems used by the *PRA* fail and online submission is unavailable for 24 hours or more,
- until such time as facilities for online submission are restored a *firm* may submit the specified form in accordance with Notifications 7.

5 WITHDRAWING OR UPDATING A GRANDFATHERING NOTIFICATION

- 5.1 The *PRA* directs that if, before the *commencement date*, there has been a significant change to the matters covered by the *grandfathering notification*, the *firm* must provide a revised version of it to the *PRA*.

6 TABLE OF EQUIVALENT FUNCTIONS FOR GRANDFATHERING

- 6.1 The *senior insurance management functions* set out in column 2 of the table are specified as *equivalent functions*, in each case in relation to the *pre-implementation controlled functions* set out in the corresponding row in column 1 of the table below.
- 6.2 The *FCA functions* set out in column 3 of the table are specified as *equivalent functions*, in each case in relation to the *pre-implementation controlled functions* set out in the corresponding row of column 1 of the table below.

Column 1	Column 2	Column 3
PRA or FCA Controlled Function	PRA Senior Insurance Management Function	FCA Function

All firms apart from third country branch undertakings and UK ISPVs		
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) Underwriting Risk Oversight function (SIMF23)	FCA Director function (CF1) (see Note)
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 (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 an unincorporated association function (CF5) Chair of the Nomination Committee function (CF2a) Chair of the With-Profits committee (CF2b) (See Note)

Column 1	Column 2	Column 3
Actuary (CF12)	Chief Actuary function (SIMF20)	
With-Profits Actuary (CF12A)	With-Profits Actuary function (SIMF21)	
Lloyd's Actuary (CF12B)	Chief Actuary function (SIMF20) Underwriting Risk Oversight function (SIMF23)	
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 function Manager (SIMF7) Chief Actuary function (SIMF20) (general insurance firms only) Chief Underwriting Officer function (SIMF22) Underwriting Risk Oversight function (SIMF23)	
UK ISPVs		
PRA or FCA Controlled Function	PRA Senior Insurance Management Function	FCA Function
Director (CF1)	Chief Finance function (SIMF2) Chief Actuary function (SIMF20) Group Entity Senior Insurance Manager function (SIMF7)	FCA Director function (CF1) (see Note)
Non-executive director (CF2)	Chairman function (SIMF 9)	Chair of the Nomination Committee function (CF2a) Chair of the With-Profits Committee (CF2b) (see Note)
Chief executive (CF3)	Chief Executive function (SIMF1)	

Column 1	Column 2	Column 3
Actuary (CF12)	Chief Actuary function (SIMF20)	
Systems and Controls (CF28)	Chief Finance function (SIMF2)	FCA Systems and Controls function (CF28) (see Note)
Significant management (CF29)	Group Entity Senior Insurance Manager (SIMF7) Chief Actuary function (SIMF20) (general insurance firms only)	
Third country branch undertakings		
<u>PRA or FCA Controlled Function</u>	<u>PRA Senior Insurance Management Function</u>	<u>FCA Function</u>
Director (CF1)	Chief Finance function (SIMF2) Chief Risk function (SIMF4) Head of Internal Audit function (SIMF5) Group Entity Senior Manager (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 Manager (SIMF7) Chairman function (SIMF 9) Senior Independent Director function (SIMF 14) Chair of the Risk Committee function (SIMF 10) Chair of the Audit Committee function (SIMF 11) Chair of the Remuneration Committee function (SIMF 12)	

Column 1	Column 2	Column 3
Chief executive (CF3)	Head of Third Country Branch function (SIMF19)	
Actuarial (CF 12)	Chief Actuary function (SIMF20)	Actuarial conduct function (third country) (CF 51) (conduct perspective only)
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)	FCA Systems and Controls (CF28) (see Note)
FCA Significant management (CF 29)	Chief Underwriting Officer function (SIMF22) Group Entity Senior Insurance Manager (SIMF7)	

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

- 6.3 (1) If, in relation to a *firm*, a *senior insurance management function holder* with *continued approval* also performs *FCA activities* on and from the *commencement date*, performance of the *senior insurance management function* will include the performance of those *FCA activities* provided that the *firm* has included details of the *FCA activities* in a *scope of responsibilities form* for that *senior insurance management function holder* which is provided to the *PRA* by 7 September 2016 in accordance with Key Function Holder – Notifications 6.3.
- (2) If, in relation to a *firm*, a *senior insurance management function holder* with *continued approval* has been performing *FCA activities* in the circumstances set out in (1), and that *person*:
- (a) ceases to perform the *senior insurance management function*;
 - (b) within three *months* of ceasing performance, is approved to perform a new *senior insurance management function* at the *firm*; and
 - (c) continues to perform the *FCA activities*,
- performance of the new *senior insurance management function* will include the performance of those *FCA activities*, provided:
- (d) the *PRA*'s approval to perform that *senior insurance management function* continues in force;
 - (e) the *firm* makes the notification required by SUP10A.11.12 R (4) of the *FCA Handbook*; and
 - (f) that *person* performs and is continuing to perform the *FCA activities*.

- 6.4 If a *senior insurance management function holder* to whom 6.3 applies ceases to perform a *senior insurance management function* but continues to perform the *FCA activities*, 6.3(1) will continue to apply in respect of the performance of the *FCA activities* until the earlier of:
- (1) approval by the *FCA* in respect of the performance by that *person* of those *FCA activities* as an *FCA governing function* in relation to the *firm*; or
 - (2) three *months* from the time that the *person* ceased to perform that *senior insurance management function*.
- 6.5 The PRA directs that a *firm* must not specify in the *grandfathering notification* that any *person* shall perform any combination of *senior insurance management functions* which is prohibited by any other provision of the *PRA Rulebook* or the *FCA Handbook*.

7. FORMS

- 7.1 The *grandfathering notification* form, Form K, may be found [here](#).

8. TRANSITIONAL ARRANGEMENTS FOR NEW SENIOR INSURANCE MANAGEMENT FUNCTIONS

- 8.1 This Chapter applies only before the *commencement date*.
- 8.2 Where an *approved person* or a *candidate* is intended to perform a *senior insurance management function* with effect from the *commencement date* but:
- (1) in the case of an *approved person*, is not prior to the *commencement date* approved; or
 - (2) in the case of a *candidate*, is not to be approved

to perform a *controlled function* that is equivalent to the proposed *senior insurance management function* in accordance with 6, the *PRA* directs that the *firm* must not submit a *grandfathering notification* in respect of that *approved person* or *candidate* (as the case may be) but must instead submit a *senior insurance management application* for the proposed *senior insurance management function* in accordance with Key Function Holder – Notifications 6.4.

9. LLOYD'S

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

PRA RULEBOOK: REGULATORY REPORTING 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: Regulatory Reporting Instrument 2015

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

Commencement

- E. This instrument comes into force on **1 January 2016**.

Citation

- F. This instrument may be cited as the PRA Rulebook: Regulatory Reporting Instrument 2015.

By order of the Board of the Prudential Regulation Authority

31 July 2015

Annex

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

Part

REGULATORY REPORTING

Chapter content

1. APPLICATION AND DEFINITIONS
 2. REPORTING REQUIREMENTS – DATA ITEMS
 3. REPORTING REQUIREMENTS – FREQUENCY AND PERIOD
 4. REPORTING REQUIREMENTS – SUBMISSION DATES
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CONGLOMERATES
 16. DATA ITEMS
- ANNEX 1 – LIQUIDITY DEFINITIONS**

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* permitted to carry on the *regulated activities* listed in column (1) of the table in 6.1, except an *incoming EEA firm* with *permission for cross border services* only.

1.2 In this Part, the following definitions shall apply:

administering a home finance transaction

means any of *administering a regulated mortgage contract*, *administering a home purchase plan*, *administering a home reversion plan* or *administering a regulated sale and rent back agreement*.

administering a home purchase plan

means the *regulated activity* specified in article 63F(2) of the *Regulated Activities Order*.

administering a home reversion plan

means the *regulated activity* specified in article 63B(2) of the *Regulated Activities Order*.

administering a regulated mortgage contract

means the *regulated activity*, specified in article 61(2) of the *Regulated Activities Order*.

administering a regulated sale and rent back agreement

means the *regulated activity* specified in article 63J(2) of the *Regulated Activities Order*.

banking and investment services conglomerate

means a *financial conglomerate* that is identified in paragraph 4.3 of GENPRU 3 Annex 1 R (Types of financial conglomerate) in the *PRA Handbook* as a 'banking and investment services conglomerate'.

BIPRU

means the Prudential sourcebook for Banks, Building Societies and Investment Firms in the *PRA Handbook*.

credit institution

- (1) a credit institution authorised under the *CRD*; or
- (2) an institution which would satisfy the requirements for authorisation as a credit institution under the *CRD* if it had its registered office (or if it does not have a registered office, its head office) in an *EEA State*.

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CRR permission

means a permission given to a *firm* by the *PRA* under powers conferred on the *PRA* by the *CRR*.

data element

means a discrete fact or individual piece of information relating to a particular field within a *data item*.

data items

means one or more related *data elements* that are grouped together into a prescribed format and required to be submitted by a *firm*.

entering as provider into a funeral plan contract

means the *regulated activity* specified in article 59 of the *Regulated Activities Order*.

entering into a home finance transaction

means any of *entering into a regulated mortgage contract*, *entering into a home purchase plan*, *entering into a home reversion plan* or *entering into a regulated sale and rent back agreement*.

entering into a home purchase plan

means the *regulated activity*, specified in article 63F(1) of the *Regulated Activities Order*.

entering into a home reversion plan

means the *regulated activity*, specified in article 63B(1) of the *Regulated Activities Order*.

entering into a regulated mortgage contract

means the *regulated activity*, specified in article 61(1) of the *Regulated Activities Order*.

entering into a regulated sale and rent back agreement

means the *regulated activity*, specified in article 63J(1) of the *Regulated Activities Order*.

establishing, operating or winding up a collective investment scheme

means the *regulated activity* specified in article 51ZE of the *Regulated Activities Order*.

establishing, operating or winding-up a regulated collective investment scheme

means *establishing, operating or winding up a collective investment scheme* if the scheme is a *regulated collective investment scheme*.

FINREP firm

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means:

- (1) a *credit institution* or *investment firm* subject to the *CRR* that is also subject to article 4 of Regulation (EC) No 1606/2002; or
- (2) a *credit institution* other than one referred to in Article 4 of Regulation (EC) No 1606/2002 that prepares its consolidated accounts in conformity with the international accounting standards adopted in accordance with the procedure laid down in article 6(2) of that Regulation.

[Note: article 99 of the *CRR*]

FOS Ltd.

means the *body corporate* established under paragraph 2(1) of Schedule 17 to *FSMA* (The Scheme Operator) (as originally enacted).

home finance administration

means any of the *regulated activities* of:

- (1) *administering a regulated mortgage contract*;
- (2) *administering a home purchase plan*;
- (3) *administering a home reversion plan*;
- (4) *administering a regulated sale and rent back agreement*; or
- (5) *agreeing to carry on a regulated activity* in (1) to (4).

home finance administrator

means a *firm* with *permission* (or which ought to have *permission*) for *administering a home finance transaction*.

home finance provider

means a *firm* with *permission* (or which ought to have *permission*) for *entering into a home finance transaction*.

home finance providing activity

means any of the *regulated activities* of:

- (1) *entering into a regulated mortgage contract*;
- (2) *entering into a regulated sale and rent back agreement*;
- (3) *entering into a home purchase plan*;
- (4) *entering into a home reversion plan*; or
- (5) *agreeing to carry on a regulated activity* in (1) to (4).

individual consolidation permission

means a *CRR permission* under Article 9 of the *CRR*.

insurance conglomerate

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means a *financial conglomerate* that is identified in paragraph 4.3 of GENPRU 3 Annex 1 R (Types of financial conglomerate) in the *PRA Handbook* as an *insurance conglomerate*.

intra-group liquidity modification

means a modification to the *overall liquidity adequacy rule* of the kind described in BIPRU 12.8.7G in the *PRA Handbook* as in effect on 30 September 2015 granted to a *firm* and in effect on that date.

intra-group transactions

has the meaning given in point (18) of Article 2 of the *Financial Groups Directive*. IPRU(INS)

means the Interim Prudential Sourcebook for Insurers in the *PRA Handbook*.

IPRU(FSOC)

means the Interim Prudential sourcebook for Friendly Societies in the *PRA Handbook*.

lead regulated firm

means a *firm* which is the subject of the financial supervision requirements of an *overseas regulator* in accordance with an agreement between the *PRA* and that regulator relating to the financial supervision of *firms* whose head office is within the country of that regulator.

This definition is not related to the defined term 'UK lead regulated firm'.

managing dormant account funds (including the investment of such funds)

means the *regulated activity* specified in article 63N(1)(b) of the *Regulated Activities Order*.

meeting of repayment claims

means the *regulated activity*, specified in article 63N(1)(a) of the *Regulated Activities Order*.

non-EEA bank

means a *bank* which is a *body corporate* or *partnership* formed under the law of any country or territory outside the *EEA*.

RAG

means a *regulated activity group*.

regulated activity group

means a set of one or more *regulated activities* referred to in determining a *firm's data item* submission requirements.

reporting level

means (in relation to a *data item*) the basis on which that *data item* is prepared (being either:

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- (1) an individual basis; or
- (2) the basis of a group) and, if it is prepared on the basis of a group, the type of group (such as a *UK DLG by modification* or a *non-UK DLG by modification (firm level)*).

requirement

means a requirement included in a *firm's Part 4A permission* under section 55L *FSMA* (Imposition of requirements by the FCA), section 55M *FSMA* (Imposition of Requirements by the PRA) or section 55O *FSMA* (Imposition of requirements on acquisition of control).

risk concentration

has the meaning given in point (19) of Article 2 of the *Financial Groups Directive*.

sole trader

means an individual who is a *firm*.

third-country financial conglomerate

means a *financial conglomerate* that is of a type that falls under Article 5(3) of the *Financial Groups Directive*.

UK consolidation group

means the *consolidation group* of a *firm* to which supervision on a *consolidated basis* by the *PRA* applies in accordance with Article 111 of *CRD*.

UK- regulated EEA financial conglomerate

means a *financial conglomerate* (other than a *third-country financial conglomerate*) that satisfies one of the following conditions:

- (1) GENPRU 3.1.29 R (Capital adequacy calculations for *financial conglomerates*) in the *PRA Handbook* applies with respect to it; or
- (2) a *firm* that is a member of that *financial conglomerate* is subject to obligations imposed through its *Part 4A permission* to ensure that *financial conglomerate* meets levels of capital adequacy based or stated to be based on Annex I of the *Financial Groups Directive*.

whole-firm liquidity modification

means a *modification* to the *overall liquidity adequacy rule* of the kind described in *BIPRU 12.8.22G* in the *PRA Handbook* as in effect on 30 September 2015 granted to a *firm* and in effect on that date.

1.3 Unless otherwise defined, any italicised expression used in this Part:

- (1) listed in Annex 1 (Liquidity definitions) to this Part has the meaning specified in the *PRA Handbook* as in effect on 30 September 2015; and
- (2) in the *CRR*, has the same meaning as in the *CRR*.

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2 REPORTING REQUIREMENTS – DATA ITEMS

- 2.1 Unless otherwise stated, a *firm* permitted to carry on any of the *regulated activities* within any *RAG* set out in column (1) of the table in 6.1 must submit to the *PRA* the *data items*, applicable to the relevant *RAG* as specified in the corresponding rule referred to in column (2) of that table.
- 2.2 Where, in accordance with 2.1, a *firm* is required to submit *data items* for more than one *RAG*, that *firm* must only submit the *data item* of the same name and purpose in respect of the lowest numbered *RAG* applicable to it, *RAG* 1 being the lowest and *RAG* 5 the highest.
- 2.3 Where, but for 2.2, a *firm* is required to submit *data items* for more than one *RAG* and this includes the submission of *data items* in respect of fees, the *FOS Ltd.* or *FSCS* levy, or *threshold conditions*, that *firm* must only submit these *data items* if required to do so for the lowest numbered of the *RAGs* applicable to the *firm*.
- 2.4 Unless otherwise stated, any *data items* to be submitted in accordance with 2.1 to 2.3 by a *non-EEA bank*, or an *EEA bank*, should cover the activities of the *branch* operation in the *UK* only.
- 2.5 A *firm* that is a member of a *financial conglomerate* must also submit *data items* as required by Chapter 12.
- 2.6 A *UK bank* and a *UK designated investment firm* must also submit Prudent Valuation Returns as required by Chapter 13.

3 REPORTING REQUIREMENTS – FREQUENCY AND PERIOD

- 3.1 Where a *firm* is required to submit *data items* in accordance with Chapter 2, it must submit this information at the frequency and in respect of the periods specified in the rule referred to in the relevant row of column (3) of the table in 6.1.

4 REPORTING REQUIREMENTS – SUBMISSION DATES

- 4.1 Where a *firm* is required to submit *data items* in accordance with Chapter 2, it must submit this information by the due date specified in the rule referred to in the relevant row of column (4) of the table in 6.1.

5 REPORTING REQUIREMENTS – SUBMISSION METHOD

- 5.1 Unless otherwise stated, where a *firm* is required to submit *data items* in accordance with Chapter 2, it must submit this information by electronic means made available by the *PRA*.
- 5.2 5.1 does not apply to:
- (1) *credit unions* solely in relation to the reporting requirement for *RAG* 1 *regulated activities*; in such cases, the following submission methods apply:
- (a) Post to the Bank of England for postal submission:
- Regulatory Data Group
Statistics and Regulatory Data Division (HO5 A-B)
Bank of England
Threadneedle Street
London
EC2R 8AH

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- (b) Leaving the report marked for the attention of "Regulatory Data Group, Statistics and Regulatory Data Division (TS 5 A-B) at the Bank of England, Threadneedle Street, London, EC2R 8AH, and obtaining a dated receipt
- (c) Electronic mail:

(CreditUnionReporting@BankofEngland.co.uk) or fax (020 7601 3334) to the Regulatory Data Group of the Bank of England
- (d) Online submission via the appropriate systems accessible from the *PRA's* website.
- (2) *firms* in RAG 2.1 in relation to the reporting requirements for RAG 2.1 *regulated activities*; and
- (3) those *data items* specified as "No standard format".
- 5.3 SUP 16.3.6 R to SUP 16.3.10 G in the supervision manual in the *PRA Handbook* apply to *data items* specified as "No standard format."

6 REGULATED ACTIVITY GROUPS

- 6.1 Unless otherwise indicated, *firms* must comply with the rules specified in the following table (which set out the *data items*, frequency and submission periods as applicable to each RAG) in accordance with Chapters 2, 3 and 4.

(1)		(2)	(3)	(4)
RAG number	Regulated Activities	Rules containing:		
		applicable <i>data items</i>	reporting frequency / period	due date
RAG 1	<ul style="list-style-type: none"> • <i>accepting deposits</i> • <i>meeting of repayment claims</i> • <i>managing dormant account funds (including the investment of such funds)</i> 	7.1, except that the requirement to submit <i>data items</i> FSA001 and FSA002 on a <i>consolidated basis</i> does not apply to <i>FINREP firms</i>	7.2	7.3
RAG 2.1	<ul style="list-style-type: none"> • <i>effecting contracts of insurance</i> • <i>carrying out contracts of insurance</i> • <i>entering as provider into a funeral plan contract</i> 	8.1, 8.2, 8.3	8.1, 8.2, 8.3	8.1, 8.2, 8.3
RAG 3	<ul style="list-style-type: none"> • <i>dealing in investments as principal</i> 	9.1 9.2 for <i>UK designated investment firms</i> , except that the requirement to submit <i>data items</i> FSA001 and FSA002 on a <i>consolidated basis</i> does not apply to	9.1 9.3 for <i>UK designated investment firms</i>	9.1 9.4

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(1)	(2)	(3)	(4)
RAG number	Regulated Activities	Rules containing:	
		applicable data items	reporting frequency / period
		<i>FINREP firms</i>	
RAG 4	<ul style="list-style-type: none"> • <i>managing investments</i> • <i>establishing, operating or winding-up a collective investment scheme</i> 	10.2 for <i>UK designated investment firms</i> , except that the requirement to submit <i>data items</i> FSA001 and FSA002 on a <i>consolidated basis</i> does not apply to <i>FINREP firms</i>	10.3 for <i>UK designated investment firms</i>
RAG 5	<ul style="list-style-type: none"> • <i>home finance administration or home finance providing activity</i> 	11.2	11.2

7 REGULATED ACTIVITY GROUP 1

7.1 The applicable *data items* referred to in the table in 6.1 are set out according to *firm* type in the table below:

RAG 1	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (1)					
	<i>UK bank</i>	<i>Building society</i>	<i>Non-EEA bank</i>	<i>EEA bank that has permission to accept deposits and that has its registered office (or, if it has no registered office, its head office) outside the EU</i>	<i>Credit union</i>	<i>Dormant account fund operator (12)</i>
Description of data item						
<i>Annual report and accounts</i>	No standard format		No standard format, but in English			No standard format
<i>Annual report and accounts</i>	No standard					

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RAG 1	Prudential category of <i>firm</i>, applicable <i>data items</i> and reporting format (1)					
	<i>UK bank</i>	<i>Building society</i>	<i>Non-EEA bank</i>	<i>EEA bank that has permission to accept deposits and that has its registered office (or, if it has no registered office, its head office) outside the EU</i>	<i>Credit union</i>	<i>Dormant account fund operator (12)</i>
Description of <i>data item</i>						
of the <i>mixed-activity holding company</i> (7)	format					
Solvency statement (8)	No standard format					
Balance sheet	FSA001 (2)	FSA001 (2)			CQ; CY	
Income statement	FSA002 (2)	FSA002 (2)	FSA002		CQ; CY	
Capital adequacy					CQ; CY	
Market risk	FSA005 ((2), (3))	FSA005 ((2), (3))				
Market risk – supplementary	FSA006 (4)					
Large exposures					CQ; CY	
Exposures between <i>core UK group</i> and <i>non-core large exposures</i>	FSA018 (10)	FSA018 (10)				

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RAG 1	Prudential category of <i>firm</i>, applicable <i>data items</i> and reporting format (1)					
	<i>UK bank</i>	<i>Building society</i>	<i>Non-EEA bank</i>	<i>EEA bank that has permission to accept deposits and that has its registered office (or, if it has no registered office, its head office) outside the EU</i>	<i>Credit union</i>	<i>Dormant account fund operator (12)</i>
Description of data item						
<i>group</i>						
Liquidity (other than stock)		FSA011			CQ; CY	
Forecast data	FSA014 (9)	FSA014 (9)				
Solo consolidation data	FSA016 (5)	FSA016 (5)				
Interest rate gap report	FSA017	FSA017				
Sectoral information, including arrears and impairment	FSA015 (2)	FSA015 (2)				
IRB portfolio risk	FSA045 (11)	FSA045 (11)				
Daily Flows	FSA047 ((13), (16) and (18))	FSA047 ((13), (16) and (18))	FSA047 ((13), (15), (16) and (18))	FSA047 ((13), (15), (16) and (18))		
Enhanced Mismatch Report	FSA048 ((13), (16) and (18))	FSA048 ((13), (16) and (18))	FSA048 ((13), (15), (16) and (18))	FSA048 (Notes 13, 15, 16 and 18)		

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RAG 1	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (1)					
	<i>UK bank</i>	<i>Building society</i>	<i>Non-EEA bank</i>	<i>EEA bank that has permission to accept deposits and that has its registered office (or, if it has no registered office, its head office) outside the EU</i>	<i>Credit union</i>	<i>Dormant account fund operator (12)</i>
Description of <i>data item</i>						
Liquidity Buffer Qualifying Securities	FSA050 ((14), (17) and (18))	FSA050 ((14), (17) and (18))				
Funding Concentration	FSA051 ((14), (17) and (18))	FSA051 ((14), (17) and (18))				
Pricing data	FSA052 ((14), (18) and (19))	FSA052 ((14), (18) and (19))				
Retail and corporate funding	FSA053 ((14), (17) and (18))	FSA053 ((14), (17) and (18))				

- (1) When submitting the completed *data item* required, a *firm* must use the format of the *data item* set out in Chapter 18.
- (2) *Firms* that are members of a *UK consolidation group* must also submit this data item on a *UK consolidation group* basis.
- (3) For *PRA-authorised persons*, lines 62 to 64 only are applicable. These lines apply to a *firm* that applies add-ons to their market risk capital calculation under the RNIV framework.
- (4) Only applicable to *firms* with a *CRR permission* to use internal models in accordance with Part 3, Title IV, Chapter 5 of the CRR.
- (5) Only applicable to a *firm* that has an *individual consolidation permission*.

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- (6) This will be applicable to *firms* (other than building societies) that are members of a *UK consolidation group* on the reporting date.
- (7) Only applicable to a *firm* whose ultimate parent is a *mixed-activity holding company*.
- (8) Only applicable to a *firm* that is a *partnership*, when the report must be submitted by each *partner*.
- (9) Members of a *UK consolidation group* should only submit this *data item* at the *UK consolidation group* level.
- (10) Only applicable to a *firm* that has both a *core UK group* and a *non-core large exposures group*.
- (11) Only applicable to *firms* that have an *CRR permission* to use the *IRB Approach*
- (12) Only applies to a *dormant account fund operator* that does not fall into any of the other prudential categories in this table.
- (13) A *firm* must complete this item separately on each of the following bases that are applicable.
 - (a) It must complete it on an individual basis (including on the basis of the *firm's UK branch*). Therefore even if it has an *individual consolidation permission* it must complete the item on an unconsolidated basis by reference to the *firm* alone.
 - (b) If it is a *group liquidity reporting firm* in a *DLG by default* and is a *UK lead regulated firm*, it must complete the item on the basis of that group.
 - (c) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group and (a) does not apply.
 - (d) If it is a *group liquidity reporting firm* in a *non-UK DLG by modification*, it must complete the item on the basis of that group.
- (14) A *firm* must complete this item separately on each of the following bases that are applicable.
 - (a) It must complete it on an individual basis (including on the basis of the *firm's UK branch*) unless it is a *group liquidity reporting firm* in a *UK DLG by modification*. Therefore even if it has an *individual consolidation permission* it must complete the item on an unconsolidated basis by reference to the *firm* alone.
 - (b) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.
- (15)
 - (a) If the *firm* has a *whole-firm liquidity modification* it must complete this item on the basis of the whole *firm* (or at any other *reporting level* the *whole-firm liquidity modification* may require) and not just its *UK branch*.
 - (b) If the *firm* does not have a *whole-firm liquidity modification*, there is no obligation to report this item.
- (16)
 - (a) This item must be reported in the reporting currency.

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- (b) If any *data element* is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.
- (c) In addition, all *material currencies* (which may include the reporting currency) must each be recorded separately (translated into the reporting currency).

However if:

- (i) the reporting frequency is (whether under a rule or under a *waiver*) quarterly or less than quarterly; or
- (ii) the only *material currency* is the reporting currency,

then (c) does not apply.

- (d) If there are more than three *material currencies* for this *data item*, (c) only applies to the three largest in amount. A *firm* must identify the largest in amount in accordance with the following procedure.
 - (i) For each currency, take the largest of the asset or liability figure as referred to in the definition of *material currency*.
 - (ii) Take the three largest figures from the resulting list of amounts.
 - (e) The date as at which the calculations for the purposes of the definition of *material currency* are carried out is the last day of the reporting period in question.
 - (f) The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).
- (17) (16) applies, except that sub paragraphs (c), (d) and (e) do not apply, meaning that *material currencies* must not be recorded separately.
- (18) Unless otherwise stated in the relevant modification, any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* or a *whole-firm liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the *data item* in question if the *firm* receives that *intra-group liquidity modification*, *whole-firm liquidity modification* or variation part of the way through such a period. If the change is that the *firm* does not have to report a particular *data item* or does not have to report it at a particular *reporting level*, the *firm* must nevertheless report that item or at that *reporting level* for any reporting period that has already begun.
- (19) This *data item* must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.

7.2 The applicable reporting frequencies for submission of *data items* and periods referred to in 7.1 are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

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RAG 1				
Data item	Unconsolidated UK banks and building societies	Individual consolidated UK banks and building societies	Report on a UK consolidation group or, as applicable, defined liquidity group basis by UK banks and building societies	Other members of RAG 1
<i>Annual report and accounts</i>	Annually			Annually
<i>Annual report and accounts of the mixed-activity holding company</i>	Annually			
Solvency statement	Annually			
CQ				Quarterly
CY				Annually (1)
FSA001	Quarterly		Half yearly	
FSA002	Quarterly		Half yearly	Half yearly
FSA005	Quarterly		Half yearly	
FSA006	Quarterly			
FSA011	Quarterly			
FSA014	Half yearly			
FSA015	Quarterly		Half yearly	
FSA016		Half yearly		
FSA017	Quarterly		Half yearly	
FSA018	Quarterly			
FSA045	Quarterly		Half yearly	
FSA047	Daily, weekly, monthly or quarterly ((2), (3) and (6))		Daily, weekly, monthly or quarterly ((2), (5) and (6))	Daily, weekly, monthly or quarterly ((2),(4) and (6))

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RAG 1				
Data item	Unconsolidated UK banks and building societies	Individual consolidated UK banks and building societies	Report on a UK consolidation group or, as applicable, defined liquidity group basis by UK banks and building societies	Other members of RAG 1
FSA048	Daily, weekly, monthly or quarterly ((2), (3) and (6))		Daily, weekly, monthly or quarterly ((2), (5) and (6))	Daily, weekly, monthly or quarterly ((2),(4) and (6))
FSA050	Monthly ((2))		Monthly ((2))	Monthly ((2))
FSA051	Monthly ((2))		Monthly ((2))	Monthly (2)
FSA052	Weekly or monthly ((2) and (7))		Weekly or monthly ((2) and (8))	Weekly or monthly ((2) and (7))
FSA053	Quarterly (2)		Quarterly (2)	Quarterly (2)

- (1) The annual report required from a *credit union* by 7.1 must be made up for the same period as the audited accounts published by the *credit union* in accordance with section 3A of the Friendly and Industrial and Provident Societies Act 1968 or provided in accordance with article 49 of the Credit Unions (Northern Ireland) Order 1985 (as appropriate).
- (2) Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's accounting reference date*. In particular:
- (a) A week means the period beginning on Saturday and ending on Friday.
 - (b) A month begins on the first day of the calendar month and ends on the last day of that month.
 - (c) Quarters end on 31 March, 30 June, 30 September and 31 December.
 - (d) Daily means each *business day*.
- All periods are calculated by reference to London time.
- (3) If the report is on an individual basis (and the *firm* is a *UK firm*) the reporting frequency is as follows:
- (a) if the *firm* does not have an *intra-group liquidity modification* the frequency is:

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- (i) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and
 - (ii) monthly if the *firm* is a *low frequency liquidity reporting firm*;
 - (b) if the *firm* is a *group liquidity reporting firm* in a *non-UK DLG by modification (firm level)* the frequency is:
 - (i) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and
 - (ii) monthly if the *firm* is a *low frequency liquidity reporting firm*;
 - (c) the frequency is quarterly if the *firm* is a *group liquidity reporting firm* in a *UK DLG by modification*.
- (4)
- (a) If the report is on an individual basis (and the *firm* is not a *UK firm*) the reporting frequency is as follows:
 - (i) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and
 - (ii) monthly if the *firm* is a *low frequency liquidity reporting firm*.
 - (b) If the *firm* has a *whole-firm liquidity modification* (a) does not apply and instead the frequency of individual reporting is quarterly (or whatever other frequency the *whole-firm liquidity modification* requires).
- (5)
- (a) If the report is by reference to the *firm's DLG by default* the reporting frequency is:
 - (i) weekly if the *group liquidity standard frequency reporting conditions* are met;
 - (ii) monthly if the *group liquidity low frequency reporting conditions* are met.
 - (b) If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:
 - (i) weekly if the *group liquidity standard frequency reporting conditions* are met;
 - (ii) monthly if the *group liquidity low frequency reporting conditions* are met.
 - (c) If the report is by reference to the *firm's non-UK DLG by modification* the reporting frequency is quarterly.
- (6)
- (a) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm, branch* or group in question.
 - (b) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm, branch* or group in question.
 - (c) A *firm* must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under paragraph (a) or (b) even if there is no *firm-*

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specific liquidity stress or market liquidity stress and none is expected.

- (7) If the report is on an individual basis (including by reference to the *firm's UK branch*) the reporting frequency is as follows:
- (a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and
 - (b) monthly if the *firm* is a *low frequency liquidity reporting firm*.
- (8) If the report is by reference to the *firm's UK DLG by modification* the reporting frequency is:
- (a) weekly if the *group liquidity standard frequency reporting conditions* are met;
 - (b) monthly if the *group liquidity low frequency reporting conditions* are met.

7.3 The applicable due dates for submission referred to in the table in 6.1 are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in 7.2, unless indicated otherwise.

RAG 1						
Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annually
<i>Annual report and accounts</i>						80 business days (1) 7 months (2)
<i>Annual report and accounts of the mixed-activity holding company</i>						7 months
Solvency statement						3 months
CQ				1 month		
CY						6 months
FSA001				20 business days	45 business days	
FSA002				20 business days	45 business days	
FSA005				20 business days	45 business days	
FSA006				20 business days		

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RAG 1						
Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annually
FSA011				15 <i>business days</i>		
FSA014					30 <i>business days</i> (3); 45 <i>business days</i> (4)	
FSA015				30 <i>business days</i>	45 <i>business days</i>	
FSA016					30 <i>business days</i>	
FSA017				20 <i>business days</i>	45 <i>business days</i>	
FSA018				45 <i>business days</i>		
FSA045				20 <i>business days</i>	45 <i>business days</i>	
FSA047	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	15 <i>business days</i>	15 <i>business days</i> or one <i>Month</i> (5)		
FSA048	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	15 <i>business days</i>	15 <i>business days</i> or one <i>Month</i> (5)		
FSA050			15 <i>business</i>			

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RAG 1						
Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annually
			days			
FSA051			15 <i>business days</i>			
FSA052		22.00 hours (London time) on the second <i>business day</i> immediately following the last day of the reporting period for the item in question	15 <i>business days</i>			
FSA053			15 <i>business days</i>			

- (1) Applicable to *UK banks* and *dormant account fund operators*.
- (2) Applicable to *non-EEA banks*.
- (3) Applicable to unconsolidated and individual consolidated reports.
- (4) Applicable to UK consolidation group reports.
- (5) It is one *month* if the report relates to a *non-UK DLG by modification* or the *firm* has a *whole-firm liquidity modification*.

8 REGULATED ACTIVITY GROUP 2.1

- 8.1 The financial reporting requirements for RAG 2.1 activities for *insurers*, excluding *friendly societies*, are set out in *IPRU(INS)*.
- 8.2 The financial reporting requirements for RAG 2.1 activities for *friendly societies* are set out in *IPRU(FSOC)*.
- 8.3 A *UK ISPV* must submit a copy of its annual audited financial statements within 3 months of its *accounting reference date*, but the report is only required if it was audited as a result of a statutory provision other than under *FSMA*.

9 REGULATED ACTIVITY GROUP 3

- 9.1 A *lead regulated firm* must submit a copy of its annual report and audited accounts within 80 business days from its *accounting reference date*.

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9.2 The applicable *data items* referred to in the table in 6.1 for a *UK designated investment firm* are set out in the table below:

RAG 3	
Description of <i>data item</i>	Applicable <i>data items</i> (1)
<i>Annual report and accounts</i>	No standard format
<i>Annual report and accounts of the mixed-activity holding company</i> (5)	No standard format
Solvency statement	No standard format (6)
Balance sheet	FSA001 (2)
Income statement	FSA002 (2)
Market risk	FSA005 ((2) and (16))
Market risk-supplementary	FSA006 (3)
Exposures between <i>core UK group</i> and <i>non-core large exposures group</i>	FSA018 (7)
Solo consolidation data	FSA016 ((8)
Pillar 2 questionnaire	FSA019 (4)
IRB portfolio risk	FSA045 (15)
Daily flows	FSA047 ((9), (11) and (13))
Enhanced Mismatch Report	FSA048 ((9), (11) and (13))
Liquidity Buffer Qualifying Securities	FSA050 ((10), (12) and (13))
Funding Concentration	FSA051 ((10), (12) and (13))
Pricing data	FSA052 ((10), (13) and (14))
Retail and corporate funding	FSA053 ((10), (12) and (13))

- (1) When submitting the completed *data item* required, a *firm* must use the format of the *data item* set out in Chapter 18.
- (2) *Firms* that are members of a consolidation group must also submit this report on a consolidation group basis.
- (3) Only applicable to *firms* with a *CRR permission* to use internal models in accordance with Title IV, Chapter 5 of the *CRR*.

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- (4) Only applicable to *UK designated investment firms* that:
- (a) are subject to consolidated supervision under the *CRR*, except those that are either included within the consolidated supervision of a group that includes a *UK credit institution*, or
 - (b) are not subject to consolidated supervision under the *CRR*.
- A *UK designated investment firm* under (a) must complete the report on the basis of its consolidation group. A *UK designated investment firm* under (b) must complete the report on the basis of its individual position.
- (5) Only applicable to a *firm* whose ultimate parent is a *mixed activity holding company*.
- (6) Only applicable to a *firm* that is a *sole trader* or a *partnership*, when the report must be submitted by each *partner*.
- (7) Only applicable to a *firm* that has both a *core UK group* and a *non-core large exposures group*.
- (8) Only applicable to a *firm* with an *individual consolidation permission*
- (9) A *firm* must complete this item separately on each of the following bases (if applicable).
- (a) It must complete it on an individual basis. Therefore even if it has an *individual consolidation permission* it must complete the item on an unconsolidated basis by reference to the *firm* alone.
 - (b) If it is a *group liquidity reporting firm* in a *DLG by default* and is a *UK lead regulated firm*, it must complete the item on the basis of that group.
 - (c) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group and (a) does not apply.
 - (d) If it is a *group liquidity reporting firm* in a *non-UK DLG by modification*, it must complete the item on the basis of that group.
- (10) A *firm* must complete this item separately on each of the following bases that are applicable.
- (a) It must complete it on an individual basis unless it is a *group liquidity reporting firm* in a *UK DLG by modification*. Therefore even if it has an *individual consolidation permission* it must complete the item on an unconsolidated basis by reference to the *firm* alone.
 - (b) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group.
- (11) (a) This item must be reported in the reporting currency.
- (b) If any *data element* is in a currency or currencies other than the reporting currency, all currencies (including the reporting currency) must be combined into a figure in the reporting currency.

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- (c) In addition, all *material currencies* (which may include the reporting currency) must each be recorded separately (translated into the reporting currency).

However if:

- (i) the reporting frequency is (whether under a rule or under a *waiver*) quarterly or less than quarterly; or
- (ii) the only *material currency* is the reporting currency,

then (c) does not apply.

- (d) If there are more than three *material currencies* for this *data item*, (c) only applies to the three largest in amount. A *firm* must identify the largest in amount in accordance with the following procedure.

(i) For each currency, take the largest of the asset or liability figure as referred to in the definition of *material currency*.

(ii) Take the three largest figures from the resulting list of amounts.

- (e) The date as at which the calculations for the purposes of the definition of *material currency* are carried out is the last day of the reporting period in question.

- (f) The reporting currency for this *data item* is whichever of the following currencies the *firm* chooses, namely USD (the United States Dollar), EUR (the euro), GBP (sterling), JPY (the Japanese Yen), CHF (the Swiss Franc), CAD (the Canadian Dollar) or SEK (the Swedish Krona).

- (12) (11) applies, except that sub paragraphs (c), (d) and (e) do not apply, meaning that *material currencies* must not be recorded separately.
- (13) Unless otherwise stated in the relevant modification, any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements for the *data item* in question if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period. If the change is that the *firm* does not have to report a particular *data item* or does not have to report it at a particular *reporting level*, the *firm* must nevertheless report that item or at that *reporting level* for any reporting period that has already begun.
- (14) This *data item* must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported.
- (15) Only applicable to *firms* that have a *CRR permission* to use the *IRB Approach*.
- (16) Lines 62 to 64 only are applicable. These lines apply to a *firm* that applies additions to their market risk capital calculation under the RNIV framework.

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9.3 The applicable reporting frequencies for submission of *data items* and periods referred to in 9.2 are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

RAG 3	
Data item	Reporting frequency
<i>Annual report and accounts</i>	Annually
<i>Annual report and accounts of the mixed-activity holding company</i>	Annually
Solvency statement	Annually
FSA001	Quarterly
FSA002	Quarterly
FSA005	Quarterly
FSA006	Quarterly
FSA016	Half yearly
FSA018	Quarterly
FSA019	Annually
FSA045	Quarterly
FSA047	Daily, weekly, monthly or quarterly ((1), (2) and (3))
FSA048	Daily, weekly, monthly or quarterly ((1), (2) and (3))
FSA050	Monthly (1)
FSA051	Monthly (1)
FSA052	Weekly or monthly ((1) and (4))
FSA053	Quarterly (1)

- (1) Reporting frequencies and reporting periods for this *data item* are calculated on a calendar year basis and not from a *firm's accounting reference date*. In particular:
- (a) A week means the period beginning on Saturday and ending on Friday.
 - (b) A month begins on the first day of the calendar month and ends on the last day of that month.
 - (c) Quarters end on 31 March, 30 June, 30 September and 31 December.

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(d) Daily means each *business day*.

All periods are calculated by reference to London time.

Any changes to reporting requirements caused by a *firm* receiving an *intra-group liquidity modification* (or a variation to one) do not take effect until the first day of the next reporting period applicable under the changed reporting requirements if the *firm* receives that *intra-group liquidity modification* or variation part of the way through such a period, unless the *intra-group liquidity modification* says otherwise.

- (2) If the report is on an individual basis the reporting frequency is as follows:
- (a) if the *firm* does not have an *intra-group liquidity modification* the frequency is:
 - (i) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and
 - (ii) monthly if the *firm* is a *low frequency liquidity reporting firm*;
 - (b) if the *firm* is a *group liquidity reporting firm* in a *non-UK DLG by modification (firm level)* the frequency is:
 - (i) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and
 - (ii) monthly if the *firm* is a *low frequency liquidity reporting firm*;
 - (c) the frequency is quarterly if the *firm* is a *group liquidity reporting firm* in a *UK DLG by modification*.
- (3)
- (a) If the reporting frequency is otherwise weekly, the item is to be reported on every *business day* if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.
 - (b) If the reporting frequency is otherwise monthly, the item is to be reported weekly if (and for as long as) there is a *firm-specific liquidity stress* or *market liquidity stress* in relation to the *firm* or group in question.
 - (c) A *firm* must ensure that it would be able at all times to meet the requirements for daily or weekly reporting under paragraph (a) or (b) even if there is no *firm-specific liquidity stress* or *market liquidity stress* and none is expected.
- (4) If the report is on an individual basis the reporting frequency is:
- (a) Weekly if the *firm* is a *standard frequency liquidity reporting firm*; and
 - (b) Monthly if the *firm* is a *low frequency liquidity reporting firm*.

9.4 The applicable due dates for submission referred to in the table in 6.1 are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in 9.3, unless indicated otherwise.

RAG 3						
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Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annually
<i>Annual report and accounts</i>						80 business days
<i>Annual report and accounts of the mixed-activity holding company</i>						7 months
Solvency statement						3 months
FSA001				20 business days	30 business days (1); 45 business days (2)	
FSA002				20 business days	30 business days (1); 45 business days (2)	
FSA005				20 business days	30 business days (1); 45 business days (2)	
FSA006				20 business days		
FSA016					30 business days	
FSA018				45 business days		
FSA019						2 months

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RAG 3						
Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annually
FSA045				20 <i>business days</i>	30 <i>business days (1);</i> 45 <i>business days (2)</i>	
FSA047	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	15 <i>business days</i>	15 <i>business days or one month (3)</i>		
FSA048	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	15 <i>business days</i>	15 <i>business days or one month (3)</i>		
FSA050			15 <i>business days</i>			
FSA051			15 <i>business days</i>			
FSA052		22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	15 <i>business days</i>			
FSA053				15 <i>business days</i>		

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- (1) For unconsolidated and individually-consolidated reports.
- (2) For consolidation group reports.
- (3) It is one *Month* if the report relates to a *non-UK DLG by modification*.

10 REGULATED ACTIVITY GROUP 4

10.1 This Chapter applies only to *UK designated investment firms*.

10.2 The applicable *data items* referred to in the table in 6.1 are set out in the table below:

RAG 4	
Description of <i>data item</i>	Applicable data items (1)
Volumes and type of business (1)	FSA038
UCITS (2)	FSA042

- (1) Only applicable to *firms* that have a *managing investments permission*.
- (2) Only applicable to *firms* that have *permission* for *establishing, operating or winding up a regulated collective investment scheme*.

10.3 The applicable reporting frequencies for submission of *data items* referred to in 10.2 are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

RAG 4	
Data item	Reporting frequency
FSA038	Half yearly
FSA042	Quarterly

10.4 The applicable due dates for submission referred to in the table in 6.1 are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in 10.3, unless indicated otherwise.

RAG 4						
Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annually
FSA 038					30 <i>business days</i>	
FSA042				20 <i>business days</i>		

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11 REGULATED ACTIVITY GROUP 5

11.1 This Chapter does not apply to a *lead regulated firm*.

11.2 The applicable *data items*, reporting frequencies and submission deadlines referred to in the table in 6.1 are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period.

<u>RAG 5</u>			
Description of <i>data item</i>	<i>Data item</i> (1)	Frequency	Submission deadline
Balance Sheet	Sections A.1 and A.2 MLAR	Quarterly	20 <i>business days</i>
Income Statement	Sections B.0 and B.1 MLAR	Quarterly	20 <i>business days</i>
Capital Adequacy	Section C MLAR	Quarterly	20 <i>business days</i>
Lending - Business flow and rates	Section D MLAR	Quarterly	20 <i>business days</i>
Residential Lending to individuals - New business profile	Section E MLAR	Quarterly	20 <i>business days</i>
Lending - Arrears analysis	Section F MLAR	Quarterly	20 <i>business days</i>
Mortgage administration - Business profile	Section G MLAR	Quarterly	20 <i>business days</i>
Mortgage Administration - Arrears analysis	Section H MLAR	Quarterly	20 <i>business days</i>
Analysis of loans to customers	Section A3 MLAR	Quarterly	20 <i>business days</i>
Provisions analysis	Section B2 MLAR	Quarterly	20 <i>business days</i>
Fees and levies	Section J MLAR	Annually	30 <i>business days</i>
Sale and rent back	Section K MLAR	Annually	30 <i>business days</i>

- (1) When submitting the completed *data item* required, a *firm* must use the format of the *data item* set out in Chapter 18.

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12 FINANCIAL CONGLOMERATES

- 12.1 This Chapter applies only to a *firm* that is a member of a *financial conglomerate* and either:
- (1) it is at the head of a *UK-regulated EEA financial conglomerate*; or
 - (2) its *Part 4A permission* contains a *requirement* which either:
 - (a) applies 12.3 to the *firm*; or
 - (b) applies 12.3 to the *firm* unless the *mixed financial holding company* of the *financial conglomerate* to which the *firm* belongs submits the report required under this rule (as if the rule applied to it).
- 12.2 *Firms* must submit to the *PRA* the duly completed *data items* specified in 12.3 in accordance with 12.3.
- 12.3 The table below sets out the following:
- (1) the applicable *data items*;
 - (2) the applicable reporting frequencies for submission of *data items* and periods (calculated from a *firm's accounting reference date*, unless indicated otherwise); and
 - (3) the applicable due dates for submission. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period, unless indicated otherwise.

Financial conglomerates			
Content of Report	<i>Data item (1)</i>	Frequency	Due Date
Calculation of supplementary capital adequacy requirements in accordance with one of the three technical calculation methods	(2)	(5) Annually	(5)
Identification of significant <i>risk concentration</i> levels	(3)	Annually	4 months after year end
Identification of significant <i>intra-group transactions</i>	(4)	Annually	4 months after year end
Report on compliance with <i>GENPRU 3.1.35 R</i> where it applies	(6)	(5)	(5)

- (1) When giving the report required, a *firm* must use the form indicated, if any.
- (2) Adequate information must be provided, specifying the calculation method used and each *financial conglomerate* for which the *PRA* is the *co-ordinator* must discuss with the *PRA* the form which this reporting will take and the extent to which verification by an auditor will be required.

For the purposes of the above, where relevant to the agreed reporting arrangements, rules 9.40(1), 9.40(1A), 9.40(3) and 9.40(4) of *IPRU(INS)* apply as they would if the *financial*

Appendix 1.2

conglomerate were an 'insurance group' (as that term is used in *IPRU(INS)*).

- (3) Rather than specifying a standard format for each *financial conglomerate* to use, each *financial conglomerate* for which the *PRA* is the *co-ordinator* must discuss with the *PRA* the form of the information to be reported. This should mean that usual information management systems of the *financial conglomerate* can be used to the extent possible to generate and analyse the information required.
- (4) For the purposes of this reporting requirement, an *intra-group transaction* will be presumed to be significant if its amount exceeds 5% of the total amount of capital adequacy requirements at the level of the *financial conglomerate*.
Rather than specifying a standard format for each *financial conglomerate* to use, each *financial conglomerate* for which the *PRA* is the *co-ordinator* must discuss with the *PRA* the form of the information to be reported.
- (5) The frequency and due date will be as follows:
 - (a) *banking and investment services conglomerate*: frequency is annually with due date 45 *business days* after period end;
 - (b) *insurance conglomerate*: frequency is annually with due date four months after period end for the capital adequacy return and three months after period end for the report on compliance with *GENPRU 3.1.35 R* where it applies.
- (6) Adequate information must be added as a separate item to the relevant form for sectoral reporting.

13 PRUDENT VALUATION REPORTING

- 13.1 This Chapter applies only to *UK banks and UK designated investment firms*.
- 13.2 *Firms* must submit to the *PRA* quarterly (on a calendar year basis and not from a *firm's accounting reference date*), within six weeks of each quarter end, a Prudent Valuation Return in respect of its fair-value assessments.
- 13.3 Where a *firm* is a member of a *consolidation group*, the *firm* must comply with 13.2:
 - (1) on an individual consolidation basis if the *firm* has an *individual consolidation permission*, or on an unconsolidated basis if the *firm* does not have an *individual consolidation permission*; and
 - (2) separately, on the basis of the *consolidated situation* of the *consolidation group*.
- 13.4 *Firms* must submit the Prudent Valuation Return via electronic mail to prudentvaluationreturns@bankofengland.co.uk or via post or hand delivery to Regulatory Data Group, Statistics and Regulatory Data Division (HO5 A-B), Bank of England, Threadneedle Street, London EC2R 8AH; or via fax to the Regulatory Data Group of the Bank of England (020 7601 3334).

14 TRANSITIONAL PROVISIONS – WAIVERS

- 14.1 Subject to 14.4 this Chapter applies where, immediately before 1 January 2016, a *waiver* given in relation to a rule in the supervision manual in the *PRA Handbook* listed in column A of the table in 14.3 has effect.

Appendix 1.2

14.2 Each *waiver* given in relation to a rule in the supervision manual in the *PRA Handbook* listed in column A of the table in 14.3 is to be treated as a *waiver* given by the *PRA* to the *firm* under the rule in this Part listed in the same row in column B of the table.

14.3

Column A SUP 16.12 rule as in force until immediately before 1 January 2016	Column B Regulatory Reporting rule as in force from 1 January 2016
SUP 16.12.4	6.1
SUP 16.12.5	7.1
SUP 16.12.6	7.2
SUP 16.12.7	7.3
SUP 16.12.8(1)	8.1
SUP 16.12.8(2)	8.2
SUP 16.12.8(3)	8.3
SUP 16.12.11B	9.2
SUP 16.12.12A	9.3
SUP 16.12.13A	9.4
SUP 16.12.15B	10.2
SUP 16.12.16A	10.3
SUP 16.12.17A	10.4
SUP 16.12.18	11.1
SUP 16.12.18A	11.2

14.4 This Chapter does not apply in relation to a *waiver* that is an *intra-group liquidity modification* or a *whole-firm liquidity modification*.

15 TRANSITIONAL PROVISIONS – REQUIREMENTS FOR MEMBERS OF FINANCIAL CONGLOMERATES

15.1 This Chapter applies only to a *firm* that is a member of a *financial conglomerate*.

15.2 Where, immediately before 1 January 2016, the *firm's Part 4A permission* contained a *requirement* which applied SUP 16.12.33R in the supervision manual in the *PRA Handbook* to the *firm*, that requirement is to be treated as applying 12.3 to the *firm*.

15.3 Where, immediately before 1 January 2016, the *firm's Part 4A permission* contained a *requirement* which applied SUP 16.12.33R in the supervision manual in the *PRA Handbook* to the *firm* unless the *mixed financial holding company* of the *financial conglomerate* to which the *firm* belongs submits the report required under that rule (as if the rule applied to it), that requirement is to be treated as applying 12.3 to the *firm* unless the *mixed financial holding company* of the *financial conglomerate* to which the *firm* belongs submits the report required under that rule (as if the rule applied to it).

16 DATA ITEMS

16.1 FSA001 can be found [here](#).

16.2 FSA002 can be found [here](#).

16.3 FSA005 can be found [here](#).

16.4 FSA006 can be found [here](#).

Appendix 1.2

- 16.5 FSA011 can be found [here](#).
- 16.6 FSA014 can be found [here](#).
- 16.7 FSA015 can be found [here](#).
- 16.8 FSA016 can be found [here](#).
- 16.9 FSA017 can be found [here](#).
- 16.10 FSA018 can be found [here](#).
- 16.11 FSA019 can be found [here](#).
- 16.12 FSA038 can be found [here](#).
- 16.13 FSA042 can be found [here](#).
- 16.14 FSA045 can be found [here](#).
- 16.15 FSA047 can be found [here](#).
- 16.16 FSA048 can be found [here](#).
- 16.17 FSA050 can be found [here](#).
- 16.18 FSA051 can be found [here](#).
- 16.19 FSA052 can be found [here](#).
- 16.20 FSA053 can be found [here](#).
- 16.21 MLAR can be found [here](#).
- 16.22 CQ can be found [here](#).
- 16.23 CY can be found [here](#).
- 16.24 Prudent Valuation Return can be found [here](#).

Part

REGULATORY REPORTING

Externally defined glossary terms

Term	Definition source
<i>authorised person</i>	<i>FSMA s417</i>
<i>collective investment scheme</i>	<i>FSMA s235</i>
<i>consolidated situation</i>	<i>Article 4(1)(47) CRR</i>
<i>EEA State</i>	<i>FSMA s425</i>
<i>FCA</i>	<i>FSMA s417</i>
<i>friendly society</i>	<i>FSMA s417</i>
<i>group</i>	<i>FSMA s421</i>
<i>IRB Approach</i>	<i>Article 143(1) CRR</i>
<i>mixed-activity holding company</i>	<i>Article 4(1)(22) CRR</i>
<i>mixed financial holding company</i>	<i>Article 4(1)(21) CRR</i>
<i>month</i>	<i>Interpretation Act 1978 Schedule 1</i>
<i>overseas regulator</i>	<i>FSMA 195(3)</i>
<i>participation(s)</i>	<i>Article 4(1)(35) CRR</i>
<i>partnership</i>	<i>FSMA s417</i>
<i>person</i>	<i>Interpretation Act 1978 Schedule 1</i>
<i>PRA-authorised person</i>	<i>FSMA s2B(5)</i>
<i>regulated activity</i>	<i>FSMA s22</i>
<i>United Kingdom</i>	<i>Interpretation Act 1978 Schedule 1</i>

Appendix 1.2

Annex 1

Liquidity definitions

defined liquidity group

DLG by default

DLG by modification (firm level)

firm-specific liquidity stress

group liquidity low frequency reporting conditions

group liquidity reporting firm

group liquidity standard frequency reporting conditions

low frequency liquidity reporting firm

market liquidity stress

material currencies

non-UK DLG by modification

non-UK DLG by modification (DLG level)

non-UK DLG by modification (firm level)

overall liquidity adequacy rule

standard frequency liquidity reporting firm

UK DLG by modification

UK lead regulated firm

Appendix 1.3

PRA RULEBOOK: REGULATORY REPORTING AMENDMENT 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: Regulatory Reporting Amendment Instrument 2015

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

Commencement

- E. The Annex to this instrument comes into force on the date specified by a subsequent PRA Board instrument.

Citation

This instrument may be cited as the PRA Rulebook: Regulatory Reporting Amendment Instrument 2015.

By order of the Board of the Prudential Regulation Authority

31 July 2015

Annex

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

Part

REGULATORY REPORTING

...

7 REGULATED ACTIVITY GROUP 1

7.1 The applicable *data items* referred to in the table in 6.1 are set out according to *firm* type in the table below:

RAG 1	Prudential category of <i>firm</i> , applicable <i>data items</i> and reporting format (1)					
	<i>UK bank</i>	<i>Building society</i>	<i>Non-EEA bank</i>	<i>EEA bank that has permission to accept deposits and that has its registered office (or, if it has no registered office, its head office) outside the EU</i>	<i>Credit union</i>	<i>Dormant account fund operator (12)</i>
Description of data item						
...						
Liquidity Buffer Qualifying Securities	FSA050 ((14), (17) and (18))	FSA050 ((14), (17) and (18))				
Funding Concentration	FSA051 ((14), (17) and (18))	FSA051 ((14), (17) and (18))				
Pricing data	FSA052 ((14), (18) and (19))	FSA052 ((14), (18) and (19))				
Retail and corporate funding	FSA053 ((14), (17) and (18))	FSA053 ((14), (17) and (18))				

...

- (14) A *firm* must complete this item separately on each of the following bases that are applicable:
- (a) It must complete it on an individual basis (including on the basis of the *firm's UK branch*) unless it is a *group liquidity reporting firm* in a *UK DLG by modification*. Therefore even if it has an *individual consolidation permission* it must complete the item on an unconsolidated basis by reference to the *firm* alone.
 - (b) If it is a *group liquidity reporting firm* in a *UK DLG by modification*, it must complete the item on the basis of that group. ~~[deleted]~~

...

- (17) ~~(16) applies, except that sub-paragraphs (c), (d) and (e) do not apply, meaning that material currencies must not be recorded separately. [deleted]~~

...

7.2 The applicable reporting frequencies for submission of *data items* and periods referred to in 7.1 are set out in the table below according to *firm* type. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

RAG 1				
Data item	Unconsolidated UK banks and building societies	Individual consolidated UK banks and building societies	Report on a UK consolidation group or, as applicable, defined liquidity group basis by UK banks and building societies	Other members of RAG 1
...				
FSA050	Monthly ((2))		Monthly ((2))	Monthly ((2))
FSA051	Monthly ((2))		Monthly ((2))	Monthly (2)
FSA052	Weekly or monthly ((2) and (7))		Weekly or monthly ((2) and (8))	Weekly or monthly ((2) and (7))
FSA053	Quarterly (2)		Quarterly (2)	Quarterly (2)

...

- (7) If the report is on an individual basis (including by reference to the *firm's UK branch*) the reporting frequency is as follows:
- (a) weekly if the *firm* is a *standard frequency liquidity reporting firm*; and

- (b) ~~monthly if the firm is a low frequency liquidity reporting firm. [deleted]~~
- (8) If the report is by reference to the firm's UK DLG by modification the reporting frequency is:
 - (a) ~~weekly if the group liquidity standard frequency reporting conditions are met;~~
 - (b) ~~monthly if the group liquidity low frequency reporting conditions are met. [deleted]~~

7.3 The applicable due dates for submission referred to in the table in 6.1 are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in 7.2, unless indicated otherwise.

RAG 1						
Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
...						
FSA050			15 <i>business days</i>			
FSA051			15 <i>business days</i>			
FSA052		22.00 hours (London time) on the second <i>business day</i> immediately following the last day of the reporting period for the item in question	15 <i>business days</i>			
FSA053			15 <i>business days</i>			

...

9 REGULATED ACTIVITY GROUP 3

...

9.2 The applicable *data items* referred to in the table in 6.1 for a *UK designated investment firm* are set out in the table below:

RAG 3	
--------------	--

Description of <i>data item</i>	Applicable <i>data items</i> (1)
...	
Liquidity Buffer Qualifying Securities	FSA050 ((10), (12) and (13))
Funding Concentration	FSA051 ((10), (12) and (13))
Pricing data	FSA052 ((10), (13) and (14))
Retail and corporate funding	FSA053 ((10), (12) and (13))

...

- (10) ~~A firm must complete this item separately on each of the following bases that are applicable.~~
- (a) ~~It must complete it on an individual basis unless it is a *group liquidity reporting firm* in a UK DLG by modification. Therefore even if it has an *individual consolidation permission* it must complete the item on an unconsolidated basis by reference to the *firm* alone.~~
- (b) ~~If it is a *group liquidity reporting firm* in a UK DLG by modification, it must complete the item on the basis of that group. [deleted]~~

...

- (12) ~~(11) applies, except that sub-paragraphs (c), (d) and (e) do not apply, meaning that *material currencies* must not be recorded separately. [deleted]~~

...

- (14) ~~This *data item* must be reported only in the currencies named in FSA052, so that liabilities in GBP are reported in GBP in rows 1 to 4, those in USD are reported in USD in rows 5 to 8, and those in Euro are reported in Euro in rows 9 to 12. Liabilities in other currencies are not to be reported. [deleted]~~

...

9.3 The applicable reporting frequencies for submission of *data items* and periods referred to in 9.2 are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

RAG 3	
Data item	Reporting frequency
...	
FSA050	Monthly (1)
FSA051	Monthly (1)

RAG 3	
Data item	Reporting frequency
FSA502	Weekly or monthly ((1) and (4))
FSA053	Quarterly (1)

...

(4) If the report is on an individual basis the reporting frequency is:

- (a) ~~Weekly if the firm is a standard frequency liquidity reporting firm; and~~
- (b) ~~Monthly if the firm is a low frequency liquidity reporting firm. [deleted]~~

9.4 The applicable due dates for submission referred to in the table in 6.1 are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in 9.3, unless indicated otherwise.

RAG 3						
Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
...						
FSA050			15 <i>business days</i>			
FSA051			15 <i>business days</i>			
FSA052		22.00 hours (London time) on the <i>business day</i> immediately following the last day of the reporting period for the item in question	15 <i>business days</i>			
FSA053				15 <i>business days</i>		

...

16 DATA ITEMS

...

16.17 ~~FSA050 can be found here.~~ [deleted]

16.18 ~~FSA051 can be found here.~~ [deleted]

16.19 ~~FSA052 can be found here.~~ [deleted]

16.20 ~~FSA053 can be found here.~~ [deleted]

...

HANDBOOK (SUPERVISION: LATE REPORTING) 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);
- (2) section 137T (General supplementary powers); and
- (3) paragraph 31 of Schedule 1ZB (Fees);

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.

Handbook (Supervision: Late Reporting) Instrument 2015

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

Commencement

E. This instrument comes into force on 1 October 2015.

Citation

F. This instrument may be cited as the Handbook (Supervision: Late Reporting) Instrument 2015.

**By order of the Board of the Prudential Regulation Authority
28 September 2015**

Annex A Amendments to Supervision (SUP)

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

...

Failure to submit reports

~~16.3.14 R (1) If a *firm* does not submit a complete report by the date on which it is due in accordance with the *rules* in, or referred to in, this chapter or the provisions of relevant legislation and any prescribed submission procedures, the *firm* must pay an administrative fee of £250.~~

~~(2) The administrative fee in (1) does not apply in respect of quarterly reports required to be submitted by *credit unions* whose liability to pay a periodic fee under FEES 4.2.1 R in respect of the A.1 activity group in FEES 4 Annex 1A and FEES 4 Annex 1B R, for the financial year prior to the due date for submission of the report, was limited to the payment of the minimum fee.~~

~~16.3.14A G Failure to submit a report in accordance with the *rules* in, or referred to in this chapter or the provisions of relevant legislation may also lead to the imposition of a financial penalty and other disciplinary sanctions. A *firm* may be subject to reporting requirements under relevant legislation other than the *Act*, not referred to in this chapter. An example of this is reporting to the *appropriate regulator* by *building societies* under those parts of the Building Societies Act 1986 which have not been repealed (see SUP 16.1.4 G). If it appears to the *appropriate regulator* that, in the exceptional circumstances of a particular case, the payment of any fee would be inequitable, the *appropriate regulator* may reduce or remit all or part of the fee in question which would otherwise be payable (see 23FEES 2.3).~~

16.3.14B G Failure to submit a report in accordance with the *rules* in, or referred to in this chapter or the provisions of relevant legislation may lead to the imposition of a financial penalty and other disciplinary sanctions. A *firm* may be subject to reporting requirements under relevant legislation other than the *Act*, not referred to in this chapter. An example of this is reporting to the *appropriate regulator* by *building societies* under those parts of the Building Societies Act 1986 which have not been repealed (see SUP 16.1.4 G).

LIQUIDITY STANDARDS CONSEQUENTIALS 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); 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.

Commencement

- D. The annex to this instrument comes into force on 1 October 2015.

Amendments to the Handbook

- E. The modules of the PRA 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)
Supervision manual (SUP)	Annex A

Citation

- F. This instrument may be cited as the Liquidity Standards Consequential Instrument (No 2) 2015.

By order of the Board of the Prudential Regulation Authority

28 September 2015

Annex B

Amendments to the Supervisory manual (SUP)

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

16.12 Integrated Regulatory Reporting

...

Regulated Activity Group 3

...

16.12.11B R The applicable data items referred to in SUP 16.12.4 R for *UK designated investment firms* are set out below:

Description of <i>data item</i>	Applicable <i>data items</i> (Note 1)
...	
Currency Analysis	FSA054 (Notes 11, 14, 15 and 16)
...	

...

Regulated Activity Group 4

...

16.12.15B R The applicable data items referred to in SUP 16.12.4 R for *UK designated investment firms* are set out below:

Description of <i>data item</i>	Applicable <i>data items</i> (Note 1)
...	
Currency Analysis	FSA054 (Notes 8, 11, 12 and 13)
...	

...

Regulated Activity Group 7

...

16.12.22C R The applicable data items referred to in SUP 16.12.4 R for *UK designated investment firms* are set out below:

Description of <i>data item</i>	Applicable <i>data items</i> (Note 1)
...	
Currency Analysis	FSA054 (Notes 7, 10, 11 and 12)

...	
-----	--

...

Regulated Activity Group 8

...

16.12.25C R The applicable data items referred to in SUP 16.12.4 R are set out below:

Description of <i>data item</i>	Applicable <i>data items</i> (Note 1)
...	
Currency Analysis	FSA054 (Notes 10, 13, 14 and 15)
...	

PRA RULEBOOK: SOLVENCY II FIRMS: WHISTLEBLOWING 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: Whistleblowing Instrument 2015

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

Commencement

- E. This instrument comes into force on 7 September 2016.

Citation

- F. This instrument may be cited as the Solvency II Firms: Whistleblowing Instrument 2015.

By order of the Board of the Prudential Regulation Authority

28 September 2015

Annex

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

Part

WHISTLEBLOWING

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. WHISTLEBLOWING**
- 3. LLOYDS**

Links

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 3; and
- (3) in accordance with Insurance General Application 3, *managing agents*, as modified by 3.

1.2 In this Part, the following definitions shall apply:

protected disclosure

means a qualifying disclosure as defined in section 43B of the Employment Rights Act 1996 made by a *worker* in accordance with sections 43C to 43H of the Employment Rights Act 1996.

reportable concern

means a concern held by any *person* in relation to the activities of a *firm*, including:

- (a) any matter that, if disclosed, would be the subject-matter of a *protected disclosure*, including a breach of any rule;
- (b) a failure to comply with the *firm's* policy and procedures; and
- (c) behaviour that has or is likely to have an adverse effect on the *firm's* reputation or financial well-being.

worker

means as defined by section 230(3) of the Employment Rights Act 1996 and as extended under section 43K of the Employment Rights Act 1996.

1.3 In this Part, a reference to a provision of the Employment Rights Act 1996 includes a reference to the corresponding provision of the Employment Rights (Northern Ireland) Order 1996.

2 WHISTLEBLOWING

2.1 A *firm* must establish, maintain and implement appropriate and effective arrangements for the disclosure of *reportable concerns* by a *person*, including a *firm's employee*, internally through a specific, independent and autonomous channel.

2.2 The channel in 2.1 may be provided through arrangements with third parties, including social partners, subject to any applicable requirement in Conditions Governing Business 7.

- 2.3 A *firm* must inform all *workers* of the channel referred to in 2.1.
- 2.4 A *firm* must inform all *workers*:
- (1) that they may disclose directly to the *PRA* or to the *FCA* anything that would be the subject-matter of a *protected disclosure*;
 - (2) of what could constitute a *protected disclosure*;
 - (3) that the *PRA* and the *FCA* are prescribed persons under section 43F of the Employment Rights Act 1996 and the effect of making a *protected disclosure* to the *PRA* or to the *FCA*; and
 - (4) of the means available to make a *protected disclosure* to the *PRA* or the *FCA*.
- 2.5 A *firm* must ensure that nothing in its arrangements prevents or discourages any *worker* from making any disclosure to the *PRA* or the *FCA* before making the disclosure through the channel referred to in 2.1
- 2.6 A *firm* must ensure that nothing in any employment contract or settlement agreement, including any other related or ancillary documentation, between the *firm* and a *worker* relating to the *worker's* employment with the *firm*, entered into after the date on which these rules come into effect, prevents or discourages the *worker* from:
- (1) making a *protected disclosure*, including to the *PRA*; and
 - (2) making a further *protected disclosure* connected to a *protected disclosure* already made under (1).

3 LLOYDS

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

PRA RULEBOOK: CRR FIRMS: WHISTLEBLOWING 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: CRR Firms: Whistleblowing Instrument 2015

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

Commencement

- E. This instrument comes into force on 7 September 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Whistleblowing Instrument 2015.

By order of the Board of the Prudential Regulation Authority

28 September 2015

Annex

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

Part

GENERAL ORGANISATIONAL REQUIREMENTS

Chapter content

1. APPLICATION AND DEFINITIONS
2. GENERAL REQUIREMENTS
- ...

Links

1 APPLICATIONS AND DEFINITIONS

1.1 ...

1.2 In this Part, the following definitions apply:

chief executive function

...

protected disclosure

means a qualifying disclosure as defined in section 43B of the Employment Rights Act 1996 made by a worker in accordance with sections 43C to 43H of the Employment Rights Act 1996.

reportable concern

means a concern held by any person in relation to the activities of a firm, including:

- (a) any matter that, if disclosed, would be the subject-matter of a protected disclosure, including a breach of any rule;
- (b) a failure to comply with the firm's policy and procedures; and
- (c) behaviour that has or is likely to have an adverse effect on the firm's reputation or financial well-being.

...

worker

has the meaning as defined by section 230(3) of the Employment Rights Act 1996 and as extended under section 43K of the Employment Rights Act 1996.

1.3 In this Part, a reference to a provision of the Employment Rights Act 1996 includes a reference to the corresponding provision of the Employment Rights (Northern Ireland) Order 1996.

2 GENERAL REQUIREMENTS

...

2.8 ...

2.9 (1) ~~A firm must have in place appropriate procedures for its employees to report breaches internally through a specific, independent and autonomous channel.~~

~~(2) The channel in (1) may be provided through arrangements provided for by social partners.~~

[Note: Art. 71(3) of the CRD]

2A WHISTLEBLOWING

2A.1 (1) 2A.2 applies to every CRR firm.

(2) 2A.3 – 2A.6 apply to any CRR firm that has average total gross assets exceeding £250 million, determined on the basis of the annual average amount of gross assets calculated across a rolling period of five years or, if it has been in existence for less than five years, across the period during which it has existed (in each case, calculated with reference to the CRR firm's annual accounting reference date).

2A.2 (1) A firm must establish, implement and maintain appropriate and effective arrangements for the disclosure of reportable concerns by a person, including a firm's employee, internally through a specific, independent and autonomous channel.

(2) The channel in (1) may be provided through arrangements with third parties, including social partners, subject to any applicable requirement under the Outsourcing Part.

[Note: Art. 71(3) of the CRD]

2A.3 A firm must inform all workers of the channel in 2A.2.

2A.4 A firm must inform all workers:

(1) that they may disclose directly to the PRA or to the FCA anything that would be the subject-matter of a protected disclosure;

(2) of what would constitute a protected disclosure;

(3) that the PRA or the FCA are prescribed persons under section 43F of the Employments Rights Act 1996 and the effect of making a protected disclosure to the PRA or to the FCA; and

(4) of the means available to make a protected disclosure to the PRA or the FCA.

2A.5 A firm must ensure that nothing in its arrangements prevents or discourages any worker from making any disclosure to the PRA or the FCA before making the disclosure through the channel referred to in 2A.2.

2A.6 A firm must ensure that nothing in any employment contract or settlement agreement, including any other related or ancillary documentation, between the firm and a worker relating to the worker's employment with the firm, entered into after the date on which these rules come into effect, prevents or discourages the worker from:

(a) making a protected disclosure, including to the PRA; and

(b) making a further protected disclosure connected to a protected disclosure already made under (a).

...

HANDBOOK (WHISTLEBLOWING) 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.

Commencement

- D. This instrument comes into force on 7 September 2016.

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 of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B

Citation

- F. This instrument may be cited as the Handbook (Whistleblowing) Instrument 2015.

By order of the Board of the Prudential Regulation Authority
28 September 2015

Annex A

Amendments to the Glossary of definitions

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

...

employee for the purposes of SYSC 4.15, means an individual:

(1) who is employed or appointed by a *person* in connection with that *person's* business, whether under a contract of service or for services or otherwise; or

(2) whose services, under an arrangement between that *person* and a third party, are placed at the disposal and under the control of that *person*.

...

protected disclosure a qualifying disclosure as defined in section 43B of the Employment Rights Act 1996 made by a *worker* in accordance with sections 43C to 43H of the Employment Rights Act 1996.

...

reportable concern means a concern held by any *person* in relation to the activities of a *firm*, including:

- (a) anything that would be the subject-matter of a *protected disclosure*, including a breach of any *rule*;
- (b) a failure to comply with the *firm's* policy and procedures; and
- (c) behaviour that has or is likely to have an adverse effect on the *firm's* reputation or financial well-being.

...

excluded credit union

for the purposes of SYSC 4.15, means a credit union which has average total gross assets of £250 million or less, determined on the basis of the annual average amount of gross assets calculated across a rolling period of five years or, if it has been in existence for less than five years, across the period during which it has existed (in each case, calculated with reference to the credit union's annual accounting reference date).

...

worker

has the meaning as defined by section 230(3) of the Employment Rights Act 1996 and as extended under section 43K of the Employment Rights Act 1996.

...

Annex B

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

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

...

4.1 General requirements

...

4.1.15 R (1) A firm other than a credit union must have in place appropriate procedures for its *employees* to report breaches internally through a specific, independent and autonomous channel.

...

R (3) A credit union other than an excluded credit union must establish, maintain and implement appropriate and effective arrangements for the disclosure of reportable concerns by a person, including a firm's employee, internally through a specific, independent and autonomous channel.

R (4) The channel in (3) may be provided through arrangements by third parties, including social partners, subject to any applicable requirement under SYSC 8.

R (5) A credit union other than an excluded credit union must inform all workers of the channel referred to in (3).

R (6) A credit union other than an excluded credit union must inform all workers:

(a) that they may disclose directly to the PRA or to the FCA anything that would be the subject-matter of a protected disclosure;

(b) of what would constitute a protected disclosure;

(c) that the PRA or the FCA are prescribed persons under the Employment Rights Act 1996 and the effect of making a protected disclosure to the PRA or to the FCA; and

(d) of the means available to make a protected disclosure to the PRA or the FCA.

R (7) A credit union other than an excluded credit union must

ensure that nothing in its arrangements prevents or discourages any worker from making any disclosure to the PRA or the FCA before making the disclosure through the channel referred to in (3).

R (8) A credit union other than an excluded credit union must ensure that nothing in any employment contract or settlement agreement, including any other related or ancillary documentation, between the credit union and a worker in relation to the worker's employment, entered into after the date on which these rules come into force, prevents or discourages the worker from:

(a) making a protected disclosure, including to the PRA;

(b) making a further protected disclosure connected to a protected disclosure already made under (a).

R (9) A reference in SYSC 4.1.15 to a provision of the Employment Rights Act 1996 includes a reference to the corresponding provision of the Employment Rights (Northern Ireland) Order 1996.

...

**PRA RULEBOOK: CRR FIRMS AND NON-AUTHORISED PERSONS: STAY IN RESOLUTION
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);
 - (2) section 137T (general supplementary powers); and
 - (3) section 192JB (rules requiring parent undertakings to facilitate resolution).
- B. The PRA exercises the following powers in the Act to make those terms in the Glossary that are used in this instrument in rules applicable to qualifying parent undertakings:
- (1) section 192JB (rules requiring parent undertakings to facilitate resolution); and
 - (2) section 137T (general supplementary powers).
- C. 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

- D. 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 and Non-Authorised Persons: Stay in Resolution Instrument 2015

- E. The PRA makes the rules in the Annex to this instrument.

Commencement

- F. This instrument comes into force on 1 June 2016.

Citation

- G. This instrument may be cited as the PRA Rulebook: CRR Firms and Non-Authorised Persons: Stay in Resolution Instrument 2015.

By order of the Board of the Prudential Regulation Authority

12 November 2015

Annex

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

Part

STAY IN RESOLUTION

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. STAY IN RESOLUTION**
- 3. TRANSITIONAL PROVISIONS**

Links

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to a *BRRD undertaking* which is:

- (1) a *CRR firm*;
- (2) a *financial holding company* whose registered office or, if the *financial holding company* does not have a registered office, whose head office is in the *United Kingdom*; or
- (3) a *mixed financial holding company* whose registered office or, if the *mixed financial holding company* does not have a registered office, whose head office is in the *United Kingdom*.

1.2 A *BRRD undertaking* that is a *parent undertaking* must ensure that a *subsidiary* which meets the condition in 1.3 complies with the requirements of this Part as if it were a *BRRD undertaking* subject to those requirements.

1.3 The condition in 1.2 is that the *subsidiary* is:

- (1) a *credit institution*;
- (2) an *investment firm* or an *undertaking* which would be an *investment firm* if it had its head office in an *EEA State*; or
- (3) a *financial institution*; and

is not a *BRRD undertaking* which falls within 1.1.

1.4 In this Part, the following definitions shall apply:

crisis management measure

has the meaning given in section 48Z(1) of the Banking Act 2009.

crisis prevention measure

has the meaning given in section 48Z(1) of the Banking Act 2009.

excluded person

means:

- (a) a person who has been declared to be, or who is an operator of, a designated system under regulation 4 of the Financial Markets and Insolvency (Settlement Finality) Regulations 1999,
- (b) a person who has been designated by an *EEA State* as a system under Article 2(a) of the Directive 98/26/EC of the European Parliament and of the Council on settlement finality in payment and securities settlement systems or an operator of such a system,
- (c) an exchange, other trading facility, payment system, settlement system or other financial market utility or infrastructure established in a *third country* not within (a) or (b),

- (d) a *central counterparty*,
- (e) a *central bank*, or
- (f) a central government (including any agency or branch of a central government).

financial arrangement

means the following contracts and agreements:

- (a) financial contracts as defined in point 100 (a) to (d) of Article 2(1) of the *BRRD*;
- (b) a derivative as defined in Article 2(5) of Regulation (EU) No 648/2012 of the European Parliament and of the Council of 4th July 2012 on OTC derivatives, central counterparties and trade repositories; and
- (c) a master agreement in so far as it relates to:
 - (i) any of the contracts or agreements referred to in points (a) and (b); or
 - (ii) a contract for the sale, purchase or delivery of the currency of the *UK* or any other country, territory or monetary union.

group

has the meaning given in section 48Z(1) of the Banking Act 2009.

recognised third-country resolution action

has the meaning given in section 48Z(1) of the Banking Act 2009.

security interest

has the meaning given in section 70B(7) of the Banking Act 2009.

Special Resolution Regime

means the provisions of Part I of the Banking Act 2009 and any measure taken under that Part.

termination right

means the following rights and provisions:

- (a) a 'termination right' as defined in section 70C(10) of the Banking Act 2009; and
- (b) a 'default event provision' as defined in Section 48Z(1) of the Banking Act 2009 that would apply as a consequence of:
 - (i) a *crisis prevention measure*, *crisis management measure* or *recognised third-country resolution action* or
 - (ii) the occurrence of any event directly linked to the application of such a measure or action.

third-country law financial arrangement

means a *financial arrangement* which:

- (a) is governed by the law of a *third country*, and

- (b) contains a *termination right* or a *security interest*, the exercise or enforcement of which could be suspended or prevented or the application of which would be disregarded under the *Special Resolution Regime* if the *financial arrangement* were governed by the laws of any part of the *United Kingdom*.

transferable securities

has the meaning given in point (44) of Article 41(1) of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments.

- 1.5 For the purposes of this Part, any reference to securities in point 100 (a) to (d) of Article 2(1) of the *BRRD* has the same meaning as *transferable securities*.
- 1.6 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 STAY IN RESOLUTION

- 2.1 Subject to 2.2, a *BRRD undertaking* must not create a new obligation or materially amend an existing obligation under a *third-country law financial arrangement* unless the *third-country law financial arrangement* is solely with an *excluded person*.

- 2.2 A *BRRD undertaking* may create a new obligation or materially amend an existing obligation under a *third-country law financial arrangement* where each counterparty to the *third-country law financial arrangement*, other than a counterparty which is an *excluded person*, agrees in an enforceable manner that if:

- (1) a *crisis prevention measure*;
- (2) *crisis management measure*; or
- (3) *recognised third-country resolution action*

is taken in relation to the *BRRD undertaking* or any member of the same *group* as the *BRRD undertaking*, it shall be entitled to exercise *termination rights* under, or rights to enforce a *security interest* in connection with, the *third-country law financial arrangement* to the extent that it would be entitled to do so under the *Special Resolution Regime* if the *third-country law financial arrangement* were governed by the laws of any part of the *United Kingdom*.

- 2.3 For the purpose of 2.2, section 48Z of the Banking Act 2009 is to be disregarded to the extent that it relates to a *crisis prevention measure* other than the making of a mandatory reduction instrument by the Bank of England under section 6B of the Banking Act 2009.

3 TRANSITIONAL PROVISIONS

- 3.1 From 1 June 2016 this Part applies in relation to a *third-country law financial arrangement* under 2.1 where a direct or indirect counterparty is:

- (1) a *credit institution*;
- (2) an *investment firm*; or

(3) an *undertaking* which would be an *investment firm* if it had its head office in an *EEA State*.

3.2 From 1 January 2017 this Part applies in relation to all *third-country law financial arrangements* under 2.1 other than those to which the sole counterparty is an *excluded person*.

Term	Definition source
<i>central bank</i>	Article 4(1)(46) <i>CRR</i>
<i>central counterparty</i>	Article 4(1)(34) <i>CRR</i>
<i>credit institution</i>	Article 4(1)(1) <i>CRR</i>
<i>financial institution</i>	Article 4(1)(26) <i>CRR</i>
<i>financial holding company</i>	Article 4(1)(20) <i>CRR</i>
<i>investment firm</i>	Article 4(1)(2) <i>CRR</i>
<i>mixed financial holding company</i>	Article 4(1)(21) <i>CRR</i>
<i>parent undertaking</i>	Article 4(1)(15) <i>CRR</i>
<i>subsidiary</i>	Article 4(1)(16) <i>CRR</i>

**PRA RULEBOOK: NON-SOLVENCY II FIRMS: SENIOR INSURANCE MANAGERS REGIME –
TECHNICAL RULES AND ACTUARIAL FUNCTIONS 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 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);
- (6) 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: Senior Insurance Managers Regime – Technical Rules and Actuarial Functions Instrument 2015

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

Commencement

E. Annexes A, C, D and F of this instrument come into force on 7 March 2016.

F. Annex B of this instrument comes into force on 16 December 2015.

G. Annex E of this instrument comes into force on 7 March 2017.

Citation

This instrument may be cited as the PRA Rulebook: Non-Solvency II Firms: Senior Insurance Managers Regime – Technical Rules and Actuarial Functions Instrument 2015.

By order of the Board of the Prudential Regulation Authority

12 November 2015.

Annex A

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

Part

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

Chapter content

1. APPLICATION AND DEFINITIONS
2. APPLICATION TO PERFORM A SENIOR INSURANCE MANAGEMENT FUNCTION
3. WITHDRAWAL OF A SENIOR INSURANCE MANAGEMENT APPROVAL APPLICATION
4. CEASING TO PERFORM A SENIOR INSURANCE MANAGEMENT FUNCTION
5. CHANGE IN DETAILS RELATING TO SENIOR INSURANCE MANAGEMENT FUNCTION HOLDERS
6. PROCEDURE FOR MAKING APPLICATIONS AND NOTIFICATIONS
7. FORMS

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *small non-directive insurer*.

1.2 In this Part, the following definitions shall apply:

commencement date

has the meaning given in Non-Solvency II Firms – Senior Insurance Managers Regime – Transitional Provisions.

current approved person approval

means

- (1) an approval granted to a *person* under section 59 of *FSMA* (Approval for particular arrangements):
 - (a) by the *PRA* for the performance of a *senior insurance management function*; or
 - (b) by the *FCA* for the performance of a *significant influence function*;
- (2) a deemed approval given by:
 - (a) the *PRA* following the submission of a *grandfathering notification* under:
 - (i) Senior Insurance Managers Regime – Transitional Provisions;
 - (ii) Large Non-Solvency II Firms – Senior Insurance Managers Regime – Transitional Provisions; or
 - (iii) Non-Solvency II Firms – Senior Insurance Managers Regime – Transitional Provisions; or
 - (b) the *FCA* under any equivalent rules in the *FCA Handbook*; or
- (3) for the purposes of 2.5(2) and 2.6(1), an approval granted to that *person* under section 59 of *FSMA* by either the *PRA* or the *FCA* to perform a *controlled function* prior to the *commencement date* but which ceased (i) on or before the *commencement date*; and (ii) during the six-month period specified in 2.5(2) and 2.6(1), as the case may be.

grandfathering notification

has the meaning given in Non-Solvency II Firms - Senior Insurance Managers Regime - Transitional Provisions.

regulatory body

means any authority, body or *person* having, or who has had, responsibility for the supervision or regulation of any *regulated activities* or other financial services, whether within the *United Kingdom* or overseas.

scope of responsibilities form

means the form to be completed by a *firm* describing the significant responsibilities recorded in Non-Solvency II Firms - Fitness and Propriety 4.1(2).

senior insurance management approval application

means an application for approval to perform a *senior insurance management function* under section 59 of FSMA.

significant influence function

has the meaning given in the *FCA Handbook*.

2 APPLICATION TO PERFORM A SENIOR INSURANCE MANAGEMENT FUNCTION

- 2.1 The *PRA* directs that a *firm* must make a *senior insurance management approval application* in accordance with 2.2, before the activities requiring approval commence.
- 2.2 The *PRA* directs that a *firm* must use Form A (long form) for a *senior insurance management approval application* unless:
- (1) the *firm* must use Form E under 2.3; or
 - (2) the *firm* must use Form A (shortened form) under 2.6.
- 2.3 The *PRA* directs that, subject to 2.4 and 2.5, a *firm* must use Form E for a *senior insurance management approval application* if it is being made in respect of a *person* who has a *current approved person approval* and is either:
- (1) ceasing to perform a *senior insurance management function* and taking up a new *senior insurance management function* for the same *firm* or another member of its *group*; or
 - (2) ceasing to perform a *significant influence function* and taking up a *senior insurance management function* for the *firm* or another member of its *group*.
- 2.4 The *PRA* directs that a *firm* must not use Form E for a *senior insurance management approval application* if:
- (1) a notification has been made or should be made to the *PRA* under any of the rules in Notifications 11 or to the *FCA* under any equivalent provisions of the *FCA Handbook*;
 - (2) any of the circumstances in 4.2(2)(a) to (d) apply in relation to:
 - (a) any *controlled function* that that *person* is ceasing to perform; or
 - (b) any *controlled function* that that *person* is continuing to perform in relation to that *firm* or a *firm* in the same *group*.
- 2.5 The *PRA* directs that a *firm* must not use Form E if the *person* to whom the *senior insurance management approval application* relates:
- (1) has never before been approved:
 - (a) by the *PRA* to perform a *controlled function*; or
 - (b) by the *FCA* to perform a *significant influence function*

for any *firm*;

or

- (2) has not been the subject of a *current approved person approval* in relation to any *firm* for more than six *months* prior to the date of application.
- 2.6 (1) The *PRA* directs that a *firm* must use Form A (shortened form) for a *senior insurance management approval application* if:
- (a) the *person* to whom the application relates:
- (i) has at the time of application a *current approved person approval*;
or
- (ii) has had a *current approved person approval* within the previous six *months*; and
- (b) there have been no matters arising in relation to the fitness and propriety of the *person* to whom the *senior insurance management approval application* relates which mean that the information provided to the *FCA* or *PRA* regarding fitness and propriety in connection with a *current approved person approval* may have changed since the application for the *current approved person approval* was made.
- (2) A *firm* must not use Form A (shortened form) if the circumstances set out in 2.3 apply.
- 2.7 The *PRA* directs that the form submitted for a *senior insurance management approval application* must be accompanied by a *scope of responsibilities form*.

3 WITHDRAWAL OF A SENIOR INSURANCE MANAGEMENT APPROVAL APPLICATION

- 3.1 The *PRA* directs that a *firm* withdrawing an outstanding *senior insurance management approval application* must do so using Form B.

4 CEASING TO PERFORM A SENIOR INSURANCE MANAGEMENT FUNCTION

- 4.1 (1) A *firm* must notify the *PRA* no later than seven *business days* after a *person* ceases to perform a *senior insurance management function*, using:
- (a) Form E if a *person* ceases to perform a *senior insurance management function* and the *firm* is also making an application for the same *person* to perform a new *senior insurance management function*; and
- (b) in all other cases, Form C.
- 4.2 (1) A *firm* must notify the *PRA* as soon as practicable after it becomes aware, or has information which reasonably suggests, that it will submit a qualified Form C in respect of a *senior insurance management function holder*.
- (2) Form C is qualified if the information it contains:
- (a) relates to the fact that the *firm* has dismissed, or suspended, the *senior insurance management function holder* from its employment;

- (b) relates to the resignation by the *senior insurance management function holder* while under investigation by the *firm*, the *PRA* or any other *regulatory body*;
- (c) includes a notification under any of the provisions set out in 2.4(1); or
- (d) otherwise reasonably suggests that it may affect the *PRA*'s assessment of the *senior insurance management function holder*'s fitness and propriety.

5 CHANGE IN DETAILS RELATING TO SENIOR INSURANCE MANAGEMENT FUNCTION HOLDERS

- 5.1 If a *senior insurance management function holder*'s title, name or national insurance number changes, the *firm* for which the *person* performs a *senior insurance management function* must notify the *PRA* of that change within seven *business days* of the *firm* becoming aware of the matter, using Form D.
- 5.2 If, in relation to a *firm* which has submitted an application on either Form A (long or shortened form) or Form E, as required by 2.2, any of the details relating to *senior insurance management functions* are to change, the *firm* must notify the *PRA* using Form D as soon as reasonably practicable after the *firm* becomes aware of the proposed change.

6 PROCEDURE FOR MAKING APPLICATIONS AND NOTIFICATIONS

- 6.1 The *PRA* directs that, save as required by 6.2, a *firm* must make any applications, notifications or submissions required by this Part by submitting the form specified using the *ONA system*.
- 6.2 If, under any direction or rule in this Part:
 - (1) a *firm* is required to make an application, notification or submission online; and
 - (2) the information technology systems used by the *PRA* fail and online submission is unavailable for 24 hours or more,
 until such time as facilities for online submission are restored, a *firm* must submit the specified form in the way set out in Notifications 7.

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 B

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

Part

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

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. GENERAL**
- 3. GRANDFATHERING NOTIFICATION REQUIREMENTS**
- 4. PROCEDURE FOR MAKING GRANDFATHERING NOTIFICATIONS**
- 5. WITHDRAWING OR UPDATING A GRANDFATHERING NOTIFICATION**
- 6. TABLE OF EQUIVALENT FUNCTIONS FOR GRANDFATHERING**
- 7. FORMS**

Links

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 *small non-directive insurer*; or

(2) a *run-off firm*.

1.2 In this Part, the following definitions shall apply:

candidate

means a *person* in respect of whom a *firm* has made a *pending application*.

commencement date

means 7 March 2016.

continued approval

means approval to perform a *senior insurance management function* under section 59 of *FSMA*, granted pursuant to a *grandfathering notification*.

effective date

means 16 December 2015.

equivalent function

means a *senior insurance management function* or an *FCA function* that, in either case, is specified in 6 as equivalent for the purposes of articles 2(3)(b) and 11(c) of the *Transitional Order*, to a *pre-implementation controlled function*.

FCA activities

means a function which would, except for SUP TP 8.2.3R of the *FCA Handbook*, be an *FCA governing function*.

FCA controlled function

means a *controlled function* specified by the *FCA* under section 59 of *FSMA*.

FCA function

means any of the functions specified in column 3 (FCA controlled functions) of the table set out in 6.

FCA governing function

has the meaning given in SUP 10A.4.4R of the *FCA Handbook*.

grandfathering notification

means a notice required to be sent to the *PRA* under article 2(1) or 11(b) of the *Transitional Order*, including any update to such a notice.

non-executive director

means a *director* of a *firm* who does not perform an executive function in relation to that *firm*.

pending application

means an application for approval under section 60 of *FSMA* which:

- (1) has been received by the *FCA* or *PRA* from the *firm* on or before the *commencement date*, and
- (2) has not been determined or withdrawn.

pre-implementation controlled function

means any of the *controlled functions* listed in column 1 of the table in 6.

run-off firm

has the meaning given in Non-Solvency II Firms – Transitional Measures.

scope of responsibilities form

has the meaning given in Non-Solvency II Firms - Senior Insurance Managers Regime - Applications and Notifications.

senior insurance management function

means a function specified as a *controlled function* in Non-Solvency II Firms - Senior Insurance Management Functions 2 in relation to the carrying on of a *regulated activity* by a *firm*.

Transitional Order

means 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).

2 GENERAL

- 2.1 The *PRA* directs that a *firm* must make a *grandfathering notification* using Form K before 8 February 2016.
- 2.2 The *PRA* directs that the notice required by article 6(1) of the *Transitional Order* must be provided to the *PRA* using Form K.
- 2.3 The *PRA* directs that the notice required by article 11(b) of the *Transitional Order* in respect of a *candidate* for whom *continued approval* is sought must be provided to the *PRA* in Form K as part of a *grandfathering notification*.

3 GRANDFATHERING NOTIFICATION REQUIREMENTS

- 3.1 Where a *grandfathering notification* is required pursuant to 2.1, a firm must ensure that it sets out the following details in respect of each *approved person* or *candidate*:

- (1) each of the *pre-implementation controlled functions* for which the *person* is approved, or (in the case of a *candidate*) has a *pending application*, in relation to the *firm*;
 - (2) each *senior insurance management function* to be performed by the *person* on and after the *commencement date* in relation to the *firm*; and
 - (3) each *FCA function* (if any) to be performed by the *person* on and after the *commencement date* in relation to the *firm*.
- 3.2 The *PRA* directs that a *firm* must not specify in a *grandfathering notification* a *senior insurance management function* or *FCA function* for a *person* which is not an *equivalent function* in the table in 6 or the table in FCA SUP TP 8.2.3R in relation to:
- (1) (for an *approved person*) any *pre-implementation controlled functions* for which the *person* has approval in relation to the *firm*; or
 - (2) (for a *candidate*) any *pre-implementation controlled functions* in respect of which there is a *pending application*.
- 3.3 The *PRA* directs that a *firm* must list in the *grandfathering notification* each *approved person* or *candidate* who, on the *commencement date*, will be acting in the capacity of a *non-executive director* but who will not be performing a *senior insurance management function* or *FCA function*.

4 PROCEDURE FOR MAKING GRANDFATHERING NOTIFICATIONS

- 4.1 The *PRA* directs that a *firm* must make any applications, notifications or submissions required by this Part by submitting the specified form to PRA-ApprovedPersons@bankofengland.co.uk.

5 WITHDRAWING OR UPDATING A GRANDFATHERING NOTIFICATION

- 5.1 The *PRA* directs that if, before the *commencement date*, there has been a significant change to the matters covered by the *grandfathering notification*, the *firm* must provide a revised version of it to the *PRA*.

6 TABLE OF EQUIVALENT FUNCTIONS FOR GRANDFATHERING

- 6.1 The *senior insurance management functions* set out in column 2 of the table are specified as *equivalent functions*, in each case in relation to the *pre-implementation controlled functions* set out in the corresponding row in column 1 of the table below.
- 6.2 The *FCA functions* set out in column 3 of the table are specified as *equivalent functions*, in each case in relation to the *pre-implementation controlled functions* set out in the corresponding row of column 1 of the table below.

Column 1	Column 2	Column 3
PRA or FCA Controlled Function	PRA Senior Insurance Management Function	FCA Function

Small non-directive insurers		
Director (CF1)	Small Insurer Senior Management function (SIMF25)	FCA Director function (CF1) (See Note)
Non-executive director (CF2)	Small Insurer Senior Management function (SIMF25)	
Chief executive (CF3)	Small Insurer Senior Management function (SIMF25)	FCA Chief executive function (CF3) (See Note)
Director of unincorporated association (CF5)	Small Insurer Senior Management function (SIMF25)	FCA Director of unincorporated association function (CF5) (See Note)
Small friendly society (CF6)	Small Insurer Senior Management function (SIMF25)	FCA Small friendly society function (CF6) (See Note)
Actuary (CF12)	Small Insurer Chief Actuary function (SIMF20)	
With-Profits Actuary (CF12A)	Small Insurer With-Profits Actuary function (SIMF21)	
Systems and Controls (CF28)	Small Insurer Senior Management function (SIMF25)	

Note: See SUP TP 8.2.3R in the *FCA Handbook*.

- 6.3 A firm must submit a *scope of responsibilities form* to the PRA by 7 March 2017 in respect of any *senior insurance management function holder* with *continued approval* in relation to that firm.
- 6.4 (1) If, in relation to a firm, a *senior insurance management function holder* with *continued approval* also performs *FCA activities* on and from the *commencement date*, performance of the *senior insurance management function* will include the performance of those *FCA activities* provided that the firm has included details of the *FCA activities* in a *scope of responsibilities form* for that *senior insurance management function holder* which is provided to the PRA by 7 March 2017.
- (2) If, in relation to a firm, a *senior insurance management function holder* with *continued approval* has been performing *FCA activities* in the circumstances set out in (1), and that person:
- (a) ceases to perform the *senior insurance management function*;
 - (b) within three *months* of ceasing performance, is approved to perform a new *senior insurance management function* at the firm; and

(c) continues to perform the *FCA activities*,

performance of the new *senior insurance management function* will include the performance of those *FCA activities*, provided:

(d) the *PRA*'s approval to perform that *senior insurance management function* continues in force;

(e) the *firm* makes the notification required by SUP10A.11.12R(4) of the *FCA Handbook*; and

(f) that *person* performs and is continuing to perform the *FCA activities*.

6.5 If a *senior insurance management function holder* to whom 6.4 applies ceases to perform a *senior insurance management function* but continues to perform the *FCA activities*, 6.4(1) will continue to apply in respect of the performance of the *FCA activities* until the earlier of:

(1) approval by the *FCA* in respect of the performance by a *person* of those *FCA activities* as an *FCA governing function* in relation to the *firm*; or

(2) three *months* from the time that the *person* ceased to perform that *senior insurance management function*.

6.6 The *PRA* directs that a *firm* must not specify in the *grandfathering notification* that any *person* shall perform any combination of *senior insurance management functions* which is prohibited by any other provision of the *PRA Rulebook* or the *FCA Handbook*.

7 FORMS

7.1 The *grandfathering notification* form, Form K, may be found [here](#).

7.2 The *scope of responsibilities* form may be found [here](#).

Annex C

This Annex contains updates to the rules made in PS 21/15 Appendix 1 (PRA Rulebook: Non-Solvency II Firms: Senior Insurance Managers Regime Instrument 2015).

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

Part

NON-SOLVENCY II FIRMS – SENIOR INSURANCE MANAGEMENT FUNCTIONS

Chapter content

1. APPLICATION AND DEFINITIONS
2. ~~SMALL INSURER SENIOR MANAGEMENT FUNCTION~~ GENERAL
3. SMALL INSURER SENIOR MANAGEMENT FUNCTION
4. SMALL INSURER CHIEF ACTUARY FUNCTION
5. SMALL INSURER WITH-PROFITS ACTUARY FUNCTION

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *small non-directive insurer*.

1.2 In this Part, the following definitions shall apply:

FCA activities

means a function which would, except for SUP10A.11.12R of the *FCA Handbook*, be an *FCA governing function*.

Small Insurer Chief Actuary function

has the meaning given in 4.1.

Small Insurer Senior Management function

has the meaning given in ~~2.2~~ 3.1.

~~*Small Insurer Senior Management function holder*~~

~~means any person who is responsible for discharging the *Small Insurer Senior Management function*.~~

Small Insurer With-Profits Actuary function

has the meaning given in 5.1.

2 SMALL INSURER SENIOR MANAGEMENT FUNCTION GENERAL

~~2.1 The function in 2.2~~ Each of the functions in 3 to 5 is a *controlled function* and a *senior insurance management function*.

~~2.2 The *Small Insurer Senior Management function* (SIMF 25) is the function of:~~

~~(1) having responsibility for the conduct of the *regulated activities*; or~~

~~(2) chairing the *governing body*,~~

~~of a *small non-directive insurer*.~~

2.32 Each ~~person who performs a *Small Insurer Management function*~~ *Senior insurance management function holders* must each be approved by the PRA to perform that the applicable *senior insurance management function*.

~~2.4 (1) A firm must ensure that one or more persons performs the *Small Insurer Senior Management function* on its behalf.~~

~~(2) A firm must ensure that there is a person appointed to the *Small Insurer Senior Management function* who has ultimate responsibility for the conduct of its *regulated activities*.~~

~~(3) If a vacancy arises in respect of that aspect of the *Small Insurer Senior Management function* referred to in (2) above, a firm must ensure that it appoints a person to fill that vacancy as soon as practicable.~~

2.53 To the extent that:

- (1) a *firm* appoints a *person* to perform a function which, but for this rule, would be ~~the~~ a ~~Small Insurer Senior Management~~ senior insurance management function;
- (2) the appointment is solely to provide cover for a ~~holder of the Small Insurer Senior Management function~~ senior insurance management function holder whose absence is:
 - (a) temporary; or
 - (b) reasonably unforeseen; and
- (3) the appointment is for less than 12 weeks in a consecutive 12-month period, the description of the ~~Small Insurer Senior Management~~ applicable senior insurance management function does not relate to those activities of that *person*.

2.64 If, in relation to a *firm*:

- (1) a ~~Small Insurer Senior Management~~ senior insurance management function holder also performs *FCA activities*, performance of the ~~Small Insurer Senior Management~~ senior insurance management function will include the performance of those *FCA activities*, provided the following conditions are met:
 - (a) the *PRA*'s approval to perform that ~~Small Insurer Senior Management~~ senior insurance management function has been granted and continues in force;
 - (b) at the time of approval being granted by the *PRA*, that *person* was not subject to an *FCA approval* to perform the particular *FCA governing function*;
 - (c) the *firm* made the notification required by SUP10A.11.12R (4) of the *FCA Handbook*; and
 - (d) that *person* performs and is continuing to perform the *FCA activities*.
- (2) a ~~Small Insurer Senior Management~~ senior insurance management function holder has been performing *FCA activities* in the circumstances set out in (1), and that *person*:
 - (a) ceases to perform the ~~Small Insurer Senior Management~~ senior insurance management function;
 - (b) within three *months* of ceasing performance, is approved to perform a new ~~Small Insurer Senior Management~~ senior insurance management function at the *firm*; and
 - (c) continues to perform the *FCA activities*,

performance of the new ~~Small Insurer Senior Management~~ senior insurance management function will include the performance of those *FCA activities*, provided the conditions in (1) (a) to (d) are met.

2.75 If a ~~Small Insurer Senior Management~~ senior insurance management function holder to whom 2.64 applies ceases to perform a ~~Small Insurer Senior Management~~ senior insurance management function but continues to perform the *FCA activities*, 2.64 will continue to apply in respect of the performance of the *FCA activities* until the earlier of:

- (1) approval by the *FCA* in respect of the performance by that *person* of those *FCA activities* as an *FCA governing function* in relation to the *firm*; or
- (2) three *months* from the time that the *person* ceased to perform that ~~*Small Insurer Senior Management*~~ *senior insurance management function*.

3 SMALL INSURER SENIOR MANAGEMENT FUNCTION

3.1 The *Small Insurer Senior Management function* (SIMF 25) is the function of:

- (1) having responsibility for the conduct of the *regulated activities*; or
 - (2) chairing the *governing body*,
- of a *small non-directive insurer*.

- 3.2 (1) A *firm* must ensure that one or more *persons* performs the *Small Insurer Senior Management function* on its behalf.
- (2) A *firm* must ensure that there is a *person* appointed to the *Small Insurer Senior Management function* who has ultimate responsibility for the conduct of its *regulated activities*.
- (3) If a vacancy arises in respect of that aspect of the *Small Insurer Senior Management function* referred to in (2) above, a *firm* must ensure that it appoints a *person* to fill that vacancy as soon as practicable.

4 SMALL INSURER CHIEF ACTUARY FUNCTION

4.1 The *Small Insurer Chief Actuary function* (SIMF 20) is the function of having responsibility for the function specified in Non-Solvency II Firms – Actuarial Requirements 5.1 in relation to a *small non-directive insurer*.

5 SMALL INSURER WITH-PROFITS ACTUARY FUNCTION

5.1 The *Small Insurer With-Profits Actuary function* (SIMF 21) is the function of having responsibility for the function specified in Non-Solvency II Firms – Actuarial Requirements 6.1 in relation to a *small non-directive insurer*.

Annex D

This Annex contains updates to the rules made in PS 21/15 Appendix 1 (PRA Rulebook: Non-Solvency II Firms: Senior Insurance Managers Regime Instrument 2015).

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

Part

NON-SOLVENCY II FIRMS - FITNESS AND PROPRIETY

Chapter content

1. APPLICATION AND DEFINITIONS
2. FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS
3. OBLIGATION TO PROVIDE REFERENCES
4. DISCLOSURE AND REPLACEMENTS
5. FITNESS AND PROPRIETY TRANSITIONAL PROVISIONS

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *small non-directive insurer*.

1.2 In this Part, the following definition shall apply:

continued approval

has the meaning given in Non-Solvency II Firms - Senior Insurance Managers Regime – Transitional Provisions.

2 FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS

2.1 A *firm* must ensure that all *persons* who perform a *senior insurance management function* are fit and proper *persons*.

2.2 In deciding whether a *person* is fit and proper pursuant to 2.1, a *firm* must be satisfied that the *person*:

- (1) has the personal characteristics (including being of good repute and integrity);
- (2) possesses the level of competence, knowledge and experience;
- (3) has the qualifications; and
- (4) has undergone or is undergoing all training,

required to enable such *person* to perform his or her *senior insurance management function* effectively and in accordance with any relevant regulatory requirements, including those under the *regulatory system*, and to enable sound and prudent management of the *firm*.

2.3 Before deciding, and in considering on an on-going basis, whether a *person* is fit and proper pursuant to 2.1 and 2.2, a *firm* must consider the *person's* past business conduct, including whether the *person* performs his or her *senior insurance management functions* in accordance with the relevant conduct standards specified in Non-Solvency II Firms - Conduct Standards 2.

2.4 In deciding whether a *person* (P) is fit and proper to perform a *senior insurance management function*, a *firm* must:

- (1) obtain P's consent for the *firm* to request the fullest information in relation to P that it is lawfully able to request under the Police Act 1997 and related subordinated legislation of the *UK* or any part of the *UK*;
- (2) if P has lived or worked outside the *UK* for a material time in the previous five years, obtain P's consent for the *firm* to request the fullest information in relation to P that it is lawfully able to request under equivalent overseas legislation; and
- (3) request, and have regard to, such information.

2.5 If a *firm* engages a *person* for a continuous period of time as a *senior insurance management function holder* it is only required to comply with 2.4 the first time it determines that *person* is fit and proper in relation to a *senior insurance management function*.

3 OBLIGATION TO PROVIDE REFERENCES

3.1 [Not yet in force]

4 DISCLOSURE AND REPLACEMENTS

4.1 A *firm* must ensure that any application it makes for the approval of a *person* to perform a *senior insurance management function* provides the *PRA* with:

- (1) all the information needed to assess whether such *person* is fit and proper; and
- (2) its record of the significant responsibilities allocated to that *person*.

4.2 If a *firm* becomes aware of information which would reasonably be expected to be material to the assessment of a current or former *senior insurance management function holder's* fitness and propriety under this Part, it must inform the *PRA* as soon as practicable.

4.3 If a *firm* becomes aware of a significant change to a *senior insurance management function holder's* responsibilities, it must inform the *PRA* as soon as practicable.

4.4 Where a *firm* replaces a *senior insurance management function holder* because the *firm* considers that that *person* no longer fulfils the requirements in 2.2, the *firm* must notify the *PRA* as soon as reasonably practicable.

5 FITNESS AND PROPRIETY TRANSITIONAL PROVISIONS

5.1 The requirements of 2.4 do not apply to a *firm* in respect of any *person* who has *continued approval* in relation to that *firm*.

Annex E

This Annex contains updates to the rules made in PS 21/15 Appendix 1 (PRA Rulebook: Non-Solvency II Firms: Senior Insurance Managers Regime Instrument 2015).

In this Annex, underlining indicates new text.

Part

NON-SOLVENCY II FIRMS – ALLOCATION OF RESPONSIBILITIES

Chapter content

1. APPLICATION AND DEFINITIONS
2. ALLOCATION OF RESPONSIBILITIES
3. PRESCRIBED RESPONSIBILITIES

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *small non-directive insurer*.

1.2 In this Part, the following definitions shall apply:

small non-directive insurer prescribed responsibility

means each of the responsibilities in 3.1.

2 ALLOCATION OF RESPONSIBILITIES

2.1 A *firm* must allocate each of the *small non-directive insurer prescribed responsibilities* to one or more *persons* who, in relation to that *firm*, are approved under section 59 of *FSMA* by either:

- (1) the *PRA*; or
- (2) in relation to *relevant senior management functions* only, the *FCA*.

2.2 (1) A *firm* must have and maintain up-to-date records of the significant responsibilities allocated to each of those *persons*, including those allocated in accordance with 2.1.

(2) A *firm* must retain the records in (1) for six years from the date on which they were superseded by more up-to-date records.

(3) A *firm* must comply with (2) in relation to any record created in accordance with SYSC 2.2.1R of the *PRA Handbook* as at 31 December 2015.

2.3 The *firm* must provide the *PRA* with a copy of the records in 2.2 upon request.

3 PRESCRIBED RESPONSIBILITIES

3.1 Each of the responsibilities set out in this rule is a *small non-directive insurer prescribed responsibility*:

- (1) responsibility for providing the *governing body* with an up-to-date business plan and all relevant management information;
- (2) responsibility for management of the *firm's* financial resources;
- (3) responsibility for ensuring the *governing body* is kept informed of its legal and regulatory obligations; and
- (4) responsibility for the oversight of systems and controls, along with risk management policies and procedures, that are proportionate to the nature, scale, and complexity of the risks inherent in the *firm's* business model.

Annex F

This Annex contains updates to the rules made in PS 21/15 Appendix 1 (PRA Rulebook: Non-Solvency II Firms: Senior Insurance Managers Regime Instrument 2015).

In this Annex, underlining indicates new text.

Part

NON-SOLVENCY II FIRMS - RUN-OFF FIRMS

Chapter content

1. APPLICATION AND DEFINITIONS
2. TRANSITIONAL APPLICATION OF RULES IN RELATION TO RUN-OFF FIRMS

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *run-off firm*; and
- (2) in relation to a *run-off firm*, to 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*.

1.2 In this Part, the following definitions shall apply:

application rules

means the specifications within:

- (1) Non-Solvency II Firms - Senior Insurance Management Functions 1.1;
- (2) Non-Solvency II Firms - Fitness and Propriety 1.1; ~~and~~
- (3) Non-Solvency II Firms - Allocation of Responsibilities 1.1; and
- (4) Non-Solvency II Firms - Senior Insurance Managers Regime - Applications and Notifications 1.1.

run-off firm

means a *firm* to which, but for the application of Solvency II Firms: Transitional Measures 2.1 to 2.3, the *Solvency II rules* would apply.

Solvency II rules

means the *PRA* rules in the Valuation, Technical Provisions, Own Funds, Solvency Capital Requirement – General Provisions, Solvency Capital Requirement – Standard Formula, Solvency Capital Requirement – Internal Models, Minimum Capital Requirement, Undertakings in Difficulty, Investments, Composites, Conditions Governing Business, Insurance Special Purpose Vehicles, Group Supervision, Reporting, Surplus Funds, With-Profits, Insurance – Conduct Standards, Insurance – Senior Insurance Management Functions, Insurance – Allocation of Responsibilities and Insurance – Fitness and Propriety Parts of the Solvency II Firms Sector of the *PRA* Rulebook.

2 TRANSITIONAL APPLICATION OF RULES IN RELATION TO RUN-OFF FIRMS

2.1 Notwithstanding the *application rules*, the following Parts apply to a *run-off firm* for so long as it remains a *run-off firm*:

- (1) Non-Solvency II Firms - Senior Insurance Management Functions;
- (2) Non-Solvency II Firms - Fitness and Propriety; ~~and~~
- (3) Non-Solvency II Firms - Allocation of Responsibilities; and
- (4) Non-Solvency II Firms - Senior Insurance Managers Regime - Applications and Notifications.

- 2.2 Notwithstanding Non-Solvency II Firms - Conduct Standards 1.1, the rules in Non-Directive - Conduct Standards apply to any *person* subject to this Part.

PRA RULEBOOK: NON-SOLVENCY II FIRMS: LARGE NON-SOLVENCY II FIRMS - SENIOR INSURANCE MANAGERS REGIME 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 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 Instrument 2015

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

Commencement

- E. This instrument comes into force on 7 March 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Non-Solvency II Firms: Large Non-Solvency II Firms - Senior Insurance Managers Regime Instrument 2015.

By order of the Board of the Prudential Regulation Authority

12 November 2015.

Annex A

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

Part

LARGE NON-SOLVENCY II FIRMS – SENIOR INSURANCE MANAGEMENT FUNCTIONS

Chapter content

1. APPLICATION AND DEFINITIONS
2. GENERAL
3. EXECUTIVE
4. OVERSIGHT
5. GROUP ENTITIES
6. CHIEF ACTUARY
7. WITH-PROFITS ACTUARY
8. CHIEF UNDERWRITING OFFICER

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *large non-directive insurer*.

1.2 In this Part, the following definitions shall apply:

Chairman function

has the meaning given in 4.1.

Chairman of Audit Committee function

has the meaning given in 4.3.

Chairman of Remuneration Committee function

has the meaning given in 4.4.

Chairman of Risk Committee function

has the meaning given in 4.2.

Chief Actuary function

has the meaning given in 6.1.

Chief Executive function

has the meaning given in 3.1.

Chief Finance function

has the meaning given in 3.2.

Chief Risk function

has the meaning given in 3.3.

Chief Underwriting Officer function

has the meaning given in 8.2.

FCA activities

means a function which would, except for SUP10A.11.12R of the *FCA Handbook*, be an *FCA governing function*.

Group Entity Senior Insurance Manager function

has the meaning given in 5.1.

Head of Internal Audit function

has the meaning given in 3.4.

Senior Independent Director function

has the meaning given in 4.5.

With-Profits Actuary function

has the meaning given in 7.2.

2 GENERAL

- 2.1 Each of the functions in 3 to 8 is a *controlled function* and a *senior insurance management function*.
- 2.2 *Senior insurance management function holders* must each be approved by the *PRA* to perform the applicable *senior insurance management function*.
- 2.3 (1) A *firm* 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*.
- (2) If a vacancy arises in respect of one or more of the *senior insurance management functions* set out in (1), a *firm* must ensure that it appoints a *person* to fill that vacancy as soon as practicable.
- 2.4 To the extent that:
- (1) a *firm* appoints a *person* to perform a *key function* which, but for this rule, would be a *senior insurance management function*;
 - (2) the appointment is solely to provide cover for a *senior insurance management function holder* whose absence is:
 - (a) temporary; or
 - (b) reasonably unforeseen; and
 - (3) the appointment is for less than 12 weeks in a consecutive 12-month period,
- the description of the applicable *senior insurance management function* does not relate to those activities of that *person*.
- 2.5 (1) If, in relation to a *firm*, a *senior insurance management function holder* also performs *FCA activities*, performance of the *senior insurance management function* will include the performance of those *FCA activities*, provided the following conditions are met:
- (a) the *PRA*'s approval to perform that *senior insurance management function* has been granted and continues in force;
 - (b) at the time of approval being granted by the *PRA*, that *person* was not subject to an *FCA approval* to perform the particular *FCA governing function*;
 - (c) the *firm* made the notification required by SUP10A.11.12 R (4) of the *FCA Handbook*; and
 - (d) that *person* performs and is continuing to perform the *FCA activities*.

- (2) If, in relation to a *firm*, a *senior insurance management function holder* has been performing *FCA activities* in the circumstances set out in (1), and that *person*:
- (a) ceases to perform the *senior insurance management function*;
 - (b) within three *months* of ceasing performance, is approved to perform a new *senior insurance management function* at the *firm*; and
 - (c) continues to perform the *FCA activities*,
- performance of the new *senior insurance management function* will include the performance of those *FCA activities*, provided the conditions in (1) (a) to (d) are met.

2.6 If a *senior insurance management function holder* to whom 2.5 applies ceases to perform a *senior insurance management function* but continues to perform the *FCA activities*, 2.5(1) will continue to apply in respect of the performance of the *FCA activities* until the earlier of:

- (1) approval by the *FCA* in respect of the performance by that *person* of those *FCA activities* as an *FCA governing function* in relation to the *firm*; or
- (2) three *months* from the time that the *person* ceased to perform that *senior insurance management function*.

3 EXECUTIVE

- 3.1 The *Chief Executive function* (SIMF1) is the function of having responsibility, under the immediate authority of the *governing body*, alone or jointly with others, for carrying out the management of the conduct of the whole of the business (or relevant activities) of a *firm*.
- 3.2 The *Chief Finance function* (SIMF2) is the function of having responsibility for the management of the financial resources of a *firm* and reporting to the *governing body* of a *firm* in relation to its financial affairs.
- 3.3 The *Chief Risk function* (SIMF4) is the function of having responsibility for overall management of the risk management system specified in Non-Solvency II Firms – Governance 3.5 and 7.
- 3.4 The *Head of Internal Audit function* (SIMF5) is the function of having responsibility for the management of the internal audit *function* specified in Non-Solvency II Firms – Governance 9.

4 OVERSIGHT

- 4.1 The *Chairman function* (SIMF9) is the function of having responsibility for chairing, and overseeing the performance of the *governing body* of a *firm*.
- 4.2 The *Chairman of Risk Committee function* (SIMF10) is the function of having responsibility for chairing, and overseeing the performance of any committee responsible for the oversight of the risk management system specified in Non-Solvency II Firms – Governance 3.5 and 7.
- 4.3 The *Chairman of Audit Committee function* (SIMF11) is the function of having responsibility for chairing and overseeing the performance of any committee responsible for the oversight of the internal audit *function* specified in Non-Solvency II Firms – Governance 9.
- 4.4 The *Chairman of Remuneration Committee function* (SIMF12) is the function of having responsibility for chairing and overseeing the performance of any committee responsible for

the oversight of the design or implementation of the remuneration policies and practices of a *firm*.

- 4.5 The *Senior Independent Director function* (SIMF14) is the function of performing the role of a senior independent *director*, and having particular responsibility for leading the assessment of performance of the *person* performing the *Chairman function*.

5 GROUP ENTITIES

- 5.1 The *Group Entity Senior Insurance Manager function* (SIMF7) is the function of having a significant influence on the management or conduct of one or more aspects of the affairs of a *firm* in relation to its *regulated activities* (other than in the course of the performance of another *senior insurance management function*) and which is performed by a *person* employed by, or an officer of:

- (1) a *parent undertaking* or holding company of a *firm*; or
- (2) another *undertaking* which is a member of the *firm's group*.

6 CHIEF ACTUARY

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

7 WITH-PROFITS ACTUARY

- 7.1 This Chapter applies only to *firms* that carry on *with-profits insurance business*.
- 7.2 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.

8 CHIEF UNDERWRITING OFFICER

- 8.1 This Chapter applies only to *firms* that carry on *general insurance business*.
- 8.2 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

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

Part

LARGE NON-SOLVENCY II FIRMS – FITNESS AND PROPRIETY

Chapter content

1. APPLICATION AND DEFINITIONS
2. FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS
3. OBLIGATION TO PROVIDE REFERENCES
4. DISCLOSURE AND REPLACEMENTS
5. FITNESS AND PROPRIETY TRANSITIONAL PROVISIONS

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *large non-directive insurer*.

1.2 In this Part, the following definitions shall apply:

continued approval

has the meaning given in Large Non-Solvency II Firms – Senior Insurance Managers Regime – Transitional Provisions.

2 FITNESS AND PROPRIETY ASSESSMENTS BY FIRMS

2.1 A *firm* must ensure that all *persons* who perform *key functions* are at all times fit and proper *persons*.

2.2 In deciding whether a *person* is fit and proper pursuant to 2.1, a *firm* must be satisfied that the *person*:

- (1) has the personal characteristics (including being of good repute and integrity);
- (2) possesses the level of competence, knowledge and experience;
- (3) has the qualifications; and
- (4) has undergone or is undergoing all training,

required to enable such *person* to perform his or her *key function* effectively and in accordance with any relevant regulatory requirements, including those under the *regulatory system*, and to enable sound and prudent management of the *firm*.

2.3 Before deciding, and in considering on an on-going basis, whether a *person* is fit and proper pursuant to 2.1 and 2.2, a *firm* must consider:

- (1) the *person's* past business conduct; and
- (2) whether the *person* performs his or her *key functions* in accordance with the relevant *conduct standards* specified in Large Non-Solvency II Firms - Conduct Standards 3.

2.4 In deciding whether a *person* (P) is fit and proper to be appointed as a *senior insurance management function holder* or a *notified non-executive director*, a *firm* must:

- (1) obtain P's consent for the *firm* to request the fullest information in relation to P that it is lawfully able to request under the Police Act 1997 and related subordinated legislation of the *UK* or any part of the *UK*;
- (2) if P has lived or worked outside the *UK* for a material time in the previous five years, obtain P's consent for the *firm* to request the fullest information in relation to P that it is lawfully able to request under equivalent overseas legislation; and
- (3) request, and have regard to, such information.

2.5 Before deciding whether a *person* is fit and proper to be appointed as a *senior insurance management function holder* or a *notified non-executive director*, a *firm* must take reasonable steps to obtain appropriate references from that *person's* current and previous employers,

and from organisations at which that *person* served as, or is currently, a *non-executive director*, covering at least the past five years.

- 2.6 Where a *firm* (A) seeks a reference pursuant to 2.5 from an *FCA-authorized person* or a *PRA-authorized person* (B), A must also request that B discloses all matters of which B is aware that are relevant to the assessment of that *person's* fitness and propriety.
- 2.7 If a *firm* engages a *person* for a continuous period of time as a *senior insurance management function holder* or a *notified non-executive director* it is only required to comply with 2.4 to 2.6 the first time it determines that *person* is fit and proper to act as a *senior insurance management function holder* or a *notified non-executive director*.

3 OBLIGATION TO PROVIDE REFERENCES

- 3.1 [Not yet in force]

4 DISCLOSURE AND REPLACEMENTS

- 4.1 (1) A *firm* shall notify the *PRA* of any changes to the identity of *key function holders* and shall provide the *PRA* with:
- (a) all the information needed to assess whether such *person* is fit and proper pursuant to 2.2; and
 - (b) the information referred to in Large Non-Solvency II Firms - Allocation of Responsibilities 5.1(3) in respect of that *person*.
- (2) Where a *firm* has complied with 4.1(1) in connection with the appointment of a *person* as a *key function holder*, and such *person* transfers from that *key function* to a different *key function* or is appointed to an additional *key function*, in either case within the same *firm*, for the purposes of 4.1(1) the *firm* need only supply, in connection with such subsequent appointment:
- (a) updates to the information previously provided; and
 - (b) if the *key function holder* is also to perform a *senior insurance management function* or an *FCA controlled function*, the information required in connection with an application for approval to do so.
- 4.2 Where:
- (1) a *person* who is to become a *key function holder* is also to be approved by the *PRA* to perform a *senior insurance management function* or by the *FCA* to perform an *FCA controlled function*; and
 - (2) the *firm* includes the information referred to in 4.1 in its application to the *PRA* for the approval of that *person* to perform the *senior insurance management function*, or in the application to the *FCA* for the approval of that *person* to perform the *FCA controlled function*,

this shall satisfy the requirement in 4.1 in respect of that *key function* appointment.

- 4.3 If a *firm* becomes aware of information which would reasonably be expected to be material to the assessment of a current or former *key function holder's* fitness and propriety under this Part, it must inform the *PRA* as soon as practicable.

- 4.4 Where a *firm* replaces a *key function holder* because the *firm* considers that that *person* is no longer fit and proper pursuant to 2.1 and 2.2, the *firm* must notify the *PRA* as soon as reasonably practicable.

5 FITNESS AND PROPRIETY TRANSITIONAL PROVISIONS

- 5.1 The requirements of 2.4 to 2.6 do not apply to a *firm* in respect of any *person* who has *continued approval* in relation to that *firm*.

Annex C

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

Part

LARGE NON-SOLVENCY II FIRMS – ALLOCATION OF RESPONSIBILITIES

Chapter content

1. APPLICATION AND DEFINITIONS
2. ALLOCATION OF RESPONSIBILITIES
3. SIMR PRESCRIBED RESPONSIBILITIES
4. IDENTIFICATION OF KEY FUNCTIONS
5. RECORDS

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *large non-directive insurer*.

1.2 In this Part, the following definitions shall apply:

governance map

has the meaning given in 5.1.

SIMR prescribed responsibility

means the responsibilities in 3.1.

2 ALLOCATION OF RESPONSIBILITIES

2.1 A *firm* 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* 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*.

3 SIMR PRESCRIBED RESPONSIBILITIES

3.1 Each of the responsibilities set out in this rule is an *SIMR prescribed responsibility*:

- (1) responsibility for ensuring that the *firm* has complied with its obligation in Large Non-Solvency II Firms - Fitness and Propriety 2.1 to ensure that every *person* who performs a *key function* (including every *person* in respect of whom an application under section 59 of *FSMA* is made) is a fit and proper *person*;
- (2) responsibility for leading the development of the *firm's* culture by the *governing body* as a whole;
- (3) responsibility for overseeing the adoption of the *firm's* culture in the day-to-day management of the *firm*;
- (4) responsibility for the production and integrity of the *firm's* financial information and its regulatory reporting;
- (5) responsibility for management of the allocation and maintenance of the *firm's*:
 - (a) capital; and
 - (b) liquidity;
- (6) responsibility for the development and maintenance of the *firm's* business model by the *governing body*;

- (7) responsibility for leading the development and monitoring effective implementation of policies and procedures for the induction, training and professional development of all members of the *firm's governing body*;
- (8) responsibility for monitoring effective implementation of policies and procedures for the induction, training and professional development of all of the *firm's key function holders* (other than members of the *firm's governing body*);
- (9) responsibility for oversight of the independence, autonomy and effectiveness of the *firm's* policies and procedures on whistleblowing including the procedures for protection of staff who raise concerns from detrimental treatment; and
- (10) responsibility for overseeing the development and implementation of the *firm's* remuneration policies and practices.

4 IDENTIFICATION OF KEY FUNCTIONS

4.1 A *firm* must identify:

- (1) each of the *functions* that the *firm* considers to be a *key function*; and
- (2) any such *key function* that amounts to effectively running the *firm*.

4.2 A *firm* must keep its identification of *key functions* pursuant to 4.1 up-to-date.

4.3 A *firm* must keep a record of its reasoning for the identification of *key functions* pursuant to 4.1.

5 RECORDS

5.1 A *firm* must have and maintain a *governance map*, which is a clear and coherent document or series of documents with the following details:

- (1) a list of the *key functions* identified by the *firm* in accordance with 4.1 highlighting those that amount to effectively running the *firm*;
- (2) the names of the *persons* who effectively run the *firm* or who are responsible for other *key functions* listed pursuant to 5.1(1);
- (3) for each *person* named pursuant to 5.1(2), a summary of the significant responsibilities allocated to that *person* (including, if applicable, any *SIMR prescribed responsibilities* that have been allocated to that *person* in accordance with 2);
- (4) where any responsibilities covered by 5.1(3) are allocated to more than one *person*, details of how those responsibilities are shared or divided between the *persons* concerned;
- (5) reporting lines and lines of responsibility for each *person* listed pursuant to 5.1(2);
- (6) where a *firm* is a member of a *group*:
 - (a) how the *firm's* management and governance arrangements fit together with those of its *group* and the extent to which the *firm's* management and governance arrangements are provided by or shared with other members of its *group*; and

- (b) for the *persons* listed pursuant to 5.1(2), details of the reporting lines and the lines of responsibility (if any) to *persons* who are employees or officers of other *group* members or to committees or other bodies of the *group* or of other *group* members.

5.2 A *firm* must update the *governance map*:

- (1) at least quarterly; and
- (2) in the event of a significant change to:
 - (a) the *firm's* governance structure;
 - (b) the significant responsibilities allocated to a *key function holder*; or
 - (c) the reporting lines or lines of responsibility for a *key function holder*.

5.3 A *firm* must, as soon as reasonably practicable, provide the following to the *PRA*:

- (1) upon request by the *PRA*, a copy of the *governance map*; and
- (2) in the event of an update pursuant to 5.2(2), a copy of the relevant part of the *governance map*.

5.4 A *firm* must retain each version of the *governance map* for six years from the date on which it was superseded by a more up-to-date version.

5.5 A *firm* must retain any records created in accordance with SYSC 2.2.1R of the *PRA Handbook* as at 31 December 2015 for six years from the date on which they were superseded by more up-to-date records.

Annex D

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

Part

LARGE NON-SOLVENCY II FIRMS – CONDUCT STANDARDS

Chapter content

1. APPLICATION
2. SCOPE OF CONDUCT STANDARDS
3. CONDUCT STANDARDS

Links

1 APPLICATION

- 1.1 Unless otherwise stated, this Part applies to:
- (1) a *large non-directive insurer*, and
 - (2) in relation to a *large non-directive insurer*, 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*.

2 SCOPE OF CONDUCT STANDARDS

- 2.1 If you are a natural person subject to this Part, you must comply at all times with all of the *conduct standards*.
- 2.2 A *firm* must require:
- (1) any *person* performing a *key function* to observe the *conduct standards* specified in 3.1 to 3.3;
 - (2) any *key function holder* (other than a *notified non-executive director*) to observe the *conduct standards* specified in 3.4 to 3.8, in addition to complying with (1); and
 - (3) any *notified non-executive director* to observe the *conduct standards* specified in 3.7 and 3.8, in addition to complying with (1).

3 CONDUCT STANDARDS

- 3.1 **Individual Conduct Standard 1:** You must act with integrity.
- 3.2 **Individual Conduct Standard 2:** You must act with due skill, care and diligence.
- 3.3 **Individual Conduct Standard 3:** You must be open and co-operative with the *FCA*, the *PRA* and other regulators.
- 3.4 **Senior Insurance Manager Conduct Standard 1:** You must take reasonable steps to ensure that the business of the *firm* for which you are responsible is controlled effectively.
- 3.5 **Senior Insurance Manager Conduct Standard 2:** You must take reasonable steps to ensure that the business of the *firm* for which you are responsible complies with the relevant requirements and standards of the *regulatory system*.
- 3.6 **Senior Insurance Manager Conduct Standard 3:** You must take reasonable steps to ensure that any delegation of your responsibilities is to an appropriate *person* and that you oversee the discharge of the delegated responsibility effectively.
- 3.7 **Senior Insurance Manager Conduct Standard 4:** You must disclose appropriately any information of which the *FCA* or the *PRA* would reasonably expect to have notice.
- 3.8 **Senior Insurance Manager Conduct Standard 5:** When exercising your responsibilities, you must pay due regard to the interests of current and potential future *policyholders* in

ensuring the provision by the *firm* of an appropriate degree of protection for their insured benefits.

Annex E

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

Part

GLOSSARY

Links

Glossary

conduct standards

- (1) for a *UK Solvency II firm*, the *Society*, a managing agents 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; ~~and~~
- (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.~~

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 ~~a firm (other than a third country branch undertaking)~~, 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 approval application

means an application for approval to perform a *senior insurance management function* under section 59 of *FSMA*.

senior insurance management function

means

- (1) ~~(in the Solvency II Firms Sector of the *PRA* Rulebook)~~ (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 at the firm which is specified by the *PRA* in Insurance – Senior Insurance Management Functions 3 to 10 pursuant to section 59 of *FSMA*;
- (2) ~~(in the Non-Solvency II Firms Sector of the *PRA* Rulebook)~~ (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*) any function which is specified by the *PRA* in Large Non-Solvency II Firms – Senior Insurance Management Functions 3 to 8 pursuant to section 59 of *FSMA*.

PRA RULEBOOK: NON-SOLVENCY II FIRMS: LARGE NON-SOLVENCY II FIRMS – SENIOR INSURANCE MANAGERS REGIME – TECHNICAL RULES 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 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 Instrument 2015

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

Commencement

- E. Annex A comes into force on 7 March 2016.
F. Annex B comes into force on 7 March 2016.
G. Annex C comes into force on 16 December 2015.

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 Instrument 2015.

By order of the Board of the Prudential Regulation Authority

12 November 2015.

Annex A

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

Part

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

Chapter content

1. APPLICATION AND DEFINITIONS
2. APPLICATION TO PERFORM A SENIOR INSURANCE MANAGEMENT FUNCTION
3. WITHDRAWAL OF A SENIOR INSURANCE MANAGEMENT APPROVAL APPLICATION
4. CEASING TO PERFORM A SENIOR INSURANCE MANAGEMENT FUNCTION
5. CHANGE IN DETAILS RELATING TO SENIOR INSURANCE MANAGEMENT FUNCTION
HOLDERS
6. PROCEDURE FOR MAKING APPLICATIONS AND NOTIFICATIONS
7. FORMS

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *large non-directive insurer*.

1.2 In this Part, the following definitions shall apply:

commencement date

has the meaning given in Large Non-Solvency II Firms – Senior Insurance Managers Regime – Transitional Provisions.

current approved person approval

means

- (1) an approval granted to a *person* under section 59 of *FSMA* (Approval for particular arrangements):
 - (a) by the *PRA* for the performance of a *senior insurance management function*; or
 - (b) by the *FCA* for the performance of a *significant influence function*;
- (2) a deemed approval given by:
 - (a) the *PRA* following the submission of a *grandfathering notification* under:
 - (i) Senior Insurance Managers Regime – Transitional Provisions;
 - (ii) Large Non-Solvency II Firms – Senior Insurance Managers Regime – Transitional Provisions; or
 - (iii) Non-Solvency II Firms – Senior Insurance Managers Regime – Transitional Provisions; or
 - (b) the *FCA* under any equivalent rules in the *FCA Handbook*; or
- (3) for the purposes of 2.5(2) and 2.6(1), an approval granted to that *person* under section 59 of *FSMA* by either the *PRA* or the *FCA* to perform a *controlled function* prior to the *commencement date* but which ceased
 - (a) on or before the *commencement date*; and
 - (b) during the *six-month* period specified in 2.5(2) and 2.6(1), as the case may be.

grandfathering notification

has the meaning given in Large Non-Solvency II Firms – Senior Insurance Managers Regime – Transitional Provisions.

regulatory body

means any authority, body or *person* having, or who has had, responsibility for the supervision or regulation of any *regulated activities* or other financial services, whether within the *United Kingdom* or overseas.

scope of responsibilities form

means the form to be completed by a *firm* containing the information referred to in Large Non-Solvency II Firms – Allocation of Responsibilities 5.1(3).

significant influence function

has the meaning given in the *FCA Handbook*.

2 APPLICATION TO PERFORM A SENIOR INSURANCE MANAGEMENT FUNCTION

- 2.1 The *PRA* directs that a *firm* must make a *senior insurance management approval application* in accordance with 2.2, before the activities requiring approval commence.
- 2.2 The *PRA* directs that a *firm* must use Form A (long form) for a *senior insurance management approval application* unless:
- (1) the *firm* must use Form E under 2.3; or
 - (2) the *firm* must use Form A (shortened form) under 2.6.
- 2.3 The *PRA* directs that, subject to 2.4 and 2.5, a *firm* must use Form E for a *senior insurance management approval application* if it is being made in respect of a *person* who has a *current approved person approval* and is either:
- (1) ceasing to perform a *senior insurance management function* and taking up a new *senior insurance management function* for the same *firm* or another member of its *group*; or
 - (2) ceasing to perform a *significant influence function* and taking up a *senior insurance management function* for the *firm* or another member of its *group*.
- 2.4 The *PRA* directs that a *firm* must not use Form E for a *senior insurance management approval application* if:
- (1) a notification has been made or should be made to the *PRA* under any of the rules in Notifications 11 or to the *FCA* under any equivalent provisions of the *FCA Handbook*;
 - (2) any of the circumstances in 4.2(2)(a) to (d) apply in relation to:
 - (a) any *controlled function* that that *person* is ceasing to perform; or
 - (b) any *controlled function* that that *person* is continuing to perform in relation to that *firm* or a *firm* in the same *group*.
- 2.5 The *PRA* directs that a *firm* must not use Form E if the *person* to whom the *senior insurance management approval application* relates:
- (1) has never before been approved:
 - (a) by the *PRA* to perform a *controlled function*; or
 - (b) by the *FCA* to perform a *significant influence function*

for any *firm*;

or

- (2) has not been the subject of a *current approved person approval* in relation to any *firm* for more than six *months* prior to the date of application.

2.6 (1) The *PRA* directs that a *firm* must use Form A (shortened form) for a *senior insurance management approval application* if:

(a) the *person* to whom the application relates:

- (i) has at the time of application a *current approved person approval*; or
 (ii) has had a *current approved person approval* within the previous six *months*; and

(b) there have been no matters arising in relation to the fitness and propriety of the *person* to whom the *senior insurance management approval application* relates which mean that the information provided to the *FCA* or *PRA* regarding fitness and propriety in connection with a *current approved person approval* may have changed since the application for the *current approved person approval* was made.

(2) A *firm* must not use Form A (shortened form) if the circumstances set out in 2.3 apply.

2.7 The *PRA* directs that the form submitted for a *senior insurance management approval application* must be accompanied by a *scope of responsibilities form* or, where such form has already been provided under Large Non-Solvency II Firms – Key Function Holder – Notifications 2.2, an updated version of it.

3 WITHDRAWAL OF A SENIOR INSURANCE MANAGEMENT APPROVAL APPLICATION

3.1 The *PRA* directs that a *firm* withdrawing an outstanding *senior insurance management approval application* must do so using Form B.

4 CEASING TO PERFORM A SENIOR INSURANCE MANAGEMENT FUNCTION

4.1 A *firm* must notify the *PRA* no later than seven *business days* after a *person* ceases to perform a *senior insurance management function*, using:

- (1) Form E if a *person* ceases to perform a *senior insurance management function* and the *firm* is also making an application for the same *person* to perform a new *senior insurance management function*; and
 (2) in all other cases, Form C.

4.2 (1) A *firm* must notify the *PRA* as soon as practicable after it becomes aware, or has information which reasonably suggests, that it will submit a qualified Form C in respect of a *senior insurance management function holder*.

(2) Form C is qualified if the information it contains:

- (a) relates to the fact that the *firm* has dismissed or suspended the *senior insurance management function holder* from its employment;

- (b) relates to the resignation by the *senior insurance management function holder* while under investigation by the *firm*, the *PRA* or any other *regulatory body*;
- (c) includes a notification under any of the provisions set out in 2.4(1); or
- (d) otherwise reasonably suggests that it may affect the *PRA*'s assessment of the *senior insurance management function holder*'s fitness and propriety.

5 CHANGE IN DETAILS RELATING TO SENIOR INSURANCE MANAGEMENT FUNCTION HOLDERS

- 5.1 If a *senior insurance management function holder*'s title, name or national insurance number changes, the *firm* for which the *person* performs a *senior insurance management function* must notify the *PRA* of that change within seven *business days* of the *firm* becoming aware of the matter, using Form D.
- 5.2 If, in relation to a *firm* which has submitted an application on either Form A (long or shortened form) or Form E, as required by 2.2, any of the details relating to *senior insurance management functions* are to change, the *firm* must notify the *PRA* using Form D as soon as reasonably practicable after the *firm* becomes aware of the proposed change.

6 PROCEDURE FOR MAKING APPLICATIONS AND NOTIFICATIONS

- 6.1 The *PRA* directs that, save as required by 6.2, a *firm* must make any applications, notifications or submissions required by this Part by submitting the form specified using the *ONA system*.
- 6.2 If, under any direction or rule in this Part:
 - (1) a *firm* is required to make an application, notification or submission online; and
 - (2) the information technology systems used by the *PRA* fail and online submission is unavailable for 24 hours or more,until such time as facilities for online submission are restored, a *firm* must submit the specified form in the way set out in Notifications 7.

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](#).
 - (3) Form C may be found [here](#).
 - (4) Form D may be found [here](#).
 - (5) Form E may be found [here](#).
 - (6) The *scope of responsibilities form* may be found [here](#).

Annex B

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

Part

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

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. KEY FUNCTION HOLDER NOTIFICATION**
- 3. PROCEDURE FOR MAKING APPLICATIONS AND NOTIFICATIONS**
- 4. FORMS**
- 5. TRANSITIONAL ARRANGEMENTS FOR KEY FUNCTION HOLDERS**

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *large non-directive insurer*.

1.2 In this Part, the following definitions shall apply:

commencement date

has the meaning given in Large Non-Solvency II Firms – Senior Insurance Managers Regime – Transitional Provisions.

continuing approval

has the meaning given in the *Transitional Order*.

grandfathering key function holder

means, in relation to a *firm*, a *key function holder* who is seeking *continuing approval*.

grandfathering notification

has the meaning given in Large Non-Solvency II Firms – Senior Insurance Managers Regime – Transitional Provisions.

key function holder notification form

means Form M.

new SIMF applicant

means, in relation to a *firm*, a *key function holder* (other than a *grandfathering key function holder*) who submits an application for a *senior insurance management function* prior to the *commencement date*.

scope of responsibilities form

means the form containing the information referred to in Large Non-Solvency II Firms – Allocation of Responsibilities 5.1(3).

transitional key function holder

means, in relation to a *firm*, a *person* who is a *key function holder* as at 7 March 2016.

Transitional Order

has the meaning given in Large Non-Solvency II Firms – Senior Insurance Managers Regime – Transitional Provisions.

2 KEY FUNCTION HOLDER NOTIFICATION

2.1 This Chapter does not apply to:

- (1) *transitional key function holders*, in relation to *key functions* held as at 7 March 2016;
- (2) *grandfathering key function holders*, in relation to *key functions* held as at 7 March 2016; or
- (3) *new SIMF applicants*.

- 2.2 A *firm* must provide the information required by Large Non-Solvency II Firms – Fitness and Propriety 4.1 for each *key function holder* as soon as reasonably practicable after the appointment of the *key function holder*.
- 2.3 The *PRA* directs that, subject to 2.4, the information referred to in 2.2 must be provided to the *PRA* in the *key function holder notification form* in accordance with 3.3.
- 2.4 The *PRA* directs that:
- (1) where the *key function holder* is to be approved by the *PRA* to perform a *senior insurance management function*, the *firm* must provide the information referred to in 2.2 to the *PRA* in whichever Form is required for the *senior insurance management approval application*, pursuant to Large Non-Solvency II Firms – Senior Insurance Managers Regime - Applications and Notifications 2, which must be accompanied by a *scope of responsibilities form*; and
 - (2) where the *key function holder* is to be approved by the *FCA* to perform an *FCA controlled function*, the *firm* is not required to submit a *key function holder notification form* to the *PRA* to the extent the *firm* provides the information referred to in 2.2 to the *FCA* as part of the application to the *FCA*, with a *scope of responsibilities form*.

3 PROCEDURE FOR MAKING APPLICATIONS AND NOTIFICATIONS

- 3.1 The *PRA* directs that, save as required by 3.2 and 3.3, a *firm* must make any applications, notifications or submissions required by this Part by submitting the form specified using the *ONA system*.
- 3.2 If, under any direction or rule in this Part:
- (1) a *firm* is required to make an application, notification or submission online; and
 - (2) the information technology systems used by the *PRA* fail and online submission is unavailable for 24 hours or more,
- until such time as facilities for online submission are restored, a *firm* must submit the specified form in the way set out in Notifications 7.
- 3.3 The notifications required under 2.3 and 5.5 should be submitted in accordance with Notifications 7.

4 FORMS

- 4.1 The *key function holder notification form*, Form M, may be found [here](#).

5 TRANSITIONAL ARRANGEMENTS FOR KEY FUNCTION HOLDERS

- 5.1 This Chapter applies only to:
- (1) *transitional key function holders*, in relation to *key functions* held as at 7 March 2016;
 - (2) *grandfathering key function holders*, in relation to *key functions* held as at 7 March 2016; and
 - (3) *new SIMF applicants*.

- 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* in accordance with 5.3 to 5.5.
- 5.3 In respect of a *grandfathering key function holder*, the requirement in 5.2 will be satisfied where the *firm* submits a *grandfathering notification* in accordance with Large Non-Solvency II Firms – Senior Insurance Managers Regime – Transitional Provisions 2.1, or the update to the *grandfathering notification* in accordance with Large Non-Solvency II Firms – Senior Insurance Managers Regime – Transitional Provisions 5 (as the case may be), provided that the *firm* also submits a *scope of responsibilities form* to the *PRA* in respect of that *grandfathering key function holder* by 7 September 2016.
- 5.4 In respect of a *new SIMF applicant*, the *PRA* directs that a *firm* must provide the information referred to in 5.2 to the *PRA* in whichever form is required for the *senior insurance management approval application*, pursuant to Large Non-Solvency II Firms – Senior Insurance Managers Regime – Applications and Notifications 2, which must be accompanied by a *scope of responsibilities form*.
- 5.5 In respect of a *transitional key function holder* who is not a *grandfathering key function holder* or a *new SIMF applicant*, 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

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

Part

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

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. GENERAL**
- 3. GRANDFATHERING NOTIFICATION REQUIREMENTS**
- 4. PROCEDURE FOR MAKING GRANDFATHERING NOTIFICATIONS**
- 5. WITHDRAWING OR UPDATING A GRANDFATHERING NOTIFICATION**
- 6. TABLE OF EQUIVALENT FUNCTIONS FOR GRANDFATHERING**
- 7. FORMS**
- 8. TRANSITIONAL ARRANGEMENTS FOR NEW SENIOR INSURANCE MANAGEMENT
FUNCTIONS**

Links

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 a *large non-directive insurer*.

1.2 In this Part, the following definitions shall apply:

candidate

means a *person* in respect of whom a *firm* has made a *pending application*.

commencement date

means 7 March 2016.

continued approval

means approval to perform a *senior insurance management function* under section 59 of *FSMA*, granted pursuant to a *grandfathering notification*.

effective date

means 12 December 2015.

equivalent function

means a *senior insurance management function* or an *FCA function* that, in either case, is specified in 6 as equivalent, for the purposes of articles 2(3)(b) and 11(c) of the *Transitional Order*, to a *pre-implementation controlled function*.

FCA activities

means a function which would, except for Note 1 or Note 2 of Part 1 of the table in SUP TP 7.2.3R of the *FCA Handbook*, be an *FCA governing function*.

FCA controlled function

means a *controlled function* specified by the *FCA* under section 59 of *FSMA*.

FCA function

means any of the functions specified in column 3 (FCA controlled functions) of the table set out in 6.

grandfathering notification

means a notice required to be sent to the *PRA* under article 2(1) or 11(b) of the *Transitional Order*, including any update to such a notice.

pending application

means an application for approval under section 60 of *FSMA* which:

- (1) has been received by the *FCA* or *PRA* from the *firm* on or before the *commencement date*, and
- (2) has not been determined or withdrawn.

pre-implementation controlled function

means any of the *controlled functions* listed in column 1 of the table in 6.

senior insurance management function

means a function specified as a *controlled function* in Large Non-Solvency II Firms - Senior Insurance Management Functions 2 in relation to the carrying on of a *regulated activity* by a *firm*.

Transitional Order

means the Financial Services (Banking Reform) Act 2013 (Transitional and Savings Provisions) Order 2015 (SI 2015/492) as amended by Financial Services (Banking Reform) Act 2013 (Transitional and Savings Provisions) (Amendment) Order 2015 (SI 2015/1660).

2 GENERAL

- 2.1 The *PRA* directs that a *firm* must make a *grandfathering notification* using Form K before 8 February 2016.
- 2.2 The *PRA* directs that the notice required by article 6(1) of the *Transitional Order* must be provided to the *PRA* using Form K.
- 2.3 The *PRA* directs that the notice required by article 11(b) of the *Transitional Order* in respect of a *candidate* for whom *continued approval* is sought must be provided to the *PRA* in Form K as part of a *grandfathering notification*.

3 GRANDFATHERING NOTIFICATION REQUIREMENTS

- 3.1 Where a *grandfathering notification* is required pursuant to 2.1, a *firm* must ensure that it sets out the following details in respect of each *approved person* or *candidate*:
- (1) each of the *pre-implementation controlled functions* for which the *person* is approved, or (in the case of a *candidate*) has a *pending application*, in relation to the *firm*;
 - (2) each *senior insurance management function* to be performed by the *person* on and after the *commencement date* in relation to the *firm*; and
 - (3) each *FCA function* (if any) to be performed by the *person* on and after the *commencement date* in relation to the *firm*.
- 3.2 The *PRA* directs that a *firm* must not specify in a *grandfathering notification* a *senior insurance management function* or *FCA function* for a *person* which is not an *equivalent function* in the table in 6 or the table in SUP TP 7.2.3R in the *FCA Handbook* in relation to:
- (1) (for an *approved person*) any *pre-implementation controlled functions* for which the *person* has approval in relation to the *firm*; or
 - (2) (for a *candidate*) any *pre-implementation controlled functions* in respect of which there is a *pending application*.
- 3.3 The *PRA* directs that a *firm* must list in the *grandfathering notification* each *approved person* or *candidate* who, on the *commencement date*, will be acting in the capacity of a

non-executive director but who will not be performing a *senior insurance management function* or *FCA function*.

4 PROCEDURE FOR MAKING GRANDFATHERING NOTIFICATIONS

- 4.1 The *PRA* directs that a *firm* must make any applications, notifications or submissions required by this Part by submitting the specified form to PRA-ApprovedPersons@bankofengland.co.uk.

5 WITHDRAWING OR UPDATING A GRANDFATHERING NOTIFICATION

- 5.1 The *PRA* directs that if, before the *commencement date*, there has been a significant change to the matters covered by the *grandfathering notification*, the *firm* must provide a revised version of it to the *PRA*.

6 TABLE OF EQUIVALENT FUNCTIONS FOR GRANDFATHERING

- 6.1 The *senior insurance management functions* set out in column 2 of the table are specified as *equivalent functions*, in each case in relation to the *pre-implementation controlled functions* set out in the corresponding row in column 1 of the table below.
- 6.2 The *FCA functions* set out in column 3 of the table are specified as *equivalent functions*, in each case in relation to the *pre-implementation controlled functions* set out in the corresponding row of column 1 of the table below.

Column 1	Column 2	Column 3
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)
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	Chair of the Nomination Committee function (CF2a) Chair of the With-Profits Committee function (CF2b) (see Note)

Column 1	Column 2	Column 3
	Committee function (SIMF12) Senior Independent Director function (SIMF14)	
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) 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 Small friendly society function (CF6) Chair of the Nomination Committee function (CF2a) Chair of the With-Profits Committee function (CF2b) (See Note)
Actuary (CF12)	Chief Actuary function (SIMF20)	

Column 1	Column 2	Column 3
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)	

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

- 6.3 (1) If, in relation to a *firm*, a *senior insurance management function holder* with *continued approval* also performs *FCA activities* on and from the *commencement date*, performance of the *senior insurance management function* will include the performance of those *FCA activities* provided that the *firm* has included details of the *FCA activities* in a *scope of responsibilities form* for that *senior insurance management function holder* which is provided to the *PRA* by 7 September 2016 in accordance with Large Non-Solvency II Firms – Key Function Holder – Notifications 6.3.
- (2) If, in relation to a *firm*, a *senior insurance management function holder* with *continued approval* has been performing *FCA activities* in the circumstances set out in (1), and that *person*:
- (a) ceases to perform the *senior insurance management function*;
 - (b) within three *months* of ceasing performance, is approved to perform a new *senior insurance management function* at the *firm*; and
 - (c) continues to perform the *FCA activities*,
- performance of the new *senior insurance management function* will include the performance of those *FCA activities*, provided:
- (d) the *PRA*'s approval to perform that *senior insurance management function* continues in force;
 - (e) the *firm* makes the notification required by SUP10A.11.12 R (4) of the *FCA Handbook*; and

(f) that *person* performs and is continuing to perform the *FCA activities*.

6.4 If a *senior insurance management function holder* to whom 6.3 applies ceases to perform a *senior insurance management function* but continues to perform the *FCA activities*, 6.3(1) will continue to apply in respect of the performance of the *FCA activities* until the earlier of:

- (1) approval by the *FCA* in respect of the performance by that *person* of those *FCA activities* as an *FCA governing function* in relation to the *firm*; or
- (2) three *months* from the time that the *person* ceased to perform that *senior insurance management function*.

6.5 The *PRA* directs that a *firm* must not specify in the *grandfathering notification* that any *person* shall perform any combination of *senior insurance management functions* which is prohibited by any other provision of the *PRA Rulebook* or the *FCA Handbook*.

7. FORMS

7.1 The *grandfathering notification* form, Form K, may be found [here](#).

8. TRANSITIONAL ARRANGEMENTS FOR NEW SENIOR INSURANCE MANAGEMENT FUNCTIONS

8.1 This Chapter applies only before the *commencement date*.

8.2 Where an *approved person* or a *candidate* is intended to perform a *senior insurance management function* with effect from the *commencement date* but:

- (1) in the case of an *approved person*, is not prior to the *commencement date* approved; or
- (2) in the case of a *candidate*, is not to be approved

to perform a *controlled function* that is equivalent to the proposed *senior insurance management function* in accordance with 6, the *PRA* directs that the *firm* must not submit a *grandfathering notification* in respect of that *approved person* or *candidate* (as the case may be) but must instead submit a *senior insurance management application* for the proposed *senior insurance management function* in accordance with Large Non-Solvency II Firms – Key Function Holder – Notifications 5.4.

PRA RULEBOOK: GLOSSARY AND INSURANCE CONSEQUENTIALS 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: Glossary and Insurance Consequentials Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as PRA Rulebook: Glossary and Insurance Consequentials Instrument 2015.

By order of the Board of the Prudential Regulation Authority

12 November 2015

Annex A**Amendments to the Information Gathering Part**

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

2 COOPERATION

2.1 ~~This Chapter does not apply to a *UK Solvency II firm*, the *Society* or *managing agents*.~~

~~2.12.2~~ ...

3 ACCESS TO PREMISES

3.1 ~~3.3 does not apply to a *UK Solvency II firm*, the *Society* or *managing agents*.~~

~~3.13.2~~ ...

~~3.23.3~~ ...

...

Annex B

Amendments to the Permissions and Waivers Part

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

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

~~waiver~~

~~means a direction waiving or modifying a rule, given by the PRA under section 138A of FSMA (Modification or waiver of rules)~~

...

Annex C

Amendments to the Notifications Part

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

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

~~authorised UK representative~~

~~means (in relation to a firm) a person resident in the UK who is authorised to act generally, and to accept service of any document, on behalf of the firm.~~

...

regulated entity

means one of the following:

...

(2) an *insurance undertaking* within the meaning of ~~Article 4 of the Consolidated Life Directive, Article 6 of the First Non-Life Directive or Article 1(b) of the Insurance Groups Directive~~ Article 13(1) of the Solvency II Directive; or

...

Annex D

Amendments to the Insurance General Application Part

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

1 APPLICATION AND DEFINITIONS

...

1.2 *non-Solvency I firm*

means a *firm* that immediately before the ~~Solvency II implementation date~~ fell outside the scope of each of the ~~Solvency I Directives~~.

...

~~Second Non-Life Directive~~

means the ~~Council Directive of 22 June 1988 (no 88/357/EEC) on the coordination of laws, regulations and administrative provisions relating to direct insurance other than life assurance and laying down provisions to facilitate the effective exercise of freedom to provide services and amending Directive 73/239/EEC.~~

Solvency I Directive

means each of:

- (1) ~~the Consolidated Life Directive;~~
- (2) ~~the First Non-Life Directive;~~
- (3) ~~the Second Non-Life Directive;~~
- (4) ~~the Third Non-Life Directive; and~~
- (5) ~~the Reinsurance Directive.~~

Solvency I firm

means a *firm* that immediately before the ~~Solvency II implementation date~~ was an *insurer* that fell within the scope of ~~Solvency I Directive~~.

...

Annex E

Amendments to the Technical Provisions Part

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

**6 MATCHING ADJUSTMENT TO THE RELEVANT RISK FREE INTEREST RATE TERM
STRUCTURE**

...

6.3 Where a *firm* that applies the *matching adjustment* is no longer able to comply with the conditions specified in regulation 42(4) ~~to~~ (6) of the ~~Solvency 2 Regulations 2015~~ Solvency 2 Regulations 2015, it shall immediately:

(1) inform the *PRA*; and

(2) take the necessary measures to restore compliance with these conditions as soon as possible.

...

Annex F

Amendments to the Investments Part

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

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

alternative investment fund

means (in accordance with Article 4(1)(a) of Directive 2011/61/EU) a collective investment undertaking, including investment compartments thereof, which:

- (1) raises capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of those investors; and
- (2) does not require authorisation pursuant to Article 5 of the Directive 2009/65/EC.

authorised contractual scheme

means a co-ownership scheme or a partnership scheme

ICVC

means a body incorporated under the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228).

linked benefit

means a benefit payable under a linked long-term contract of insurance or a regulated collective investment scheme the amount of which is determined by reference to:

- (1) the value of the property of any description (whether specified or not);
- (2) fluctuations in the value of any such property;
- (3) income from such property; or
- (4) fluctuations in an index of the value of such property.

linked long-term liabilities

means the insurance obligations in respect of linked benefits under a linked long-term contract of insurance.

recognised scheme

means a scheme recognised under:

- (1) Section 264 of FSMA (Schemes constituted in other EEA States);

- (2) ~~Section 270 of FSMA (Schemes authorised in designated countries or territories); or~~
- (3) ~~Section 272 of FSMA (Individually recognised overseas schemes).~~

~~regulated collective investment scheme~~

means:

- (1) ~~an ICVC;~~
- (2) ~~an authorised unit trust scheme;~~
- (3) ~~an authorised contractual scheme; or~~
- (4) ~~a recognised scheme~~

~~regulated market~~

means:

- (1) ~~— a regulated market as defined in point (14) of Article 4 of Directive 2004/39/EC; or~~
- (2) ~~— a market situated outside the EEA States which is characterised by the fact that:

 - (a) ~~— it meets comparable requirements to those set out in (1); and~~
 - (b) ~~— the financial instruments dealt in are of a quality comparable to those in a regulated market in the UK.~~~~

~~unit~~

means:

- (1) ~~— (in relation to a collective investment scheme) the investment, specified in article 81 of the Regulated Activities Order (Units in a collective investment scheme) and defined in section 237(2) of FSMA (other definitions); and~~
- (2) ~~— (in relation to an alternative investment fund) the right or interest (however described) of an investor in an alternative investment fund.~~

Annex G

Amendments to the Conditions Governing Business Part

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

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

former member

means a ~~person~~ who has ceased to be a ~~member~~, whether by resignation or otherwise, in accordance with the Lloyd's Act 1982 and any ~~byolaw~~ made under it.

...

individual member

means a ~~member, or former member~~, who is a natural person.

...

reinsurer

means an ~~insurance undertaking~~ whose business includes ~~effecting contracts of insurance or carrying out contracts of insurance that are reinsurance contracts;~~
includes a retrocessionaire.

Annex I

Amendments to the Reporting Part

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

1 APPLICATION AND DEFINITIONS

1.1 ...

1.2 In this Part, the following definitions shall apply:

aircraft

means the ~~class of contract of insurance~~, specified in paragraph 5 of Part 1 of Schedule 1 of the ~~Regulated Activities Order~~.

aircraft liability

means the ~~class of contract of insurance~~, specified in paragraph 11 of Part 1 of Schedule 1 of the ~~Regulated Activities Order~~.

...

general liability

means the ~~class of contract of insurance~~, specified in paragraph 13 of Part 1 of Schedule 1 to the ~~Regulated Activities Order~~.

goods in transit

means the ~~class of contract of insurance~~, specified in paragraph 7 of Part 1 of Schedule 1 of the ~~Regulated Activities Order~~.

...

liability of ships

means the ~~class of contract of insurance~~, specified in paragraph 12 of Part 1 of Schedule 1 of the ~~Regulated Activities Order~~.

...

motor vehicle liability

means the ~~class of contract of insurance~~, specified in paragraph 10 of Part 1 of Schedule 1 to the ~~Regulated Activities Order~~.

ships

means the ~~class of contract of insurance~~, specified in paragraph 15 of Part 1 of Schedule 1 of the ~~Regulated Activities Order~~.

suretyship

means the ~~class of contract of insurance~~, specified in paragraph 15 of Part 1 of Schedule 1 to the ~~Regulated Activities Order~~.

~~railway rolling stock~~

~~means the class of contract of insurance, specified in paragraph 4 of Part 1 of Schedule 1 to the Regulated Activities Order.~~

2 REPORTING TO THE PRA

...

- 2.13 (1) A firm, other than a friendly society, shall submit to the PRA, the *national specific templates* referred to in 2.6 and 2.8 in electronic format.
- (2) A friendly society shall submit to the PRA the national specific templates referred to in 2.6 and 2.8 in electronic format or by post or by hand to the Regulatory Data Group, Statistics and Regulatory Data Division (HO5 B-D), Bank of England, Threadneedle Street, London EC2R 8AH; or via fax to the Regulatory Data Group of the Bank of England on 020 7601 3334.

Annex J

Amendments to the Lloyd's Part

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

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

~~compensation scheme~~

~~means the Financial Services Compensation Scheme established under section 123 FSMA.~~

...

~~protected claim~~

~~means a claim which is covered by the compensation scheme, as defined in rule COMP 5.2.1R of the *PRA Handbook*.~~

...

Annex K**Amendments to the Third Country Branches Part**

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

Part

THIRD COUNTRY BRANCHES

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. ACCOUNTING RECORDS IN THE UK**
- 3. LOCALISATION AND DEPOSIT OF ASSETS**
- 4. SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT**
- 5. CONTENTS OF THE BRANCH SCHEME OF OPERATIONS**
- 6. TECHNICAL PROVISIONS AND OWN FUNDS**
- 7. CONDITIONS GOVERNING BUSINESS**
- 8. INVESTMENTS**
- 9. REPORTING**
- 10. THIRD COUNTRY BRANCH UNDERTAKINGS IN DIFFICULTY**
- 11. SEPARATION OF LONG-TERM BUSINESS AND GENERAL BUSINESS**
- 12. RESTRICTION OF BUSINESS**
- 13. WORLDWIDE FINANCIAL RESOURCES**
- 14. TRANSITIONAL MEASURES**
- 15. SOLVENCY II REGULATIONS**

Links

15 SOLVENCY II REGULATIONS

- 15.1 A third country branch undertaking that has a third country pure reinsurance branch must comply with the Solvency II Regulations as at 1 January 2016 in the same way as they apply to a third country branch undertaking that has a third country insurance branch.
- 15.2 In complying with requirements imposed on it in the Solvency II Firms Sector of the PRA Rulebook, a third country branch undertaking must ensure that any provisions of the Solvency II Regulations relevant to the third country branch or, for a UK-deposit insurer, all the third country undertaking EEA branches, is applied in order to achieve the same effect as that provision of the Solvency II Regulations would have (that is, complying with the requirements of the relevant provision) when applied to a UK Solvency II firm.

Annex L

Amendments to the Transitional Measures Part

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

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *UK Solvency II firm*;
- (2) the *Society*, in accordance with General Application 3; ~~and~~
- (3) *managing agents*, in accordance with General Application 3; and
- (4) (in respect of 3.8 only) a UK ISPV.

1.2 In this Part, the following definitions shall apply:

...

admissible insurance and reinsurance obligation

has the meaning set out in regulation 53(2) of the ~~Solvency 2 Regulations 2015~~ Solvency 2 Regulations 2015, where reference to rules implementing Article 20 of Directive 2002/83/EC until 1st January 2016 means INSPRU 1.1.16R of the *PRA Handbook* as at 31 December 2015.

...

Solvency II rules

means the *PRA* rules in the Valuation, Technical Provisions, Own Funds, Solvency Capital Requirement – General Provisions, Solvency Capital Requirement – Standard Formula, Solvency Capital Requirement – Internal Models, Minimum Capital Requirement, Undertakings in Difficulty, Investments, Composites, Conditions Governing Business, Insurance Special Purpose Vehicles, Group Supervision, Reporting, Surplus Funds, With-Profits, Insurance – Conduct Standards, Insurance – Senior Insurance Management Functions, Insurance – Allocation of Responsibilities and Insurance – Fitness and Propriety Parts of the *PRA* Rulebook.

...

2 FIRMS IN RUN-OFF

2.1 ...

2.3 ~~2.4~~ 2.2 only applies:

- (1) if the *firm* is not part of a *group*, or if it is part of a *group* if all *undertakings* that are part of the *group* have ceased to conduct new *insurance business*;
- (2) if the *firm* provides the *PRA* with an annual report setting out what progress has been made in terminating its activity; and
- (3) after the *firm* has notified the *PRA* that it satisfies the requirements set out in ~~2.4~~ 2.2.

3 REPORTING TO THE PRA AND PUBLIC DISCLOSURE

...

3.7 A firm must comply with the rules in:

(1) Interim Prudential sourcebook for Friendly Societies Chapter 5; and

(2) Interim Prudential sourcebook for Insurers Chapters 9 and 12

of the PRA Handbook as at 31 December 2015, as they were applicable to the firm (including any waiver) at that date, in respect of financial years ending on or before 29 June 2016.

3.8 In respect of financial year ending on or before 29 June 2016, a UK ISPV must submit a copy of its annual audited financial statements within three months of its accounting reference date, but the report is only required if it was audited as a result of a statutory provision other than under FSMA.

4 BASIC OWN FUNDS

...

4.3 For the purposes of 4.1 and 4.2, items listed at 4.1(2)(a) to (d) and 4.2(2) must not include any item that could only be used as the item specified by virtue of rule GENPRU TP 4 of the PRA Handbook as at 31 December 2015.

...

5 STANDARD FORMULA: THE BASIC SCR

...

5.4 ...

[Note: Art. 308b ~~(16)~~(13) of the Solvency II Directive]

...

13 REPORT ON FINANCIAL AND SOLVENCY CONDITIONS

13.1 This Chapter applies to a disclosure of the SFCR by a firm or, as may be applicable, the report on solvency and financial condition at the level of the group by participating Solvency II undertakings or the relevant insurance group undertakings within the group, made in relation to the first two relevant financial years starting on or after the Solvency II implementation date, relevant financial years ending on or before 31 December 2017.

13.2 In the disclosure required by Reporting 3.1, a firm may, unless required under other legal or regulatory requirements (including any Solvency II EEA implementing measure), opt not to disclose the following separately when disclosing the amount of the MCR and SCR under Reporting ~~3.7~~ 3.6:

(1) the information referred to in Reporting ~~3.7(2)~~ 3.6(2) on any capital add-on imposed on the group; and

(2) the information referred to in Reporting ~~3.7(3)~~ 3.6(3) on any parameters specific to the group.

Annex M

Amendments to the With-Profits Part

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

1 APPLICATION AND DEFINITIONS

- 1.1 Subject to 1.2, this Part applies to a UK Solvency II firm carrying on *with-profits insurance business*.
- 1.2 This Part does not apply to *with-profits insurance business* that consists of *effecting contracts of insurance* or *carrying out contracts of insurance* that are *Holloway sickness policies*.
- ~~1.3 In this Part, the following definitions shall apply:~~

~~*Holloway sickness policy*~~

~~means a contract of long-term insurance offered or effected by a friendly society under the Holloway system, providing permanent health benefits and, in addition, investment benefits, where the investment benefits:~~

~~(1) are derived from surpluses accrued by the friendly society and apportioned to policyholders; and~~

~~(2) are payable to policyholders at maturity, on retirement, on death, or as otherwise specified by contractual provisions or individual society rules.~~

~~*permanent health*~~

~~means the class of contract of insurance, specified in paragraph 4 of Part 2 of Schedule 1 to the Regulated Activities Order.~~

~~*support arrangements*~~

~~means arrangements under which the financial resources available to a with-profits fund include (or are intended in particular circumstances to include) financial resources from outside that with-profits fund.~~

Annex N

Amendments to the Run-Off Operations Part

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

1 APPLICATION AND DEFINITIONS

...

1.2

liability to a policyholder

means ~~(in relation to a firm carrying out contracts of insurance) any liability or obligations of that firm to, or in respect of, a policyholder.~~

linked liabilities

means insurance liabilities in respect of ~~linked business~~

material transaction

...

exceeds:

- (a) in the case of a firm which carries on *long-term insurance business*, but not *general insurance business*, the sum of €20,000 and 5% of the firm's liabilities arising from its *long-term insurance business*, excluding ~~linked liabilities~~ linked long-term liabilities and net of *reinsurance ceded*; or
- (b) in the case of a firm which carries on *general insurance business*, but not *long-term insurance business*, the sum of €20,000 and 5% of the firm's liabilities arising from its *general insurance business*, net of *reinsurance ceded*; or
- (c) in the case of a firm which carries on both *long-term insurance business* and *general insurance business*:
 - (i) where the transaction is in connection with the firm's *long-term insurance business*, the sum of €20,000 and 5% of the firm's liabilities arising from its *long-term insurance business*, excluding ~~linked liabilities~~ linked long-term liabilities and net of *reinsurance ceded*; and
 - (ii) in all other cases, the sum of €20,000 and 5% of the firm's liabilities arising from its *general insurance business*, net of *reinsurance ceded*.

...

3 CONTENT OF A SCHEME REPORT

3.1 In accordance with 3.2, a *scheme of operations* must:

...

- (3) include financial projections (including appropriate scenarios and stress-tests) as follows:
- (a) a forecast summary profit and loss account in accordance with 3.3;
 - (b) a forecast summary balance sheet in accordance with 3.4; and
 - (c) forecast *MCR* and *SCR* at the end of each ~~*financial year*~~ financial year or part ~~*financial year*~~ financial year;
- (4) as at the end of each ~~*financial year*~~ financial year which falls (in whole or part) within the period to which the *scheme of operations relates*:

...

3.4 The forecast summary balance sheet referred to in 3.1(3)(b) must contain the following information:

- (1) investments analysed by type;
- (2) assets held to cover ~~*linked liabilities*~~ *linked long-term liabilities*;
- (3) other assets and liabilities separately identifying cash at the bank and in hand;
- (4) capital and reserves analysed into called up share capital or equivalent funds, share premium account, revaluation reserve, other reserves and profit and loss account;
- (5) subordinated liabilities;
- (6) the fund for future appropriations;
- (7) *technical provisions* gross and net of *reinsurance* analysed by accounting *class* of *insurance business* and separately identifying the provision for ~~*linked liabilities*~~ *linked long-term liabilities*, *unearned premiums*, *unexpired risks* and *equalisation*; and
- (8) other liabilities and credits.

...

Annex O

Amendments to the Policyholder Protection Part

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

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

directive friendly society

means a *friendly society* ~~other than a non-directive friendly society~~ that is a UK Solvency II firm.

...

22 TRANSITIONAL ARRANGEMENTS

...

22.8 ...

(3) ...

(d) where it is required to supply one, it has supplied a run-off plan under: ~~App 2.8.1R~~ SUP

(i) for a UK Solvency II firm and a third country branch undertaking (other than a Swiss general insurer), Run-Off Operations in the Solvency II Firms Sector; or

(ii) for a non-directive insurer, Non-Solvency II Firms – Run-Off Operations in the Non-Solvency II Firms Sector.

ANNEX 2: METHODOLOGY FOR CALCULATION OF A PARTICIPANT FIRM’S LEVY SHARE

Insurance Class B1	General Insurance Provision
...	...
Tariff base	(6) A <i>non-directive friendly society</i> must calculate gross technical liabilities as the amount that it is required to show in FSC 2 or FSC 1 – Form 9 line 11 in Appendix 10 of IPRU(FSOC) of the <i>PRA Handbook as at 31 December 2015</i> (assets allocated towards the general insurance business required minimum margin) in relation to the most recent financial year of the <i>participant firm</i> (as at the applicable reporting date under 21.42) for which the <i>participant firm</i> is required to have reported that information to the <i>PRA</i> under IPRU(FSOC) of the <i>PRA Handbook as at 31 December 2015</i>
...	...

Insurance Class C1	Life and Pensions Provision
...	

Tariff base

...

(6) A *non-directive friendly society* must calculate mathematical reserves as the amount that it is required to show in FSC 2 or FSC 1 – Form 9 line 23 in Appendix 10 of IPRU(FSOC) of the *PRA Handbook* as at 31 December 2015 (total mathematical reserves after distribution of surplus) in relation to the most recent financial year of the *firm* (as at the applicable reporting date under 21.42) for which the *firm* is required to have reported that information to the *PRA* under IPRU(FSOC) of the *PRA Handbook* as at 31 December 2015. ...

...

(8) The split in the levy between *relevant net premium income* and eligible mathematical reserves does not apply to a partnership pension society (as defined in chapter 7 of IPRU(FSOC) (Definitions) of the *PRA Handbook* as at 31 December 2015). Instead the levy is only calculated by reference to *relevant net premium income*.

Annex P

Amendments to the Passporting Part

This Annex contains amendments to forms in Passporting 10. New text is underlined and deleted text is struck through.

Appendix 1a
EEA Branch Notification Form

...

5. Consolidated Life Assurance Directive Solvency II Directive – Long-Term Insurance Business

...

6. First, Second and Third Non-Life Insurance Directives Solvency II Directive – General Insurance Business

...

Note to Question 6.3

...

iii If the firm covers (or intends to cover) risks relating to **legal expenses insurance**, please state in section 6.3 the option chosen from those described in Article 200 of the Solvency II Directive ~~3(2) of Directive 87/344/EEC of 22 June 1987 on the coordination of laws, regulations and administrative provisions relating to legal expenses insurance.~~

...

7. Reinsurance Directive Solvency II Directive – Reinsurance

7.1 Please confirm the type(s) of reinsurance activity to be carried out by the branch under the ~~Reinsurance Directive~~ Solvency II Directive by ticking one of the boxes below.

...

...

4. Consolidated Life Directive Solvency II – Long-Term Insurance Business

...

5. First, Second and Third Non-Life Insurance Directives Solvency II Directive – General Insurance Business

...

Note to question 5.2

...

3. If the firm covers (or intends to cover) risks relating to **legal expenses insurance**, please state in section 4.2 the option chosen from those described in Article 200 of the *Solvency II Directive* 3(2) of Directive 87/344/EEC of 22 June 1987 on the coordination of laws, regulations and administrative provisions relating to legal expenses insurance.

Annex Q

Amendments to the Regulatory Reporting Part

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

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

~~IPRU(FSOC)~~

~~means the Interim Prudential sourcebook for Friendly Societies in the PRA Handbook.~~

...

...

8 REGULATED ACTIVITY GROUP 2.1

8.1 The financial reporting requirements for RAG 2.1 activities for: ~~insurers excluding friendly societies~~

(1) a UK Solvency II firm, the Society and managing agents are set out in ~~IPRU(INS)~~ the Reporting Part in the Solvency II Firms Sector; and

(2) a third country branch undertaking is set out in Third Country Branches 9 in the Solvency II Firms Sector.

8.2 The financial reporting requirements for RAG 2.1 activities for ~~friendly societies~~ a non-directive insurer is set out in ~~IPRU(FSOC)~~ Transitional Measures 3.1 in the Non-Solvency II Firms Sector.

~~8.3 A UK ISPV must submit a copy of its annual audited financial statements within 3 months of its accounting reference date, but the report is only required if it was audited as a result of a statutory provision other than under FSMA.~~

...

12 FINANCIAL CONGLOMERATES

...

12.3 ...

~~1.~~ (a) ...

~~2.~~ (b) ...

~~3.~~ (c) ...

...

1. ...

2. Adequate information must be provided, specifying the calculation method used and each *financial conglomerate* for which the *PRA* is the *co-ordinator* must discuss with the *PRA* the form which this reporting will take and the extent to which verification by an auditor will be required.

~~For the purposes of the above, where relevant to the agreed reporting arrangements, rules 9.40(1), 9.40(1A), 9.40(3) and 9.40(4) of *IPRU(INS)* apply as they would if the *financial conglomerate* were an 'insurance group' (as that term is used in *IPRU(INS)*).~~

...

Annex R

Amendments to the Glossary

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

Insert the following new definitions (in the appropriate alphabetical position) into the Glossary Part of the PRA Rulebook:

accounting principles

means whichever of the following are applicable:

- (1) the *insurance accounts rules*;
- (2) the Friendly Societies (Accounts and Related Provisions) Regulations 1994;
- (3) Financial Reporting Standards and Statements of Standard Accounting Practice issued or adopted by the Accounting Standards Board;
- (4) Statements of Recommended Practice, issued by industry or sectoral bodies recognised for this purpose by the Accounting Standards Board;
- (5) international accounting standards within the meaning of EC Regulations No. 1606/2002 of the European Parliament and of the council of 19 July 2002 on the application of international accounting standards, adopted from time to time by the European Commission in accordance with that Regulation;
- (6) the Companies Act 1985; and
- (7) the Companies Act 2006,

as applicable to the *firm* for the purpose of its external financial reporting (or as would be applicable if the *firm* was a company with its head office in the *UK*).

Accounts Directives

means Council Directives 2013/34/EC, 91/674/EEC and 83/349/EEC.

Accounts Regulations

means the Friendly Society (Accounts and Related Provisions) Regulations 1994.

accumulating with-profits policies

means a *with-profits policy* which has a readily identifiable current benefit, whether or not this benefit is currently realisable, which is adjusted by an amount explicitly related to the amount of any *premium* payment and to which additional benefits are added in respect of participation in profits by additions directly related to the current benefit, or a policy with similar characteristics.

actuarial health insurance

means health insurance which meets all the conditions set out in Insurance Company – Capital Resources Requirements 13.1.

actuarial investigation

means an investigation to which IPRU(INS) rule 9.4 of the *PRA Handbook* as at 31 December 2015 applies pursuant to Non-Solvency II Firms – Transitional Measures 3.

actuarial valuation date

means the date as which the *mathematical reserves* are calculated.

admissible assets

- (1) (in relation to an *insurer* which is not a *pure reinsurer*) has the meaning in Insurance Company – Capital Resources 13; or
- (2) (in relation to a *pure reinsurer*) means an asset the holding of which is consistent with compliance by the *firm* with Insurance Company – Risk Management 5.

admission to trading

means the process by which the exchange permits members of the exchange to enter into transactions in that *investment* under and subject to the rules of the exchange.

analogous non-reinsurance financing agreement

means analogous non-*reinsurance* financing agreements, including contingent loans, securitisations and any other arrangements in respect of *contracts of insurance* that are analogous to contracts of *reinsurance* in terms of the risks transferred and the finance provided.

ancillary services undertaking

means an *undertaking*, the principal activity of which consists of owning or managing property, managing data-processing services, or a similar activity which is ancillary to the principal activity of one or more *credit institutions*, *investment firms* or *insurers*.

approved counterparty

means any of the following:

- (1) an *approved credit institution*;
- (2) a *firm* whose *permission* including *dealing in investments as principal* with respect to *derivatives* which are not *listed*;
- (3) a *MiFID investment firm* whose *authorise* (as referred to in article 5 of *MiFID*) authorises it to carry on activities of the kind referred to in (2); or
- (4) in respect of a transaction involving a new issue of *securities* which are to be *listed*, the *issuer* or a *MiFID investment firm* acting on behalf of the *issuer*.

approved credit institution

means a *credit institution* recognised or permitted under the law of an *EEA State* to carry on any of the activities set out in Annex 1 to the *CRD*.

approved derivative

means a *derivative* in respect of which the conditions in Insurance Company – Risk Management 6.2 are met.

approved financial institution

means any of the following:

- (1) the European Central Bank;
- (2) the central bank of an *EEA State*;
- (3) the International Bank for Reconstruction and Development;
- (4) the European Bank for Reconstruction and Development;
- (5) the International Finance Corporation;
- (6) the International Monetary Fund;
- (7) the Inter-American Development Bank;
- (8) the African Development Bank;
- (9) the Asian Development Bank;
- (10) the Caribbean Development Bank;
- (11) the European Investment Bank;
- (12) the *EU*; and
- (13) the European Atomic Energy Community.

approved quasi-derivative

means a *quasi-derivative* in respect of which the conditions in Insurance Company – Risk Management 6.2 are met.

approved security

means any of the following:

- (1) any *security* issued or guaranteed by, or the repayment of the principal of which, or the interest of which, is guaranteed by, and any loans to or deposits with, any government, public or local authority or national industry or undertaking, which belongs to an *approved State*;
- (2) any loan to, or deposit with, an *approved financial institution*; and
- (3) any *debenture* issued before 31 December 1994 by the Agricultural Mortgage Corporation Limited or the Scottish Agricultural Securities Corporation Limited.

approved State

means any of the following:

- (1) an *EEA state*;

- (2) the United States of America;
- (3) Canada;
- (4) Japan; or
- (5) Australia,

other than when that country has rescheduled its external debt.

approved stock lending transaction

means a stock lending transaction in respect of which the conditions in Insurance Company – Risk Management 8.2 have been met.

asset management company

means a management company within the meaning of Article 2(1)(b) of the *UCITS Directive*, as well as an *undertaking* the registered office of which is not in an *EEA State* and which would require authorisation in accordance with Article 6(1) of the *UCITS Directive* if it had its registered office within an *EEA State*.

brought forward amount

means an amount, as defined in Insurance Company – Capital Resources Requirements 10.1 to 10.3 in the Non-Solvency II Firms Sector, used in the calculation of the *general insurance capital requirement*.

capital redemption

means the class of *contract of insurance*, specified in paragraph VI of Part II of Schedule 1 to the *Regulated Activities Order*.

capital resources

means the *firm's* capital resources as calculated in accordance with Insurance Company – Capital Resources 2.1.

capital resources table

means the capital resources calculation table at Insurance Company – Capital Resources Table 2.1.

claims amount

means an amount, as defined in Insurance Company – Capital Resources Requirements 9.1 in the Non-Solvency II Firms Sector, used in the calculation of the *general insurance capital requirement*.

collateral

means

- (1) (in relation to any transaction) a mortgage, charge, pledge or other security interest or, as the context may require, an asset that is subject to a mortgage, charge, pledge or other security interest; and
- (2) (in relation to a *stock lending*, *repo* or *derivative* transaction only):

- (a) a transfer of assets (other than by way of sale) subject to a right of the transferor to have transferred back to it the same, or equivalent, assets or, as the context may transferor; or
- (b) a letter of credit,

where the assets are transferred, or the letter of credit is issued, to secure the performance of the obligations of one of the parties to that transaction.

compensation funds

means any *policyholder* compensation scheme in any *EEA State*.

counterparty

means in relation to an *insurer*:

- (1) any one individual;
- (2) any one unincorporated body of persons;
- (3) any one *undertaking* not being a member of a *group*;
- (4) any *group undertakings* excluding any *undertakings* within the *group* which are *subsidiaries* of the *firm*; or
- (5) any government of a State together with all the public bodies, local authorities or nationalised industries of that State,

in which the *firm* has made investments or against whom it has rights whether under of a contract entered into by the *firm* or otherwise.

covered bonds

means a *debenture* that is issued by a *credit institution* which:

- (1) has its head office in an *EEA State*; and
- (2) is subject by law to special official supervision designed to protect the holders of the *debenture*; in particular, sums deriving from the issue of the *debenture* must be invested in accordance with the law in assets which, during the whole period of validity of the *debenture*, are capable of covering claims attaching to the *debenture* and which, in the event of failure of the *issuer*, would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

CR Requirement

means an amount of *capital resources* that a *firm* must hold as set out in Insurance Company – Capital Resources Requirements 4 and 5.

dealing

means *dealing in investments as principal* or *dealing in investments as agent*.

debenture

means the *investment*, specified in article 77 of the *Regulated Activities Order*.

debt

includes an obligation to pay a sum of money under a negotiable instrument.

debts due or to become due

includes any *debts* which would become due if the *friendly society* were to exercise any right to which it is entitled to require payment or repayments of the same.

deferred acquisition costs

has the meaning in the *insurance accounts rules*.

deficit reduction amount

means in respect of a *defined benefit occupational pension scheme*, the sum, determined by a *firm* in conjunction with the *defined benefit occupational pension scheme's* actuaries or trustees (or both), of the additional funding (net of tax) that will be required to be paid into that scheme by the *firm* over the following five year period for the purpose of reducing the *firm's defined benefit liability*.

defined benefit asset

means the excess of the value of the assets in a *defined benefit occupational pension scheme* over the present value of the scheme liabilities, to the extent that a *firm*, as employer, in accordance with the *accounting principles* applicable to it, should recognise that excess as an asset in its balance sheet.

defined benefit liability

means the shortfall of the value of the assets in a *defined-benefit occupational scheme* below the present value of the scheme liabilities, to the extent that a *firm*, as employer, in accordance with the accounting principles applicable to it, should recognise that shortfall as a liability in its balance sheet.

defined benefit occupational pension scheme

means an *occupational pension scheme* which is not a *defined contribution occupational pension scheme*.

defined contribution occupational pension scheme

means an *occupational pension scheme* into which a *firm*, as employer, pays regular fixed contributions and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

deposit

means the *investment*, specified in article 74 and defined in articles 5(2) and 5(3) of the *Regulated Activities Order*.

equity share capital

means issued share capital excluding any part of that capital which, neither as respects dividends nor as respects capital, carries any right to participate beyond a specified amount in a distribution.

equivalent securities

means *securities* issued by the same *issuer* being of an identical type and having the same nominal value, description and amount.

established surplus

means an excess of assets representing the whole or a particular part of the *long-term insurance fund* or funds over the liabilities, or a particular part of the liabilities of the *insurer* attributable to that business as shown by an *actuarial investigation*.

final bonus

(in relation to *with-profits policy*) means a discretionary payment which might be made by a *long-term insurer*, in addition to the guaranteed benefits, when the benefits under the *with-profits policy* become payable.

financial year

means the period at the end of which the balance of the accounts of the *insurer* is struck, or, if no balance is struck, the calendar year.

fixed interest securities

means *securities* which under their terms of issue provide for fixed amounts of interest.

flat rate benefits business friendly society

means a *friendly society* whose *insurance business* is restricted to the provision of benefits which vary according to the resources available and in which the contributions of members are determined on a flat rate basis.

general insurance capital requirement

means the highest of the *premiums amount*, *claims amount* and *brought forward amount* as set out in Insurance Company – Capital Resources Requirements 7.1.

general insurance liabilities

means liabilities arising from *general insurance business*.

general liability

means the *class of contract of insurance*, specified in paragraph 13 of Part I of Schedule 1 to the *Regulated Activities Order*.

gross earned premiums

means (in relation to a *financial year*) such proportion of *gross written premiums* as is attributable to risk borne by the *firm* during that *financial year*.

gross written premiums

means the amounts required by the *insurance accounts rules* to be shown in the profit and loss account of a *firm*:

- (1) (for *general insurance business*) at general business technical amount item I.1.(a); and
- (2) (for *long-term insurance business*) at long-term business technical account item II.1.(a).

guarantee fund

means the amount calculated in accordance with Friendly Society – Friendly Society Overall Resources and Guarantee Fund 5.

Holloway sickness policy

means a *contract of long-term insurance* offered or effected by a *friendly society* under the Holloway system, providing *permanent health* benefits and, in addition, investment benefits, where the investment benefits:

- (1) are derived from surpluses accrued by the *friendly society* and apportioned to *policyholders*; and
- (2) are payable to *policyholders* at maturity, on retirement, on death, or as otherwise specified by contractual provisions or individual society rules.

index-linked benefits

means benefits:

- (1) provided for under a *linked long-term contract of insurance*; and
- (2) determined by reference to an index of the value of property of any description (whether specified in the contract or not).

index-linked liabilities

means insurance liabilities in respect of *index-linked benefits*.

individual capital resources requirement

means:

- (1) in relation to an *undertaking* with a *Part 4A permission*, any capital requirement imposed by relevant provisions in the *PRA Rulebook* or *FCA Handbook*; or
- (2) in relation to any other *subsidiary* the *shares* of which a *firm* elects to value in accordance with Insurance Company – Overall Resources and Valuation 8.1, zero.

initial margin

in respect of a *derivative* or a contract or asset having the effect of a *derivative* means assets which, before or at the time the contract is entered into, are transferred by the *firm* subject to a condition that such assets (or, where the assets transferred are *securities, equivalent securities*) will be returned to the *firm* on completion of that contract.

insurance accounts rules

means Schedule 1 to the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 (Form and Content of Accounts of Insurance Companies and Groups) where these provisions are applicable, otherwise Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) (Insurance Companies: Companies Act Individual Accounts).

insurance death risk capital component

means one of the components of the *long-term insurance capital requirement* as set out in Insurance Company – Capital Resources Requirements 15.2.

insurance expense risk capital component

means one of the components of the *long-term insurance capital requirement* as set out in Insurance Company – Capital Resources Requirements 17.2.

insurance health risk and life protection reinsurance capital component

means one of the components of the *long-term insurance capital requirement* as set out in Insurance Company – Capital Resources Requirements 16.1.

insurance liabilities

in respect of a *friendly society*, means amounts calculated in accordance with Friendly Society – Liability Valuation in respect of those items shown at C and D under the heading “Liabilities” in Part I of Schedule 2 to the *Accounts Regulations*.

insurance market risk capital component

means one of the components of the *long-term insurance capital requirement* as set out in Insurance Company – Capital Resources Requirements 18.1.

intermediary

means a *person* who in the course of any business or profession invites other persons to make offers or proposals or to take other steps with a view to entering into *contracts of insurance* with a *friendly society*, other than a person who only publishes such invitations on behalf of, or to the order of, some other person.

issuer

means:

- (1) (in relation to any security) (other than a *unit* in a *collective investment scheme*) the *person* by whom it is or is to be issued;
- (2) (in relation to a *unit* in a *collective investment scheme*) the operator of the *collective investment scheme*;
- (3) (in relation to an interest in a limited *partnership* except for a *partnership scheme*) the partnership;
- (4) (in relation to certificates representing certain securities) the *person* who issued or is to issue the security to which the certificate or other instrument relates; or
- (5) an entity which issues *transferable securities* and, where appropriate, other *financial instruments*.

jointly controlled body

means a body that *friendly society* has joint control of in accordance with section 13 of the Friendly Societies Act 1992.

large non-directive insurer

means a *non-directive insurer* in respect of which the value of assets relating to all *regulated activities* carried on by the *firm* as included in its two most recent reported annual accounts is more than £25,000,000.

liabilities to policyholders

means (in relation to a *firm carrying out contracts of insurance*) any liability or obligations of that *firm* to, or in respect of, a *policyholder*.

linked benefit

means a benefit payable under a *linked long-term contract of insurance* or a *regulated collective investment scheme* the amount of which is determined by reference to:

- (1) the value of the property of any description (whether specified or not);
- (2) fluctuations in the value of any such property;
- (3) income from such property; or
- (4) fluctuations in an index of the value of such property.

linked long-term liabilities

means the insurance obligations in respect of *linked benefits* under a *linked long-term contract of insurance*.

listed

means:

- (1) included in an *official list*; or
- (2) in respect of which facilities for *dealing* on a *regulated market* have been granted.

long-term insurance assets

has the meaning set out in Insurance Company – Internal Contagion Risk 4.2.

long-term insurance business asset

in relation to a *friendly society*, means the assets of a *firm* which are, for the time being, identified as representing the *long-term insurance business* fund or funds maintained by that *firm* in respect of its *long-term insurance business*.

long-term insurance capital requirement

means the amount determined in accordance with Insurance Company – Capital Resources Requirement 14.1, being the sum of the *insurance death risk capital*

component, the insurance health risk and life protection reinsurance capital component, the insurance expense risk capital component, the insurance market risk capital component and the resilience capital requirement.

long-term insurance fund

has the meaning set out in Insurance Company – Internal Contagion Risk 4.3.

long-term insurance liabilities

means liabilities arising from *long-term insurance business*.

management expenses

means all expenses, other than commission, incurred in the administration of a *firm* or its business.

margin of solvency

means the excess of the value of the *friendly society's* assets over the amount of its liabilities, that value and amount being determined in accordance with Friendly Society – Asset Valuation, Friendly Society – Liability Valuation and Friendly Society – Overall Resources and Guarantee Fund 8.

market value

means the market value as determined in accordance with generally accepted accounting practice.

minimum guarantee fund

means an amount calculated in accordance with Friendly Society - Overall Resources and Guarantee Fund 6 for *long-term insurance business* and Friendly Society - Overall Resources and Guarantee Fund 7 for *general insurance business*, whether the *required margin of solvency* is greater or less than that amount.

money

means any form of money, including cheques and other payable orders.

money-market instruments

means those classes of *financial instruments* which are normally dealt in on the money market, such as treasury bills, certificates of deposit and commercial papers and excluding instruments of payment.

[Note: article 4(1)(19) of MiFID]

motor vehicle liability

means the *class of contract of insurance*, specified in paragraph 10 of Part I of Schedule 1 to the *Regulated Activities Order*.

net premium

means the *premium* that is calculated to provide the basic sum assured under a *with-profits policy* taking into consideration only the mortality and interest rate risks and using the same assumptions as used in the calculation of the *mathematical reserves*.

non-directive insurer

means a *firm* with a *Part 4A permission* to effect contracts of insurance or carry out contracts of insurance, other than:

- (1) a *UK Solvency II firm*;
- (2) a *UK ISPV*; and
- (3) a *third country branch undertaking*.

non-Solvency I firm

means a *firm* that immediately before the *Solvency II implementation date* fell outside the scope of each of the *Solvency I Directives*.

non-UCITS retail scheme

means an *ICVC*, *authorised unit trust scheme*, or an *authorised contractual scheme* which is not a *collective investment scheme* falling within the *UCITS Directive* or a *qualified investor scheme*.

occupational pension scheme

has the meaning set out in article 3(1) of the *Regulated Activities Order*.

official list

means:

- (1) the list maintained by the *FCA* in accordance with section 74(1) of *FSMA* for the purposes of Part VI of *FSMA*; and
- (2) any corresponding list maintained by a competent authority for listing in another *EEA State*.

offsetting transaction

means, in accordance with Insurance Company – Risk Management 7.8 and 7.9:

- (1) an *approved derivative*, *approved stock lending transaction* or an *approved quasi-derivative*; or
- (2) a covered transaction with an *approved counterparty* for the purchase of assets.

OTC derivative

means a *derivative* traded solely over the counter.

pension contract

means a contract under which rights to benefits are obtained by the making of contributions to an *occupational pension scheme* or to a *personal pension scheme*, where the contributions are paid to a *regulated collective investment scheme*.

pension policy

means a contract under which a right to benefits results from contributions made to an *occupational pension scheme* or to a *personal pension scheme*, where the contributions are paid to an *insurer*.

pension scheme

means a scheme under which a right to benefits results from contributions made under a *pension contract* or *pension policy*.

permanent health

means the *class of contract of insurance*, specified in paragraph 4 of Part 2 of Schedule 1 to the *Regulated Activities Order*.

permanent share capital

has the meaning set out in Insurance Company – Capital Resources 5.1.

preference share

means a *share* conferring preference as to income or return of capital which does not form part of the *equity share capital* of an *undertaking*.

premiums amount

means an amount, as defined in Insurance Company – Capital Resources Requirements 8.1, used in the calculation of the *general insurance capital requirement*.

proper valuation

means, in relation to land, a valuation made by a qualified valuer not more than three years before the *relevant date* which determined the amount which would be realised at the time of the valuation on an open market sale of the land free from any mortgage or charge.

property-linked benefits

means benefits other than an *index-linked benefit*.

- (1) provided for under a *linked long-term contract of insurance*; and
- (2) determined by reference to the value of, or income from, property of any description (whether specified in the contract or not).

property-linked liabilities

means insurance liabilities in respect of *property-linked benefits*.

proportional share

means, in relation to an *affiliated company*, the percentage which is the percentage holding (directly or indirectly) in the *affiliated company's* capital.

qualified investor scheme

means an *ICVC*, *authorised unit trust scheme* or an *authorised contractual scheme* whose instrument constituting the scheme contains the statement in COLL 8.2.6 R 1(2) of the *FCA Handbook* that it is a qualified investor scheme.

real estate

means an interest in land, buildings or other immoveable property.

regulated affiliated company

means an *affiliated company* which has a *Part 4A permission*.

regulated institution

means any of the following:

- (1) a *Solvency II undertaking*, the *Society*, a *managing agent* or a *third country branch undertaking*; or
- (2) a *CRD credit institution*; or
- (3) a *non-directive insurer*; or
- (4) a *firm* whose *permission* includes *dealing in investments as principal* with respect to *derivatives* which are not *listed*; or
- (5) a *MiFID investment firm* whose authorisation (as referred to in article 5 of *MiFID*) authorises it to carry on activities of the kind referred to in (4).

regulated market

means:

- (1) a regulated market as defined in point (14) of Article 4 of Directive 2004/39/EC; or
- (2) a market situated outside the *EEA States* which is characterised by the fact that:
 - (a) it meets comparable requirements to those set out in (1); and
 - (b) the financial instruments dealt in are of a quality comparable to those in a regulated market in the *UK*.

reinsurer

means an *insurance undertaking* whose business includes *effecting contracts of insurance* or *carrying out contracts of insurance* that are *reinsurance contracts*; includes a retrocessionaire.

relevant capital sum

means the sum under a *contract of insurance* which is:

- (1) unless (2) applies;
 - (a) for whole life assurances, the sum assured;

- (b) for *contracts of insurance* where a sum is payable on maturity (including contracts where a sum is also payable on earlier death), the sum payable on maturity;
- (c) for deferred annuities, the capitalised value of the annuity at the vesting date (or the cash option if it is greater);
- (d) for *capital redemption* contracts, the sum payable at the end of the contract period; and
- (e) for *linked long-term contracts of insurance*, notwithstanding (a) to (d), the lesser of:
 - (i) the amount for the time being payable on death; and
 - (ii) the aggregate of the value for the time being of the units allocated to the contract (or, where entitlement is not denoted by means of units, the value for the time being of any other measure of entitlement under the contract equivalent to units) and the total amount of the *premiums* remaining to be paid during such of the term of the contract as is appropriate for *zillmerising* or, if such *premiums* are payable beyond the age of seventy-five, until that age;

but excluding in all cases any vested reversionary bonus; and

- (2) for temporary assurances, the sum assured on the *actuarial valuation date*.

relevant date

means, in relation to the valuation of any asset for any purpose for which the rules in Friendly Society – Asset Valuation apply, the date when the asset falls to be valued for that purpose.

required margin of solvency

means the amount calculated in accordance with Friendly Society – Overall Resources and Guarantee Fund 3.

repo

means:

- (1) an agreement between a seller and buyer for the sale of *securities*, under which the seller agrees to repurchase the *securities*, or *equivalent securities*, at an agreed date and, usually, at a stated price; or
- (2) an agreement between a buyer and a seller for the purchase of *securities*, under which they buyer agrees to resell the *securities*, or *equivalent securities*, at an agreed date and, usually, at a stated price.

resilience capital requirement

means one of the components of the *long-term insurance capital requirement* as set out in Insurance Company – Capital Resources Requirements 20.

short-term deposit

means a *deposit* which may be withdrawn at the discretion of the lender without penalty or loss of accrued interest by giving notice of withdrawal of one *month* or less.

small non-directive insurer

means a *non-directive insurer* other than a *large non-directive insurer*.

solvency deficit

means the amount (if any) by which *total capital after deductions* fall short of *individual capital resources requirements*.

Solvency I Directive

means each of:

- (1) the *Consolidated Life Directive*;
- (2) the *First Non-Life Directive*;
- (3) the *Second Non-Life Directive*;
- (4) the *Third Non-Life Directive*; and
- (5) the *Reinsurance Directive*.

Solvency I firm

means a *firm* that immediately before the *Solvency II implementation date* was an *insurer* that fell within the scope of a *Solvency I Directive*.

Solvency 2 Regulations

means the Solvency 2 Regulations 2015 (SI 2015/575).

stock lending

means the disposal of a *designated investment* subject to an obligation or right to reacquire the same or a similar *designated investment* from the same *counterparty*.

support arrangements

means arrangements under which the financial resources available to a *with-profits fund* include (or are intended in particular circumstances to include) financial resources from outside that *with-profits fund*.

surplus assets

has the meaning given in Friendly Society – Asset Valuation 5.3.

surrender value

means:

- (1) where the contract is a contract of life assurance or a contract for an annuity, the amount (including a nil amount) payable by the *firm* or other body issuing the contract on surrender of the *policy*;

- (2) where the contract is a *personal pension scheme* or a *stakeholder pension scheme*, the amount payable on the transfer of the investor's accrued rights under that contract to another *personal pension scheme* or *stakeholder pension scheme*; or
- (3) where the contract is for any other matter, the amount payable by the *firm* on the surrender of the *policy*.

tier one capital

means an item of capital that is specified in stages A (Core tier one capital), B (Perpetual non-cumulative preference shares) or C (innovative tier one capital) of the *capital resources table*.

tier two capital resources

means the sum calculated at stage I (Total tier two capital) of the calculation in the *capital resources table*.

tontine

means the *class of contracts of insurance* specified in paragraph V of part II of Schedule 1 to the *Regulated Activities Order*.

total capital after deductions

- (1) in relation to an undertaking with a *Part 4A permission*, the total capital after deductions calculated as if that *undertaking* were required to calculate its *capital resources* in accordance with Insurance Company – Capital Resources Table 2.1, but with such adjustments being made to secure that the *undertaking's* calculation of its total capital after deductions complies with relevant capital provisions in the *PRA Rulebook* or *FCA Handbook*;
- (2) in relation to any other *subsidiary*, the total capital after deductions of the *undertaking* calculated as if the *undertaking* were required to calculate its total *capital resources* in accordance with Insurance Company – Capital Resources Table 2.1.

transferable securities

means as defined in article 4(1)(18) of MiFID.

unit

means:

- (1) (in relation to a *collective investment scheme*) the investment, specified in article 81 of the *Regulated Activities Order* (Units in a collective investment scheme) and defined in section 237(2) of *FSMA* (other definitions); and
- (2) (in relation to an *alternative investment fund*) the right or interest (however described) of an investor in an *alternative investment fund*.

working day

means any day other than Saturday, Sunday, Good Friday, Christmas Day and any day which is a bank holiday in any part of the *UK* under section 1 of the Banking and Financial Dealings Act 1971.

zillmerising

means a method for modifying the net *premium* reserve method of valuing a *contract of long-term insurance* by increasing the part of the future *premiums* for which credit is taken so as to allow for initial expenses.

Annex S

Amendments to the Glossary

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

Amend the following definitions, of the Glossary Part of the *PRA* Rulebook as shown.

control

(in the Solvency II Sector of the *PRA* Rulebook) means the relationship between a *parent undertaking* and a *subsidiary undertaking* where that relationship falls within ~~(a) to (g)~~ (1) to (7) of the definition of *parent undertaking*, or a similar relationship between any *person* and an *undertaking*.

...

market risk

- (1) (except in the Solvency II Firms and Non-Solvency II Firms Sectors of the *PRA* Rulebook) means the risk that arises from fluctuations in values of, or income from assets, or in the interest or exchange rates.
- (2) (in the Solvency II Firms and Non-Solvency II Firms Sectors of the *PRA* Rulebook) means the risk of loss or of adverse changes in the financial situation resulting, directly or indirectly, from fluctuations in the level and in the volatility of market prices of assets, liabilities and financial instruments.

[Note: Art. 13(31) of the Solvency II Directive]

non-directive firm

...

- (4) ~~an *undertaking* pursuing the activity of direct insurance within the meaning of:~~
~~(a) article 2 of the *Consolidated Life Directive*, authorised under that directive; or~~
~~(b) article 1 of the *First Non-Life Directive*, authorised under that directive;~~
a *Solvency II undertaking*, the *Society* and *managing agents*.
- (5) ~~an *undertaking* pursuing the activity of *reinsurance* within the meaning of article 2.1(a) of the *Reinsurance Directive*, authorised under that directive~~

non-directive friendly society

means:

- ~~(1) a *friendly society* whose *insurance business* is restricted to the provision of benefits which vary according to the resources available and in which the contributions of the members are determined on a flat-rate basis;~~

- ~~(2) a friendly society whose long-term insurance business is restricted to the provision of benefits for employed and self-employed persons belonging to an undertaking or group of undertakings, or a trade or group of trades, in the event of death or survival or of discontinuance or curtailment of activity (whether or not the commitments arising from such operations are fully covered at all times by mathematical reserves);~~
- ~~(3) a friendly society which undertakes to provide benefits solely in the event of death where the amount of such benefits does not exceed the average funeral costs for a single death or where the benefits are provided in kind;~~
- ~~(4) a friendly society (carrying on long-term insurance business):~~
- ~~(a) whose registered rules contain provisions for calling up additional contributions from members or reducing their benefits or claiming assistance from other persons who have undertaken to provide it; and~~
- ~~(b) whose annual gross premium income (other than from contracts of reinsurance) has not exceeded 5 million Euro for each of the three preceding financial years;~~
- ~~(5) a friendly society (carrying on general insurance business):~~
- ~~(a) whose registered rules contain provisions for calling up additional contributions from members or reducing their benefits;~~
- ~~(b) whose gross premium income (other than from contracts of reinsurance) for the preceding financial year did not exceed 5 million Euro; and~~
- ~~(c) whose members provided at least half of that gross premium income;~~
- ~~(6)~~
- ~~(a) a friendly society whose liabilities in respect of general insurance contracts are fully reinsured with or guaranteed by other mutuals; and;~~
- ~~(b) the mutuals providing the reinsurance or the guarantee are subject to the rules of the First Non-Life Directive.~~
- and
- ~~(7) in each case whose insurance business is limited to that described in any of (1) to (6); and~~
- ~~(8) for the purposes of (4) and (5), the exchange rate from the Euro to the pound sterling for each year beginning on 31 December is the rate applicable on the last day of the preceding October for which the exchange rates for the currencies of all the European Union member states were published in the Official Journal of the European Union.~~

a friendly society that is not a UK Solvency II firm

operational risk

- (1) (in the Solvency II Firms Sector of the PRA Rulebook) means the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events, including legal risks which, for the purposes of Solvency Capital Requirement – General Provisions 3.3(1), includes legal

risks but excludes risks arising from strategic decisions and reputational risks.

- (2) (in the Non-Solvency II Firms Sector of the PRA Rulebook) means the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

relevant legislation

means:

- (1) *FSMA*;
- (2) the *Capital Requirements Regulations*;
- (3) the *Solvency 2 Regulations 2015*;
- (4) ~~(3)~~ any other enactment; or
- (5) ~~(4)~~ any directly applicable *EU* regulation.

technical provisions

- (1) (in the Solvency II Firms Sector) means the technical provisions established in accordance with Technical Provisions 2.1;
- (2) (in the Non-Solvency II Firms Sector) means a technical provision established:
 - (a) for *general insurance business*, in accordance with Insurance Company – Technical Provisions 2.1; and
 - (b) for *long-term insurance business*, in accordance with Insurance Company – Technical Provisions 2.2.

third country insurance branch

means a permanent presence in the *UK* of a *third country insurance undertaking* that has a *permission to effect contracts of insurance and or carry out contracts of insurance* (except an *undertaking* which pursues only the business of *reinsurance* in the *UK*).

third country pure reinsurance branch

means a permanent presence in the *UK* of a *third country insurance undertaking or third country reinsurance undertaking*, that has a *permission to effect contracts of insurance and or carry out contracts of insurance* and which pursues only the business of *reinsurance* in the *UK*.

with-profits policy liabilities

- (1) (for a *UK Solvency II firm*) means, in relation to a *with-profits fund*, the value of liabilities attributable to *with-profits policies* (excluding any liabilities relating to non-profit insurance associated with such *policies*) set out in, and calculated on the basis prescribed by Surplus Funds 3.3 or, if applicable, ~~Surplus Funds 3.4~~ and (in either case) having also made adequate provisions for amounts representing *future policy-related liabilities*;

- (2) ~~(for a firm other than a UK Solvency II firm non-directive insurer other than a friendly society)~~ means, in relation to a *with-profits fund*, the value of *mathematical reserves* attributable to *with-profits policies* (excluding any liabilities relating to non-profit insurance associated with such policies) determined in accordance with the rules in ~~INSPRU 1.2 of the PRA Handbook~~ Insurance Company – Mathematical Reserves;
- (3) (for a non-directive friendly society) means, in relation to a *with-profits fund*, the value of *mathematical reserves* attributable to *with-profits policies* (excluding any liabilities relating to non-profit insurance associated with such policies) determined in accordance with the rules in Friendly Society – Liability Valuation.

Annex T

Annex F of the PRA Rulebook: Non-Solvency II Firms: Senior Insurance Managers Regime Instrument 2015 (PRA 2015/70) is amended as follows:

In this Annex deleted text is struck through.

...

In the Glossary Part of the *PRA* Rulebook, insert the following new definitions in the appropriate alphabetical order:

non-directive insurer

means a firm with a Part 4A permission for effecting contracts of insurance or carrying out contracts of insurance, other than:

- (1) a *UK Solvency II firm*;
- (2) a *UK ISPV*; and
- (3) a *third country branch undertaking*.

small non-directive insurer

means a *non-directive insurer* in respect of which the value of assets relating to all *regulated activities* carried on by the *firm* as shown in its most recent reported annual accounts was £25,000,000 or less.

...

HANDBOOK (SOLVENCY II RULEBOOK CONSEQUENTIALS) 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 59 (approval for particular arrangements);
 - (2) section 60 (applications for approval);
 - (3) section 137G (The PRA’s general rules); and
 - (4) 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 Handbook: Handbook (SOLVENCY II Rulebook Consequentials) Instrument 2015

- D. The PRA makes the rules in Annex A and Annex B to this instrument.

Commencement

- E. This instrument comes into force on 1 January 2016.

Deletion

- F. Each of the following modules and sections of the PRA’s Handbook is deleted:

COBS 1 (Application)
 GENPRU 1 (Application)
 GENPRU 2 (Capital)
 GENPRU TP 1 to 6 and 10 to 13
 GENPRU Schedule 1 to 3 and 6
 INSPRU (Prudential Sourcebook for insurers)
 IPRU(FSOC) (Interim Prudential sourcebook for Friendly Societies)
 IPRU(INS) (Interim Prudential sourcebook for Insurers)
 IPRU(INV) (Interim Prudential sourcebook for Investment Businesses)
 SUP 4 (Actuaries)
 SUP TP 1.2 row 4, 4A, 4BA, 5 (Transitional provisions)
 SUP App 2 (Insurers: Regulatory intervention points and run-off plans)
 SYSC 2 (Senior management arrangements)
 SYSC 3 (Systems and controls)
 SYSC 11 (Liquidity risk systems and controls)
 SYSC 13 (Operational risk: systems and controls for insurers)
 SYSC 14 (Risk management and associated systems and controls for insurers)
 SYSC 15 (Credit risk management systems and controls for insurers)
 SYSC 16 (Market risk management systems and controls for insurers)
 SYSC 17 (Insurance risk systems and controls)
 SYSC 20 (Reverse stress testing)

Citation

- G. This instrument may be cited as the Handbook (Solvency II Rulebook Consequentials) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

12 November 2015

Annex A

Amendments to the Supervision Manual (SUP)

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

10B.4 Specification of functions

...

10B.4.3 PRA controlled functions

Type	CF	Description of PRA controlled function
...		
PRA required functions	12 12A 12B	Actuarial function With-profits actuary function Lloyd's actuary function
...		

...

10B.6 PRA governing functions

...

10B.6.16 Small friendly society functions (CF6)

10B.6.18G (1) ...

(2) ~~The PRA expects that any appointment of responsibilities will have taken place under SYSC 2.1.1R. The PRA may ask to see details of the appointment but will not require, as a matter of course, a copy of the material which records this, (see SYSC 2.2).~~

...

10B.7 Other functions included in the governing functions

10B.7.1R Systems and controls functions

Each of the *PRA governing functions* includes, where apportioned under ~~SYSC 2.1.1R, SYSC 4.3.1R, or SYSC 4.4.3R, or for:~~

- (a) a UK Solvency II firm, the Society, a managing agent and a third country branch undertaking, Conditions Governing Business 2.2(a) of the PRA Rulebook; or
- (b) a non-directive insurer, Non-Solvency II Firms – Governance 2 and 3 of the PRA Rulebook,

the *systems and controls function*. This does not apply to the *non-executive director function* or the function described in SUP 10B.6.2R.

...

10B.8 PRA required functions

10B.8.1R Actuarial Function (CF12)

The *actuarial function* is the function of ~~acting in the capacity of an *actuary* appointed by a *firm* under SUP 4.3.1R to perform the duties set out in SUP 4.3.13R;~~

(1) for a *non-directive insurer*, acting in the capacity of an *actuary* appointed by a *firm* under Non-Solvency II Firms - Actuarial Requirements 2.1(1) of the *PRA* Rulebook;

(2) for a *UK Solvency II firm*, the *Society*, a *managing agent* and a *third country branch undertaking* acting the capacity of a person who is responsible for the actuarial function set out in Conditions Governing Business 6.1 of the *PRA* Rulebook.

10B.8.2R With-profits actuary function (CF12A)

The *with-profits actuary function* is the function of ~~acting in the capacity of an *actuary* appointed by a *firm* under SUP 4.3.1R to perform the duties set out in SUP 4.3.16A R;~~

(1) for a *non-directive insurer*, acting in the capacity of an *actuary* appointed by a *firm* under Non-Solvency II Firms - Actuarial Requirements 2.1(2) of the *PRA* Rulebook;

(2) for a *UK Solvency II firm* and a *third country branch undertaking*, acting in the capacity of an *actuary* appointed by a *firm* under Actuaries 2.2 of the *PRA* Rulebook.

10B.8.3R ~~Lloyd's actuary function (CF12B)~~

The ~~*Lloyd's actuary function* is the function of acting in the capacity of the *actuary* appointed under SUP 4.6.1 R to perform the duties set out in SUP 4.6.7R.~~

10B 9 Systems and controls functions

10B.9.1 Systems and controls function (CF28)

The *systems and controls function* is the function of acting in the capacity of an *employee* of the *firm* with the responsibility for reporting to the *governing body* of a *firm*, or the audit committee (or its equivalent) in relation to:

- (1) its financial affairs;
- (2) setting and controlling its risk exposure (see ~~SYSC 3.2.10G~~, SYSC 7.1.6R, for a *non-directive insurer*, Non-Solvency II Firms – Governance 7 of the *PRA* Rulebook, for a *UK Solvency II firm*, the *Society*, a *managing agent* and a *third country branch undertaking*, Conditions Governing Business 3 of the *PRA* Rulebook and, for *CRR firms*, Risk Control 2.5 of the *PRA* Rulebook); and
- (3) adherence to international systems and controls, procedures and policies (see ~~SYSC 3.2.16G~~, SYSC 6.2, for a *non-Solvency II firm*, Non-Solvency II Firms - Governance 2.9 of the *PRA* Rulebook, for a *UK Solvency II firm*, the *Society*, a *managing agent* and a *third country branch undertaking* Conditions Governing Business 5.1(1) of the *PRA* Rulebook and, for *CRR firms*, Compliance and Internal Audit 3.1 of the *PRA* Rulebook).

...

10B 11 Application for approval and withdrawing an application for approval

...

10B.11.6G Who should make the approval?

- (1) ...
- (2) Usually, this will be the *firm* that is employing the *PRA candidate* to perform the *PRA controlled function*. Where a *firm* has outsourced the performance of a *PRA controlled function*, the details of the outsourcing determine where responsibility lies and whom the *PRA* anticipates will submit *PRA-approved persons* application forms. SUP 10B.11.7G describes some common situations. The *firm* which is outsourcing is referred to as “A” and the *person* to whom the performance of the *PRA controlled function* has been outsourced, or which makes the arrangement for the *PRA controlled function* to be performed, is referred to as “B”. In each situation, A must take reasonable care to ensure that, in accordance with section 59(2) of the Act, no *person* performs a *PRA controlled function* under an arrangement entered into by its contract or in relation to the carrying on by A of a *regulated activity*, without approval from the *PRA*. See also ~~SYSC 3.2.4G~~ and SYSC 8.1.1R, and, for *CRR firms*, Outsourcing 2.1 of the *PRA* Rulebook and ~~SYSC 13.9~~ for *insurers Non-Solvency II Firms - Governance 5.1, 5.2 and 5.3 and Conditions Governing Business Chapter 7 of the PRA Rulebook (as relevant)*.

10B.11.7G Outsourcing arrangements

Outsourcing arrangements		Submitting form
...		
(i) A to B, where B is a non- <i>authorised person</i> not part of the same <i>group</i> as A	Responsibility for (as opposed to the performance of) any activity outsourced to B will remain with A. See SYSC 3.2.4G and SYSC 8 and for an <i>insurer</i> see <u>Non-Solvency II Firms – Governance 5.1 and 5.2 and Conditions Governing Business Chapter 7 of the PRA Rulebook (as relevant)</u> .	A ensures that an individual approved under one of the <i>PRA controlled functions</i> has responsibility for the outsourced arrangements and A submits a form in relation to that individual.
...		

...

Annex B

Amendments to Glossary definitions

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

...

actuarial function

(in the *PRA Handbook*) *PRA controlled function* CF12 in the *table of PRA controlled functions*, described more fully in ~~SUP 4.3.13 R~~ and ~~SUP 10B.8.1 R~~;

(a) for a *non-directive insurer*, SUP 10B.8.1R(1) and *Non-Solvency II Firms - Actuarial Requirements 2.1(1) of the PRA Rulebook*;

(b) for a *UK Solvency II firm, the Society, a managing agent and a third country branch undertaking*, SUP 10B.8.1R(2) and *Conditions Governing Business 6.1 of the PRA Rulebook*.

...

non-directive friendly society

~~(a) a *friendly society* whose *insurance business* is restricted to the provision of benefits which vary according to the resources available and in which the contributions of the members are determined on a flat rate basis;~~

~~(b) a *friendly society* whose *long-term insurance business* is restricted to the provision of benefits for employed and self-employed persons belonging to an undertaking or group of undertakings, or a trade or group of trades, in the event of death or survival or of discontinuance or curtailment of activity (whether or not the commitments arising from such operations are fully covered at all times by mathematical reserves);~~

~~(c) a *friendly society* which undertakes to provide benefits solely in the event of death where the amount of such benefits does not exceed the average funeral costs for a single death or where the benefits are provided in kind;~~

~~(d) a *friendly society* (carrying on *long-term insurance business*):~~

~~(i) whose registered rules contain provisions for calling up additional contributions from members or reducing their benefits or claiming assistance from other persons who have undertaken to provide it; and~~

~~(ii) whose annual gross premium income (other than from contracts of reinsurance) has not exceeded 5 million Euro for each of the three preceding financial years;~~

~~(e) a *friendly society* (carrying on *general insurance business*):~~

~~(i) whose registered rules contain provisions for calling up additional contributions from members or reducing their benefits;~~

~~(ii) whose gross premium income (other than from contracts of reinsurance) for the preceding financial year did not exceed 5 million Euro; and~~

~~(iii) whose members provided at least half of that gross premium income;~~

~~(f)~~

~~(i) a friendly society whose liabilities in respect of general insurance contracts are fully reinsured with or guaranteed by other mutuals (including friendly societies); and~~

~~(ii) the mutuals providing the reinsurance or the guarantee are subject to the rules of the First Non-Life Directive;~~

~~and in each case whose insurance business is limited to that described in any of (a) to (f).~~

has the meaning set out in the Glossary of the PRA Rulebook.

non-directive insurer

~~(a) an insurer which is a provident or mutual benefit institution whose insurance business is restricted to the provision of benefits which vary according to the resources available and in which the contributions are determined on a flat-rate basis; or~~

~~(b) an insurer whose long-term insurance business is restricted to the provision of benefits for employed and self-employed persons belonging to an undertaking or group of undertakings, or a trade or group of trades, in the event of death or survival or of discontinuance or curtailment of activity (whether or not the commitments arising from such operations are fully covered at all times by mathematical reserves); or~~

~~(c) an insurer which undertakes to provide benefits solely in the event of death where the amount of such benefits does not exceed the average funeral costs for a single death or where the benefits are provided in kind; or~~

~~(d) a mutual (carrying on long-term insurance business) whose:~~

~~(i) articles of association contain provisions for calling up additional contributions from members or reducing their benefits or claiming assistance from other persons who have undertaken to provide it; and~~

~~(ii) annual gross premium income (other than from contracts of reinsurance) has not exceeded 5 million Euro for each of the financial year in question and the two previous financial years; or~~

~~(e) a mutual (carrying on general insurance business) whose:~~

~~(i) articles of association contain provisions for calling up additional contributions from members or reducing their benefits;~~

~~(ii) business does not cover liability risks, other than *ancillary risks*, or credit or suretyship risks;~~

~~(iii) gross *premium* income (other than from contracts of *reinsurance*) for the *financial year in question* did not exceed 5 million Euro; and~~

~~(iv) members provided at least half of that gross *premium* income; or~~

~~(f) an *insurer* whose *insurance business* (other than *reinsurance*) is:~~

~~(i) restricted to the provision of assistance for persons who get into difficulties while travelling, while away from home or while away from their permanent residence;~~

~~(ii) carried out exclusively on a local basis and consists only of benefits in kind; and~~

~~(iii) such that the gross *premium* income from the provision of assistance in the *financial year in question* did not exceed 200,000 Euro; or~~

~~(g)~~

~~(i) a *mutual* whose liabilities in respect of *general insurance contracts* are fully reinsured with or guaranteed by other *mutuals* (including *friendly societies*); and~~

~~(ii) the *mutuals* providing the *reinsurance* or the guarantee are subject to the rules of the *First Non-Life Directive*.~~

means:

(a) as set out in the Glossary of the *PRA* Rulebook;

(b) a *run-off firm*; and

(c) a *Swiss general insurer*.

...

run-off firm

has the meaning in Non-Solvency II Firms – Transitional Measures 1.2 of the *PRA* Rulebook.

...

Single Market Directives

(A) In the *PRA* Handbook:

(a) the *Banking Consolidation Directive* (to the extent it applies to *CAD investment firms*);

(aa) the *CRD*;

(b) ~~the Insurance Directives (within the meaning of paragraph 1 of Schedule 3 to the Act)~~ the Solvency II Directive;

(ba) ~~the Reinsurance Directive;~~

...

...

Solvency II Directive

the Directive of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (No. 2009/138/EC).

...

third country branch undertaking

has the meaning set out in the Glossary of the PRA Rulebook, but excluding a Swiss general insurer.

...

UK Solvency II firm

has the meaning set out in the Glossary of the PRA Rulebook but excluding a run-off firm.

...

with-profits actuary function

(in the PRA Handbook) PRA controlled function CF12A in the table of PRA controlled functions, described more fully in SUP 4.3.16A-R and SUP 10B.8.2-R;

(a) for a non-directive insurer, SUP 10B.8.2R(1) and Non-Solvency II Firms - Actuarial Requirements 2.1(2) of the PRA Rulebook;

(b) for a UK Solvency II firm and a third country branch undertaking SUP 10B.8.2R(2) and Actuaries 2.2 of the PRA Rulebook.

...

PRA RULEBOOK: NON-SOLVENCY II FIRMS REGIME 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);
 - (2) section 137T (General supplementary powers);
 - (3) section 340(1) and (4) (Appointment: requirements on firms);
 - (4) section 340(3A) (Appointment: requirements as to co-operation); and
 - (5) section 340(6) and (7) (Appointment: qualifications of actuaries).
- 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 Regime Instrument 2015

- D. The PRA makes the rules in the Annexes to this instrument.
- E. Annexes A to P, R and S are part of the Non-Solvency II Firms Sector of the PRA Rulebook.
- F. The Non-Solvency II Firms – Actuarial Requirements Part (set out in Annex Q of this instrument) is part of the Non-Solvency II Firms Sector and Non-authorized Persons Sector of the PRA Rulebook.

Commencement

- G. Annexes A to N and P to S of this instrument come into force on 1 January 2016.
- H. The Non-Solvency II Firms – Governance Part (set out in Annex O of this instrument) comes into force as follows:
- (1) except as set out in (2), on 1 January 2016; and
 - (2) Rule 3.2(3) and Chapters 8, 9 and 10, on 7 March 2016.

From 1 January 2016 to 6 March 2016, rule 3.2(3) and Chapters 8, 9 and 10 of the Non-Solvency II Firms – Governance Part shall read “[Not currently used]”.

Citation

- I. This instrument may be cited as the Non-Solvency II Firms Regime Instrument 2015.

By order of the Board of the Prudential Regulation Authority

12 November 2015

Annex A

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

Part

INSURANCE COMPANY - OVERALL RESOURCES AND VALUATION

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. ADEQUATE FINANCIAL RESOURCES**
- 3. VALUATION**
- 4. MARKING TO MARKET**
- 5. MARKING TO MODEL**
- 6. INDEPENDENT PRICE VALUATION**
- 7. VALUATION ADJUSTMENTS**
- 8. AFFILIATED COMPANY VALUATION**

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *non-directive insurer* other than a *non-directive friendly society*; and
- (2) a *Swiss general insurer*.

1.2 In this Part, the following definitions shall apply:

business risk

means any risk to a *firm* arising from changes in its business, including:

- (1) the risk that the *firm* may not be able to carry out its business plan and its desired strategy; and
- (2) risks arising from a *firm's remuneration* policy.

exposure

means the maximum loss which a *firm* might suffer if:

- (1) a *counterparty* or a group of connected *counterparties* fail to meet their obligations; or
- (2) the *firm* realises assets or off-balance sheet positions.

liquidity risk

means the risk that a *firm*, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

mark to market

means valuation at readily available close out prices from independent sources.

mark to model

means any valuation which has to be benchmarked, extrapolated or otherwise calculated from a market input.

pension obligation risk

means the risk:

- (1) to a *firm* caused by its contractual or other liabilities to or with respect to a *pension scheme* (whether established for its *employees* or otherwise); and
- (2) that the *firm* will make payments or other contribution to or with respect to a *pension scheme* because of a moral obligation or because the *firm* considers that it needs to do so for some other reason.

regulatory surplus value

means the sum of:

- (1) the *total capital after deductions* of the *undertaking*; less
- (2) the *individual capital resources requirement* of the *undertaking*,

where:

- (a) only the proportion of the total number of *shares* issued by the *undertaking* held, directly or indirectly, by the *firm* is to be taken into account, or
- (b) if the *individual capital resources requirement* of an *undertaking* that:
 - (i) has a *Part 4A permission*; and
 - (ii) is a *subsidiary*

exceeds *total capital after deductions*, then the full amount of the items referred to in (1) and (2) must be taken into account.

residual risk

means the risk that credit risk mitigation techniques used by the *firm* prove less effective than expected.

restricted assets

means assets of the *undertaking* which are subject to a legal restriction or other requirement having the effect that those assets cannot be transferred or otherwise made available to the *firm* for the purposes of the *firm* meeting its *CR Requirement* without causing a breach of that legal restriction or requirement.

securitisation risk

includes the risk that the *capital resources* held by a *firm* in respect of assets which it has *securitised* are inadequate having regard to the economic substance of the transaction, including the degree of risk transfer achieved.

specific valuation rule

means any rule in the Non-Solvency II Firms Sector of the *PRA Rulebook* that provides in particular circumstances for a particular method of recognition or valuation.

2 ADEQUATE FINANCIAL RESOURCES

- 2.1 This Chapter does not apply to a *Swiss general insurer*.
- 2.2 If a *firm* carries on *long-term insurance business* and *general insurance business* the rules in this Chapter apply separately to each type of business.
- 2.3 A *firm* must at all times maintain overall financial resources, including *capital resources* and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

- 2.4 A *firm* must have in place sound, effective and complete processes, strategies and systems to assess and maintain on an ongoing basis the amounts, types and distribution of financial resources and *capital resources* that it considers adequate to cover:
- (1) the nature and level of the risks to which it is or might be exposed;
 - (2) the risk that its liabilities cannot be met as they fall due; and
 - (3) the risk that the *firm* might not be able to meet its *CR Requirement* in the future.
- 2.5 The processes, strategies and systems required by 2.4 must enable a *firm* to identify and manage the major sources of risks referred to in 2.4, including the major sources of risk in each of the following categories where they are relevant to the *firm* given the nature and scale of its business:
- (1) credit risk;
 - (2) *market risk*;
 - (3) *liquidity risk*;
 - (4) *operational risk*;
 - (5) insurance risk;
 - (6) concentration risk;
 - (7) *residual risk*;
 - (8) *securitisation risk*;
 - (9) *business risk*;
 - (10) interest rate risk;
 - (11) *pension obligation risk*; and
 - (12) group risk.
- 2.6 A *firm* must identify separately the amount of *tier one capital*, tier two capital, other capital eligible to form part of its *capital resources* and each category of capital (if any) that is not eligible to form part of its *capital resources* which it considers adequate for the purposes described in 2.4.
- 2.7 The processes and systems required by 2.4 must:
- (1) include an assessment of how the *firm* intends to deal with each of the major sources of risk identified in accordance with 2.5;
 - (2) take into account the impact of diversification effects and how such effects are factored into the *firm's* systems for measuring and managing risks; and
 - (3) include an assessment of the *firm-wide* impact of the risks identified in accordance with 2.4, to which end a *firm* must aggregate the risks across its various business lines and units, making appropriate allowance for the correlation between risks.
- 2.8 A *firm* must carry out assessments of the processes, strategies and systems required by 2.4 to ensure that they remain compliant with this Chapter.

- 2.9 A *firm* must carry out the assessments required by 2.4 and 2.8:
- (1) annually; and
 - (2) whenever changes in the business, strategy, nature or scale of its activities or operational environment suggest that the current level of financial resources is no longer adequate.
- 2.10 A *firm* must make and retain for at least three years a written record of the assessments required under this Chapter, including a written record of:
- (1) the major sources of risk identified in accordance with 2.5; and
 - (2) how it intends to deal with those risks.

3 VALUATION

- 3.1 Subject to 3.2 to 3.5, 8.1 and any *specific valuation rule*, whenever a rule refers to an asset, liability, *exposure*, equity or income statement item, a *firm* must, for the purpose of that rule, recognise the asset, liability, *exposure*, equity or income statement item and measure its value in accordance with the *accounting principles*.
- 3.2 Except where a *specific valuation rule* provides otherwise:
- (1) when a *firm*, upon initial recognition, designates its liabilities as at fair value through profit or loss, it must always adjust any value calculated in accordance with 3.1 by subtracting any unrealised gains or adding back in any unrealised losses which are not attributable to changes in a benchmark interest rate; and
 - (2) in respect of a *defined benefit occupational pension scheme*:
 - (a) a *firm* must derecognise any *defined benefit asset*; and
 - (b) a *firm* may elect to substitute for a *defined benefit liability* the *firm's deficit reduction amount*.

An election made under (2)(b) must be applied consistently for the purposes of all applicable rules in respect of any one *financial year*.

- 3.3 Except where a *specific valuation rule* provides otherwise a *firm* must comply with 4 to 7:
- (1) subject to 3.4, to account for
 - (a) investments that are, or amounts owed arising from the disposal of:
 - (i) *debt securities*, bonds and other money- and capital-market instruments;
 - (ii) loans;
 - (iii) *shares* and other variable yield participations;
 - (iv) *units* in any *collective investment scheme* falling within Insurance Company – Capital Resources 13.1(1)(d)(iv); and
 - (b) *derivatives* and *quasi-derivatives*; and

- (2) to any balance sheet position not falling within (1) that is measured at market value or fair value.
- 3.4 3.3 does not apply to *shares* in an *affiliated company* that is:
- (1) an *undertaking* with a *Part 4A permission*;
 - (2) an *ancillary services undertaking*; or
 - (3) any other *subsidiary*, the *shares* of which a *firm* elects to value in accordance with 8.1.
- 3.5 A *firm* must not place any value on amounts recoverable from an *ISPV* for the purposes of any rule.

4 MARKING TO MARKET

- 4.1 Wherever possible, a *firm* must use *mark to market* in order to measure the value of investments and positions.
- 4.2 Subject to 4.3, when *marking to market*, a *firm* must use the more prudent side of bid/offer unless the *firm* is a significant market maker in a particular position type and it can close out at the mid-market price, in which case the *firm* can use the mid-market price.
- 4.3 When calculating the current *exposure* value of a credit risk *exposure* to a *counterparty*:
- (1) a *firm* must select as a basis of valuation either:
 - (a) the more prudent side of bid/offer; or
 - (b) the mid-market price;
 - (2) the *firm* must be consistent in the basis of valuation it applies under (1) both between counterparties and year-on-year; and
 - (3) where the difference between the more prudent side of bid/offer and the mid-market price is material, the *firm* must consider making adjustments or establishing reserves.

5 MARKING TO MODEL

- 5.1 Where *marking to market* is not possible, a *firm* must use *mark to model* in order to measure the value of the investments and positions.
- 5.2 When the model used is developed by the *firm*, that model must be:
- (1) based on appropriate assumptions which have been assessed and challenged by suitably qualified parties independent of the development process; and
 - (2) independently tested, including validation of the mathematics, assumptions, and software implementation.
- 5.3 A *firm* must ensure that its senior management are aware of the positions which are subject to *mark to model* and understand the materiality of the uncertainty this creates in the reporting of the performance of the business of the *firm* and the risks to which it is subject.

- 5.4 A *firm* must source market inputs in line with market prices so far as possible and assess the appropriateness of the market inputs for the position being valued and the parameters of the model on a frequent basis.
- 5.5 A *firm* must use generally accepted valuation methodologies for particular products where these are available.
- 5.6 A *firm* must establish formal change control procedures, hold a secure copy of the model, and periodically use that model to check valuations.
- 5.7 A *firm* must ensure that its risk management functions are aware of the weaknesses of the models used and how best to reflect those in the valuation output.
- 5.8 A *firm* must periodically review the model to determine the accuracy of its performance.

6 INDEPENDENT PRICE VALUATION

- 6.1 In addition to *marking to market* or *marking to model*, a *firm* must regularly verify market prices and model inputs for accuracy and independence.

7 VALUATION ADJUSTMENTS

- 7.1 The recognition of any gains or losses arising from valuations subject to 3.3 must be recognised for the purpose of calculating *capital resources* in accordance with 4 to 7, unless a rule provides for another treatment of such gains or losses, in which case that other treatment must be applied.
- 7.2 A *firm* using third-party valuations, or *marking to model*, must consider whether valuation adjustments are necessary.
- 7.3 A *firm* must consider the need for making adjustments or establishing reserves for less liquid positions (including those arising from both market events and institution-related situations, including concentration positions and/or stale positions) and, on an ongoing basis, review their continued appropriateness in accordance with 7.5.
- 7.4 A *firm* must consider adjustments or reserves in respect of unearned credit spreads, close-out costs, operational risks, early termination, investing and funding costs, future administrative costs and, where appropriate, model risk.
- 7.5 A *firm* must consider at least the following factors when determining whether a valuation adjustment or reserve is necessary for less liquid positions:
- (1) the amount of time it would take to hedge out the position/risks within the position;
 - (2) the average and volatility of bid/offer spreads;
 - (3) the availability of market quotes (number and identity of market makers);
 - (4) the average and volatility of trading volumes;
 - (5) market concentrations;
 - (6) the ageing of positions;
 - (7) the extent to which valuation relies on *marking to model*; and
 - (8) the impact of other model risks.

- 7.6 If the result of making adjustments or establishing reserves under 7.1 to 7.5 is a valuation which differs from the fair value determined in accordance with 3.1, a *firm* must reconcile the two valuations.

8 AFFILIATED COMPANY VALUATION

- 8.1 Except where the contrary is expressly stated in this Part, whenever a rule refers to *shares* held in an *affiliated company* referred to in 3.4(1) or (3), a *firm* must value the *shares* held as the sum of:
- (1) the *regulatory surplus value* of that *undertaking*; less
 - (2) the sum of:
 - (a) the book value of the investments by the *firm* and its *affiliated companies* in the *tier two capital resources* of the *undertaking*; and
 - (b) if the *undertaking* is an *insurance undertaking*, any *restricted assets* of the *undertaking*.
- 8.2 A *firm* must value shares held in an *ancillary services undertaking* in accordance with 3.1.

Annex B

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

Part

INSURANCE COMPANY - TECHNICAL PROVISIONS

Chapter content

1. APPLICATION
2. ESTABLISHING TECHNICAL PROVISIONS
3. RISK TRANSFER PRINCIPLE
4. ASSETS OF A VALUE SUFFICIENT TO COVER TECHNICAL PROVISIONS AND OTHER LIABILITIES
5. LOCALISATION
6. MATCHING OF ASSETS AND LIABILITIES
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Links

1 APPLICATION

- 1.1 Unless otherwise stated, this Part applies to:
- (1) a *non-directive insurer*, other than a *non-directive friendly society*; and
 - (2) subject to 1.2, a *Swiss general insurer*.
- 1.2 This Part only applies to a *Swiss general insurer* in respect of the activities of the *firm* carried on from a *branch* in the *UK*.
- 1.3 This Part applies to a *firm* in relation to the whole of its business, except where a particular provision provides for a narrower scope.
- 1.4 Where a *firm* carries on both *long-term insurance business* and *general insurance business*, this Part applies separately to each type of business.

2 ESTABLISHING TECHNICAL PROVISIONS

- 2.1 For *general insurance business*, a *firm* must establish adequate *technical provisions* in accordance with Insurance Company – Overall Resources and Valuation 3.1.
- 2.2 For *long-term insurance business*, a *firm* must establish adequate *technical provisions* in respect of its *contracts of long-term insurance* as follows:
- (1) for liabilities in respect of such contracts that have fallen due, in accordance with Insurance Company – Overall Resources and Valuation 3.1;
 - (2) otherwise, *mathematical reserves* in accordance with the Insurance Company – Mathematical Reserves Part of the *PRA* Rulebook and with due regard to generally accepted actuarial practice.

3 RISK TRANSFER PRINCIPLE

- 3.1 A *firm* may only take credit for *reinsurance* (including all contracts of *reinsurance* with an *ISPV* and *analogous non-reinsurance financing agreements*) if and to the extent that there has been an effective transfer of risk from the *firm* to a third party that is effective in all circumstances in which the *firm* may wish to rely upon the transfer.

4 ASSETS OF A VALUE SUFFICIENT TO COVER TECHNICAL PROVISIONS AND OTHER LIABILITIES

- 4.1 Subject to 4.3, a *firm* (other than a *composite firm*) must hold *admissible assets* of a value at least equal to the amount of:
- (1) the *technical provisions* that it is required to establish under:
 - (a) 2.1; or
 - (b) 2.2; and
 - (2) its other:
 - (a) *general insurance liabilities*; or

(b) *long-term insurance liabilities.*

- 4.2 Subject to 4.3, a *composite firm* must ensure that it holds;
- (1) *admissible assets* separately identified in accordance with Insurance Company – Internal Contagion Risk 4.1 of a value at least equal to 4.1(1)(a) and 4.1(2)(a); and
 - (2) other *admissible assets* (other than those excluded under 4.3) of a value at least equal to 4.1(1)(b) and 4.1(2)(b).
- 4.3 For the purposes of 4.1 and 4.2, a *firm* (other than a *pure reinsurer*) must exclude *property-linked liabilities* and *index-linked liabilities* and the assets held to cover them under Insurance Company – Risk Management 4.
- 4.4 For the purpose of determining the value of assets available to meet *technical provisions* and other *long-term insurance liabilities* in accordance with 4.1, 4.2 and Non-Solvency II Firms - With-Profits 2.1, to the extent already offset in the calculation of *technical provisions*, no value is to be attributed to:
- (1) debts owed by *reinsurers*;
 - (2) a claim under a *contract of insurance*;
 - (3) tax recoveries; or
 - (4) claims against *compensation funds*.

5 LOCALISATION

- 5.1 This Chapter does not apply:
- (1) to a *Swiss general insurer*;
 - (2) in respect of debts owed by *reinsurers*;
 - (3) in respect of *insurance business* carried on by a *UK firm* outside an *EEA State*; or
 - (4) in respect of *general insurance business class groups 3 (Marine Transport) and 4 (Aviation)* of Part II of Annex 11.2 to IPRU(INS) of the *PRA Handbook* as at 31 December 2015.
- 5.2 In accordance with 5.3, a *firm* must hold *admissible assets* held pursuant to Insurance Company – Risk Management 3.2:
- (1) (where the *admissible assets* cover *technical provisions* in *UK sterling*), in any *EEA State*; and
 - (2) (where the *admissible assets* cover *technical provisions* in any currency other than *UK sterling*), in any *EEA State* or in the country of that currency.
- 5.3 For the purposes of 5.2:
- (1) a tangible asset is to be treated as held in the country or territory where it is situated;
 - (2) an *admissible asset* consisting of a claim against a debtor is to be treated as held in any country or territory where it can be enforced by legal action;

- (3) a *security* which is *listed* is to be treated as held in any country or territory where there is a *regulated market* on which the *security* is dealt; and
- (4) a *security* which is not *listed* is to be treated as held in the country or territory in which the *issuer* has its head office.

6 MATCHING OF ASSETS AND LIABILITIES

- 6.1 This Chapter does not apply:
- (1) to a *pure reinsurer*; or
 - (2) in respect of assets held to cover *index-linked liabilities* or *property-linked liabilities*, except that, where the *linked long-term contract of insurance* in question includes a guarantee of investment performance or some other guaranteed benefit, this Chapter will nevertheless apply to assets held to cover that guaranteed element.
- 6.2 Assets held by a *firm* to cover its *technical provisions* and other *long-term insurance liabilities* or *general insurance liabilities* must:
- (1) have characteristics of safety, yield and marketability which are appropriate to the type of business carried on by the *firm*;
 - (2) be diversified and adequately spread; and
 - (3) in accordance with 6.3, be of a sufficient amount, and of an appropriate currency and term, to ensure that the cash inflows from those assets will meet the expected cash outflows from the *firm's* insurance liabilities as they become due.
- 6.3 For the purpose of 6.2(3), in determining expected cash outflows, a *firm* must take into consideration any options which exist in the *firm's contracts of insurance*.

7 PREMIUMS FOR NEW BUSINESS

- 7.1 A *firm* must not enter into a *contract of long-term insurance* unless it is satisfied on reasonable actuarial assumptions that:
- (1) the *premiums* receivable and the investment income expected to be earned from those *premiums*; and
 - (2) the *reinsurance* arrangements made in respect of the risk or risks covered by that new contract;
- are sufficient to enable it, when taken together with the *firm's* other resources, to meet the requirements in 7.2.
- 7.2 The requirements referred to in 7.1 are, to:
- (1) establish adequate *technical provisions* as required by 2.2;
 - (2) hold *admissible assets* of a value at least equal to the amount of the *technical provisions* and other *long-term insurance liabilities* as required by 4; and
 - (3) maintain adequate overall financial resources as required by Insurance Company - Overall Resources and Valuation 2.3.

Annex C

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

Part

INSURANCE COMPANY - MATHEMATICAL RESERVES

Chapter content

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- 16. OPTIONS**
- 17. PERSISTENCY ASSUMPTIONS**
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Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *non-directive insurer* which carries on *long-term insurance business*, other than a *non-directive friendly society*.

1.2 Except for 16.3(1) this Part does not apply to *final bonuses*.

1.3 In this Part, the following definitions shall apply:

benefits payable

means benefits payable under a *long-term insurance contract*, including:

- (1) all guaranteed benefits including guaranteed *surrender values* and paid-up values;
- (2) vested, declared and allotted bonuses to which the *policyholder* is entitled;
- (3) all options available to the *policyholder* under the terms of the contract; and
- (4) discretionary benefits payable in accordance with any relevant provisions of the *FCA Handbook*.

dividend yield

has the meaning given in 9.6(1).

earnings yield

has the meaning given in 9.6(2).

future premium

means the value attributed to a *premium* due in any future *financial year*.

internal rate of return

has the meaning given in 9.7.

non-attributable expenses

means expenses which are not directly attributable to a particular *contract of long-term insurance*.

recoverable acquisition expenses

means the amount of expenses, after allowing for the effects of taxation, which it is reasonable to expect will be recovered from *future premiums* payable under the contract.

risk-adjusted yield

means the risk-adjusted yield calculated in accordance with 9 and 10.

running yield

has the meaning given in 9.5.

2 BASIC VALUATION METHOD

- 2.1 (1) Subject to (2), a *firm* must establish its *mathematical reserves* using a prospective actuarial valuation on prudent assumptions of all future cash flows expected to arise under, or in respect of, each of its *contracts of long-term insurance*.
- (2) A *firm* may use a retrospective actuarial valuation where:
- (a) a prospective method cannot be applied to a particular type of contract; or
 - (b) the *firm* can demonstrate that the resulting amount of the *mathematical reserves* would be no lower than would be required by a prudent prospective actuarial valuation.

3 METHODS AND ASSUMPTIONS

- 3.1 In the actuarial valuation under 2.1, a *firm* must use methods and prudent assumptions which:
- (1) are appropriate to the business of the *firm*;
 - (2) are consistent from year to year without arbitrary changes;
 - (3) are consistent with the method of valuing assets;
 - (4) include appropriate margins for adverse deviation of relevant factors which are sufficiently prudent to ensure that there is no significant foreseeable risk that liabilities to *policyholders* in respect of *contracts of long-term insurance* will not be met as they fall due;
 - (5) recognise the distribution of profits (that is, emerging surplus) in an appropriate way over the duration of each *contract of insurance*;
 - (6) take into account its regulatory duty to treat its customers fairly under any relevant provision of the *FCA Handbook*; and
 - (7) are in accordance with generally accepted actuarial practice.

4 VALUATION OF INDIVIDUAL CONTRACTS

- 4.1 (1) Subject to (2) and (3), a *firm* must determine the amount of the *mathematical reserves* separately for each *contract of long-term insurance*.
- (2) Approximations or generalisations may be made:
- (a) in the case of *non-attributable expenses*, in relation to a group of contracts with the same or similar expense risk characteristics, provided that the *mathematical reserves* in respect of such expenses established by the *firm* in relation to that group of contracts have a minimum value of at least zero; and
 - (b) in any other case, where they are likely to provide the same, or a higher, result than a determination made in accordance with (1).
- (3) A *firm* must set up additional *mathematical reserves* on an aggregated basis for general risks that are not specific to individual contracts.

5 NEGATIVE MATHEMATICAL RESERVES

- 5.1 A *firm* may calculate a negative value for the *mathematical reserves* in respect of a *contract of long-term insurance* provided that:
- (1) this is based on assumptions which meet the general requirements for prudent assumptions as set out in 3.1;
 - (2) the contract does not have a *surrender value* which at the *actuarial valuation date* is guaranteed; and
 - (3) the total *mathematical reserves* established by the *firm* have a minimum value of at least:
 - (a) where the *firm's contracts of long-term insurance* include *linked long-term contracts of insurance*, the sum of the surrender values of all its *linked long-term contracts of insurance* at the *actuarial valuation date*; and
 - (b) in any other case, zero.

6 AVOIDANCE OF FUTURE VALUATION STRAIN

- 6.1 (1) A *firm* must establish *mathematical reserves* for a *contract of insurance* which are sufficient to ensure that, at any subsequent date, the *mathematical reserves* then required are covered solely by:
- (a) the assets covering the current *mathematical reserves*; and
 - (b) the resources arising from those assets and from the contract itself.
- (2) For the purposes of (1), the *firm* must assume that:
- (a) the assumptions adopted for the current valuation of liabilities remain unaltered and are met; and
 - (b) discretionary benefits and charges will be set so as to fulfil its regulatory duty to treat its customers fairly under any relevant provision of the *FCA Handbook*.
- (3) Subject to (4), the requirements in (1) may be applied to a group of similar contracts instead of to the individual contracts within that group.
- (4) The requirements in (1) must be applied to a group of contracts in relation to which *mathematical reserves* in respect of *non-attributable expenses* are established for that group of contracts in accordance with 4.1(2)(a), instead of to the individual contracts within that group.

7 CASH FLOWS TO BE VALUED

- 7.1 In a prospective valuation, a *firm* must:
- (1) include in the cash flows to be valued, the following:
 - (a) *future premiums*;
 - (b) expenses, including commissions;

- (c) *benefits payable*; and
 - (d) subject to (2), amounts to be received or paid in respect of *contracts of long-term insurance* under contracts of *reinsurance* or *analogous non-reinsurance financing agreements*; but
- (2) exclude from those cash flows amounts recoverable from an *ISPV*.

8 VALUATION RATES OF INTEREST

- 8.1 In calculating the present value of future net cash flows, a *firm* must determine the rates of interest to be used in accordance with 8.2, 9 and 10.
- 8.2 (1) The rates of interest required by 8.1 to be used by a *firm* for the calculation of the present value of a *long-term insurance liability* must not exceed 97.5% of the *risk-adjusted yield* that is expected to be achieved on:
- (a) the assets allocated to cover that liability;
 - (b) the reinvestment of sums expected to be received from those assets; and
 - (c) the investment of future *premium* receipts.
- (2) The requirements in (1) do not apply to a *contract of long-term insurance* in respect of which the *firm* has calculated a negative value for the *mathematical reserves* in accordance with 5.1.
- (3) For the purposes of (1), the rates of interest assumed must allow appropriately for the rates of tax that apply to the investment return on *policyholder* assets.
- (4) For the purposes of (3), the rates of tax assumed must be such that the *firm's* total implied liability for tax arising from the allocation of assets to liabilities is not less than the *firm's* actual expected liability for tax for the period in respect of which tax is to be assessed.

9 RISK-ADJUSTED YIELD

- 9.1 A *risk-adjusted yield* on an asset must be calculated by:
- (1) taking the asset together with any covering *derivatives*, forward transactions and *quasi-derivatives*;
 - (2) assuming that the factors which affect the yield will remain unchanged after the valuation date;
 - (3) valuing the asset (together with any *offsetting transaction*) in accordance with Insurance Company – Overall Resources and Valuation 3 to 8;
 - (4) making reasonable assumptions as to whether, and if so when, any options or other rights embedded in the asset (or in any *offsetting transaction*) will be exercised.
- 9.2 For the purpose of 9.1(2), the factors that affect yield should be ascertained as at the valuation date (that is, the date to which present values of cash flows are being calculated). All changes known to have occurred by that date must be taken into account including:
- (1) changes in the rental income from *real estate*;

- (2) changes in dividends or audited profit on equities;
 - (3) known or forecast changes in dividends which have been publicly announced by the *issuer* by the valuation date;
 - (4) known or forecast changes in earnings which have been publicly announced by the *issuer* by the valuation date;
 - (5) alterations in capital structure; and
 - (6) the value (at the most recent date at or before the valuation date for which it is known) of any determinant of the amount of any future interest or capital payment.
- 9.3 The *risk-adjusted yield* is either:
- (1) for equities and *real estate*, a *running yield*; or
 - (2) for all other assets, the *internal rate of return*.
- 9.4 The *risk-adjusted yield* on a basket of assets is the arithmetic mean of the *risk-adjusted yield* on each asset weighted by that asset's *market value*.
- 9.5 The *running yield*:
- (1) for *real estate*, is the ratio of:
 - (a) the rental income arising from the *real estate* over the previous 12 *months*; to
 - (b) the *market value* of the *real estate*.
 - (2) for equities, is:
 - (a) the *dividend yield*, if the *dividend yield* is more than the *earnings yield*;
 - (b) otherwise, the sum of the *dividend yield* and the *earnings yield*, divided by two.
- 9.6 For the purposes of 9.5(2):
- (1) the *dividend yield* is the ratio (expressed as a percentage) of dividend income over the previous 12 *months* from the equities for which the *running yield* is being calculated ("the relevant equities") to the *market value* of those equities;
 - (2) the *earnings yield* is the ratio (expressed as a percentage) of the audited profit (including exceptional items and extraordinary items) for the preceding *financial year* of the *issuer* of the relevant equities to the *market value* of those equities;
 - (3) the *earnings yield* must be calculated in accordance with whichever is most appropriate (to the *issuer* of the relevant equities) of *UK*, *US* or international generally accepted accounting practice.
- 9.7 The *internal rate of return* on an asset is the annual rate of interest which, if used to calculate the present value of future income (before deduction of tax) and of repayments of capital (before deduction of tax) would result in the sum of those amounts being equal to the *market value* of the asset.
- 9.8 In both the *running yield* and *internal rate of return* the yield must be reduced to exclude that part of the yield that represents compensation for credit risk arising from the asset.

- 9.9 Provision for credit risk for securities that are not credit-rated must be made on principles at least as prudent as those adopted for credit-rated securities.

10 INVESTMENT AND REINVESTMENT

- 10.1 The *risk-adjusted yield* assumed for the investment or reinvestment of sterling sums (other than sums expected to be received within the next three years) must not exceed the lowest of:
- (1) the higher of:
 - (a) the long-term gilt yield; and
 - (b) the greater of:
 - (i) the forward gilts yield; and
 - (ii) the forward rate on sterling interest rate swaps, reduced to exclude that part of the rate that represents compensation for credit risk;

where the forward yields and forward rates corresponding to the time when the sums are expected to be received are weighted so as to reflect the investment and reinvestment characteristics of the liabilities covered;
 - (2) 3% per annum, increased by two thirds of the excess, if any, of the percentage in (1) over 3% per annum; and
 - (3) 6.5% per annum.
- 10.2 The *risk-adjusted yield* assumed for the investment or reinvestment of those sterling sums expected to be received within the next three years must not exceed the *risk-adjusted yield* on the assets actually held adjusted linearly over the three-year period to the *risk-adjusted yield* determined under 10.1.
- 10.3 The *risk-adjusted yield* assumed for the investment or reinvestment of sums denominated in a currency other than sterling must be at least as prudent as in 10.1 and 10.2 taking into account the yields on government securities denominated in that currency.
- 10.4 For the purpose of 10.3 the yields on the government securities must be reduced to exclude that part of the yield that represents compensation for credit risk unless, in relation to the *issuer* of those securities, a credit rating is available from at least one of the following rating agencies in the corresponding rating categories;
- (1) for A.M. Best Company, 'aaa' or 'aa';
 - (2) for Fitch Ratings, 'AAA' or 'AA';
 - (3) for Moody's Investors Service 'Aaa' or 'Aa'; or
 - (4) for Standard & Poor's Corporation 'AAA' or 'AA'.

11 FUTURE PREMIUMS

- 11.1 This Chapter applies to *with-profits policies*, except *accumulating with-profits policies* written on a recurring single premium basis.
- 11.2 A *future premium* must not exceed the lower of the value of:

- (1) the actual *premium* payable under the contract; and
- (2) the *net premium*, which may be increased for *deferred acquisition costs* in accordance with 12.1.

11.3 Where the terms of a *contract of insurance* have changed since it was first entered into, a *firm* must, in determining the *net premium* for the purpose of 11.2(2), treat that change as if either:

- (1) it had been included in the original contract but came into effect from the time the change became effective; or
- (2) the original contract were cancelled and replaced by a new contract (with an initial *premium* paid on the new contract equal to the liability under the original contract immediately prior to the change); or
- (3) subject to 11.4, it gave rise to two separate contracts where:
 - (a) all *premiums* are payable under the first contract and that contract provides only for such benefits as those *premiums* could have purchased from the *firm* at the date the change became effective; and
 - (b) no *premiums* are payable under the second contract and that contract provides for all the other benefits.

11.4 For the purposes of 11.3(3), a *firm* must not treat the change referred to in 11.3 as giving rise to two separate contracts unless a meaningful comparison can be made between the terms of the contract (as changed) and the terms upon which the *firm* was newly *effecting contracts of insurance* at the time the contract was changed.

12 FUTURE PREMIUMS: ADJUSTMENT FOR DEFERRED ACQUISITION COSTS

- 12.1 (1) The amount of any increase to the *net premium* for *deferred acquisition costs* must not exceed the equivalent of the *recoverable acquisition expenses* spread over the period of *premium* payments and calculated in accordance with the rates of interest, mortality and morbidity assumed in calculating the *mathematical reserves*.
- (2) The *recoverable acquisition expenses* in (1) must not exceed the lower of:
- (a) the value of the excess of actual *premiums* over *net premiums*; and
 - (b) 3.5% of the *relevant capital sum*.
- (3) *Recoverable acquisition expenses* may be calculated as the average for a group of similar contracts weighted by the *relevant capital sum* for each contract.

13 FUTURE PREMIUMS: ACCUMULATING WITH-PROFITS POLICIES

13.1 This Chapter applies to *accumulating with-profits policies* written on a recurring single *premium* basis.

- 13.2 (1) A *firm* must not attribute any value to a *future premium* under the contract.
- (2) Any liability arising only upon the payment of that *premium* may be ignored except to the extent that the value of that liability upon payment would exceed the amount of that *premium*.

14 EXPENSES

- 14.1 (1) A *firm* must make provision for expenses, either implicitly or explicitly, in its *mathematical reserves* of an amount which is not less than the amount expected, on prudent assumptions, to be incurred in fulfilling its *contracts of long-term insurance*.
- (2) For the purpose of (1), expenses must be valued:
- (a) after taking account of the effect of taxation;
 - (b) having regard to the *firm's* actual expenses in the last 12 *months* before the *actuarial valuation date* and any increases in expenses expected to occur in the future;
 - (c) after making prudent assumptions as to the effects of inflation on future increases in prices and earnings; and
 - (d) at no less than the level that would be incurred if the *firm* were to cease to transact new business 12 *months* after the *actuarial valuation date*.
- (3) A *firm* must not rely upon an implicit provision arising from the method of valuing *future premiums* except to the extent that:
- (a) it is reasonable to assume that expenses will be recoverable from *future premiums*; and
 - (b) the expenses would only arise if the *future premiums* were received.
- 14.2 The provisions for expenses (whether implicit or explicit) required by 14.1 must be sufficient to cover all the expenses of running off the *firm's* existing *long-term insurance business* including:
- (1) all discontinuance costs (for example, redundancy costs and closure costs) that would arise if the *firm* were to cease transacting new business 12 *months* after the *actuarial valuation date* in circumstances where (and to the extent that) the discontinuance costs exceed the projected surplus available to meet such costs;
 - (2) all costs of continuing to service the existing business taking into account the loss of economies of scale from, and any other likely consequences of, ceasing to transact new business at that time; and
 - (3) the lower of:
 - (a) any projected valuation strain from writing new business for the 12 *months* following the *actuarial valuation date* to the extent the actual amount of that strain exceeds the projected surplus on prudent assumptions from existing business in the 12 *months* following the *actuarial valuation date*; and
 - (b) any projected new business expense overrun from writing new business for the 12 *months* following the *actuarial valuation date* to the extent the projected expenses exceed the expenses that the new business can support on a prudent basis.

15 MORTALITY AND MORBIDITY

- 15.1 A *firm* must set the assumptions for mortality and morbidity using prudent rates of mortality and morbidity that are appropriate to the country or territory of residence of the person whose life or health is insured.

16 OPTIONS

- 16.1 (1) When a *firm* establishes its *mathematical reserves* in respect of a *contract of long-term insurance*, the *firm* must include an amount to cover any increase in liabilities which might be the direct result of its *policyholder* exercising an option under, or by virtue of, that *contract of insurance*.
- (2) Where the *surrender value* of a contract is guaranteed, the amount of the *mathematical reserves* for that contract at any time must be at least as great as the value guaranteed at that time.
- 16.2 (1) Where a *policyholder* may opt to be paid a cash amount or a series of cash payments (including the amount or amounts likely to be paid on a voluntary discontinuance), the *mathematical reserves* for the *contract of insurance* established under 2.1 must be sufficient to ensure that the payment or payments could be made solely from:
- (a) the assets covering those *mathematical reserves*; and
- (b) the resources arising from those assets and from the contract itself.
- (2) For the purposes of (1), the *firm* must assume that:
- (a) the assumptions adopted for the current valuation remain unaltered and are met; and
- (b) discretionary benefits and charges will be set so as to fulfil the *firm's* regulatory duty to treat its customers fairly under any relevant provision of the *FCA Handbook*.
- (3) (1) may be applied to a group of similar contracts instead of to the individual contracts within that group, except where the cash amount or series of cash payments is the amount or amounts likely to be paid on a voluntary discontinuance.
- 16.3 For the purposes of 16.2, a *firm* must assume that the amount of a cash payment secured by the exercise of an option is:
- (1) in the case of an *accumulating with-profits policy*, the lower of:
- (a) the amount which the *policyholder* would reasonably expect to be paid if the option were exercised, having regard to the representations made by the *firm* and including any expectations of a *final bonus*; and
- (b) that amount, disregarding all discretionary adjustments;
- (2) in the case of any other *policy*, the amount which the *policyholder* would reasonably expect to be paid if the option were exercised, having regard to the representations made by the *firm*, without taking into account any expectations regarding future distributions of profits or the granting of discretionary additions in respect of an *established surplus*.

17 PERSISTENCY ASSUMPTIONS

- 17.1 A *firm* must, when making assumptions about voluntary discontinuance rates in the calculation of the *mathematical reserves*, ensure that those assumptions meet the general requirements for prudent assumptions as set out in 3.1.

18 REINSURANCE

- 18.1 In this Chapter, references to:

- (1) *reinsurance* and contracts of *reinsurance* include *analogous non-reinsurance financing agreements*;
- (2) reinsured risks, in relation to a contract of *reinsurance* entered into by a *firm*, means that part of:
 - (a) the risks insured by the *firm* under *contracts of long-term insurance* entered into by it; and
 - (b) the other risks arising directly from the *firm's long-term insurance business*; that have been transferred to the *reinsurer* under that contract of *reinsurance*; and
- (3) *reinsurance* cash outflows include any reduction in *policy* liabilities recognised as covered under a contract of *reinsurance* or any reduction of any debt to the *firm* under or in respect of a contract of *reinsurance*.

- 18.2 A *firm* must value *reinsurance* cash flows using methods and assumptions which are at least as prudent as the methods and assumptions used to value the underlying *contracts of insurance* which have been reinsured.

- 18.3 For purposes of 18.2:

- (1) *reinsurance* recoveries must not be recognised unless the underlying liabilities to which they relate have also been recognised;
- (2) *reinsurance* cash outflows need not be valued provided that:
 - (a) in accordance with 18.5 and 18.6, they are unambiguously linked to the emergence as surplus of margins included in the valuation of existing *contracts of insurance* or to the exercise by a *reinsurer* of its rights under a termination clause; and
 - (b) the conditions in 18.4 are satisfied;
- (3) *reinsurance* cash inflows that are contingent on factors or conditions other than the reinsured risks must not be valued.

- 18.4 The conditions referred to in 18.3(2)(b) are that:

- (1) the *reinsurance* is not connected with any other transaction, which, when taken together with the *reinsurance*, could result in the requirements set out in 18.3(2) no longer being satisfied or in the risk transferred under the *reinsurance* being undermined; and
- (2) the present value of the future *reinsurance* cash outflows that may be disregarded under 18.3(2) must not at any time exceed the value of the aggregate net cash

inflows that have already been received by the *firm* under the contract of *reinsurance* accumulated at an assumed rate of LIBOR + 6% per annum.

- 18.5 For the purposes of 18.3(2), the "link" must be such that a contingent liability to pay or repay the amount to the *reinsurer* could not arise except when, and to the extent that, the margins in the valuation of the existing *contracts of insurance* emerge as surplus, or the *reinsurer* exercises its rights under a termination clause in the contract of *reinsurance* as a result of:
- (1) fraudulent conduct by the *firm* under or in relation to the contract of *reinsurance*; or
 - (2) a representation as to the existence, at or before the time the contract of *reinsurance* is entered into, of a state of affairs which is within the knowledge or control of the *firm* and which is material to the *reinsurer's* decision to enter into the contract being discovered to be false; or
 - (3) the non-payment of *reinsurance premiums* by the *firm*; or
 - (4) a transfer by the *firm* of the whole or a specified part of its business without the agreement of the *reinsurer*, except where that agreement has been unreasonably withheld.
- 18.6 (1) Subject to (2), for the purposes of 18.3(2) and 18.5, future surplus may only be offset against future *reinsurance* cash outflow in respect of surplus on *non-profit policies* and the charges or shareholder transfers arising as surplus from *with-profits policies*.
- (2) Such charges and transfers may only be allowed for to the extent consistent with the regulatory duty of the *firm* to treat its customers fairly under any relevant provision of the *FCA Handbook*.

19 RECORD KEEPING

- 19.1 A *firm* must make, and retain for an appropriate period, a record of:
- (1) the methods and assumptions used in establishing its *mathematical reserves*, including the margins for adverse deviation, and the reasons for their use; and
 - (2) the nature of, reasons for, and effect of, any change in approach, including the amount by which the change in approach increases or decreases its *mathematical reserves*.

Annex D

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

Part

INSURANCE COMPANY – CAPITAL RESOURCES REQUIREMENTS

Chapter content

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18. INSURANCE MARKET RISK CAPITAL COMPONENT
19. ADJUSTED MATHEMATICAL RESERVES
20. RESILIENCE CAPITAL REQUIREMENT
21. ISPVS

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *non-directive insurer* other than a *non-directive friendly society*.

1.2 If a *firm* carries on *long-term insurance business* and *general insurance business*, except where a particular provision provides otherwise, the rules in this Part apply separately to each type of business.

1.3 In this Part, the following definitions shall apply:

adjusted mathematical reserves

has the meaning given in 19.1.

administrative expenses

has the meaning set out in the *insurance accounts rules*.

base capital resources requirement

has the meaning given in 6.1.

defined benefits pension scheme

means a *pension policy* under which the only *money-purchase benefits* are benefits ancillary to other benefits which are not *money-purchase benefits*.

equity market adjustment ratio

means:

- (1) if the ratio calculated in (a) and (b) lies between 75% and 100%, the result of 100% less the ratio (expressed as a percentage) of:
 - (a) the current value of the FTSE Actuaries All Share Index; to
 - (b) the average value of the FTSE Actuaries All Share Index over the preceding 90 calendar days;
- (2) 0%, if the ratio calculated in (1)(a) and (b) is more than 100%; and
- (3) 25%, if the ratio calculated in (1)(a) and (b) is less than 75%,

where the average value of the FTSE Actuaries All Share Index over any period of 90 calendar days is the arithmetic mean based on levels at the close of business on each of the days in that period on which the London Stock Exchange was open for trading.

gross adjusted claims amount

has the meaning given in 9.2 to 9.5.

gross adjusted premiums amount

has the meaning given in 8.2.

life protection reinsurance business

means *reinsurance* acceptances which are *contracts of insurance*:

- (1) falling within *long-term insurance business class I*; or
- (2) falling within *long-term insurance business class III* and providing *index-linked benefits*;

that are not:

- (3) *with-profits policies*;
- (4) *whole life assurances*;
- (5) contracts to pay annuities on human life; or
- (6) contracts which pay a sum of money on the survival of the life assured to a specific date or on his earlier death.

long-term gilt yield

means the annualised equivalent of the 15 year gilt yield for the *UK* Government fixed-interest *securities* index jointly compiled by the Financial Times, the Institute of Actuaries and the Faculty of Actuaries.

mixed insurer

means an *insurer* (other than a *pure reinsurer*) which carries on *reinsurance* business and where one or more of the following conditions is met in respect of its *reinsurance* acceptances:

- (1) the *premiums* collected in respect of those acceptances during the previous *financial year* exceeded 10% of its total *premiums* collected during that year; and
- (2) the *technical provisions* in respect of those acceptances at the end of the previous *financial year* exceeded 10% of its total *technical provisions* at the end of that year.

money-purchase benefits

means benefits, the rate or amount of which are calculated by reference to a payment or payments made by a member of the scheme.

permanent health reinsurance business

means *reinsurance* acceptances which are *contracts of insurance* falling within *long-term insurance business class IV*.

real estate market adjustment ratio

means:

- (1) if the ratio calculated in (a) and (b) lies between 90% and 100%, the result of 100% less the ratio (expressed as a percentage) of:
 - (a) the current value of the real estate index; to

- (b) the average value of that real estate index over the three preceding *financial years*;
- (2) 0%, if the ratio calculated in (1)(a) and (b) is more than 100%; and
- (3) 10%, if the ratio calculated in (1)(a) and (b) is less than 90%.

reinsurance ratio

has the meaning given in 11.1.

relevant assets

means a range of assets which must be selected by the *firm* pursuant to 20.2 from the assets specified in (1) and (2) in the order specified:

- (1) its *long-term insurance assets*; and
- (2) only where the *firm* has selected all the assets within (1), its shareholder assets, other than assets of an amount and kind required:
 - (a) to cover its liabilities arising outside its *long-term insurance funds*; or
 - (b) to meet any regulatory capital requirements in respect of business written outside its *long-term insurance funds*.

significant territory

means any country or territory in which more than 2.5% of a *firm's long-term insurance assets* (by *market value*), excluding assets held to cover *index-linked liabilities* or *property-linked liabilities*, are invested and for these purposes the member states of the *EU* which have adopted the Euro as the official currency may be treated as a single territory.

whole life assurance

means a *contract of insurance* which, disregarding any benefit payable on surrender, secures a capital sum only on death or either on death or on disability, but does not include a term assurance.

2 RESOURCES MONITORING

- 2.1 A *firm* must at all times monitor whether it is complying with 3.1 and be able to demonstrate that it knows at all times whether it is complying with that rule.
- 2.2 A *firm* must notify the *PRA* immediately in accordance with Notifications 2 of any breach, or expected breach, of 3.1.

3 CAPITAL RESOURCES REQUIREMENT

- 3.1 A *firm* must maintain at all times *capital resources* equal to or in excess of its *CR Requirement*.
- 3.2 A *firm* that carries on both *long-term insurance business* and *general insurance business* must comply with 3.1, and apply 4.2 and 4.3, separately in respect of both its *long-term insurance business* and its *general insurance business*, unless it is a *pure reinsurer* which has a single *CR Requirement* in respect of its entire business in accordance with 5.2 and 5.3.

4 CALCULATION OF THE CR REQUIREMENT

- 4.1 This Chapter does not apply to a *pure reinsurer*.
- 4.2 The *CR Requirement* for a *firm* carrying on *general insurance business* is equal to the higher of:
- (1) the *base capital resources requirement* for *general insurance business* applicable to that *firm*; and
 - (2) the *general insurance capital requirement*.
- 4.3 The *CR Requirement* for a *firm* carrying on *long-term insurance business* is equal to the higher of:
- (1) the *base capital resources requirement* for *long-term insurance business* applicable to that *firm*; and
 - (2) the *long-term insurance capital requirement*.

5 CALCULATION OF THE CR REQUIREMENT – PURE REINSURERS

- 5.1 This Chapter only applies to a *pure reinsurer*.
- 5.2 Subject to 5.3, for a *pure reinsurer*:
- (1) the *CR Requirement* in respect of its *general insurance business* is the *general insurance capital requirement*; and
 - (2) the *CR Requirement* in respect of its *long-term insurance business* is the *long-term insurance capital requirement*.
- 5.3 If the sum of:
- (1) the *general insurance capital requirement*; and
 - (2) the *long-term insurance capital requirement*,
- is lower than the *base capital resources requirement*, the *firm* has a single *CR Requirement* in respect of its entire business equal to the *base capital resources requirement*.

6 BASE CAPITAL RESOURCES REQUIREMENT

- 6.1 The amount of a *firm's base capital resources requirement* is:

Firm category		Amount
General insurance business		
Liability insurer (classes 10-15)	A mutual that is a Solvency I firm	£2.25 million
	An insurer that is a non-Solvency I firm	£280,000
	Other (including mixed insurer but excluding pure reinsurer)	£3.00 million
Other insurer	A mutual that is a Solvency I firm	£1.5 million
	An insurer that is a non-Solvency I firm (classes 1 to 8, 16 or 18)	£210,000
	An insurer that is a non-Solvency I firm (classes 9 or 17)	£140,000
	Mixed insurer	£3.00 million
	Other (excluding pure reinsurer)	£2.00 million
Long-term insurance business		
Mutual	A mutual that is a Solvency I firm	£2.25 million
	A mutual that is a non-Solvency I firm	£560,000
Any other insurer (including a mixed insurer but excluding a pure reinsurer)		£3.00 million
All business (general insurance business and long-term insurance business)		
Pure reinsurer		£3.00 million

- 6.2 If a firm falls within one or more of the descriptions of type of firm set out in 6.1, its base capital resources requirement is the highest amount set out against the different types of firm within whose description it falls.

7 GENERAL INSURANCE CAPITAL REQUIREMENT

- 7.1 A firm carrying on general insurance business must calculate its general insurance capital requirement as the highest of:

- (1) the premiums amount;
- (2) the claims amount; and
- (3) the brought forward amount.

8 THE PREMIUMS AMOUNT

- 8.1 The premiums amount is:

- (1) 18% of the gross adjusted premiums amount, multiplied by
- (2) the reinsurance ratio.

- 8.2 For the purpose of 8.1, the gross adjusted premiums amount is the higher of the gross written premiums and gross earned premiums (as adjusted in accordance with 12.1) for the financial year in question, adjusted by:

- (1) except for a pure reinsurer which ceased to conduct new reinsurance contracts before 31 December 2006, increasing the amount included in respect of the premiums for general insurance business classes 11, 12 and 13 by 50%;

- (2) deducting 66.7% of the *premiums* for *actuarial health insurance* that meets the conditions set out in 13.1; and
- (3) multiplying the resulting figure by 12 and dividing by the number of *months* in the *financial year*. For the purposes of this calculation, the number of *months* in the *financial year* is the number of complete calendar *months* in the *financial year* plus any fractions of a *month* at the beginning and the end of the *financial year*.

9 THE CLAIMS AMOUNT

- 9.1 The *claims amount* is:
- (1) 26% of the *gross adjusted claims amount*, multiplied by
 - (2) the *reinsurance ratio*.
- 9.2 For the purpose of 9.1 and subject to 9.3, the *gross adjusted claims amount* is the amount of gross claims incurred (as determined in accordance with 12.1) over the reference period and adjusted by:
- (1) except for a for a *pure reinsurer* which ceased to conduct new *reinsurance contracts* before 31 December 2006, increasing by 50% the amount included in respect of the *claims* incurred for 11, 12 and 13;
 - (2) deducting 66.7% of the *claims* for *actuarial health insurance* that meets the conditions set out in 13.1; and
 - (3) multiplying the resulting figure by 12 and dividing by the number of *months* in the reference period. For the purposes of this calculation, the number of *months* in the reference period is the number of complete calendar *months* in the reference period plus any fractions of a *month* at the beginning and the end of the reference period.
- 9.3 For the purposes of 9.1, in relation to *general insurance business class 18*, the amount of *claims* incurred used to calculate the *gross adjusted claims amount* must be the amount of costs recorded in the *firm's* books in the reference period as borne by the *firm* (whether or not borne in the reference period) in respect of the assistance given.
- 9.4 Except in those cases where 9.5 applies, the reference period to be used in 9.2 and 9.3 must be:
- (1) the *financial year* in question and the two previous *financial years*; or
 - (2) the period the *firm* had been in existence at the end of the *financial year* in question, if shorter.
- 9.5 In the case of a *firm* which underwrites only one or more of the *general insurance business* risks of credit (as included in *general insurance business class 14*), storm (as included in *general insurance business class 8*), hail or frost (as included in *general insurance business class 9* and including other business written in connection with such risks), the reference period to be used must be:
- (1) the *financial year* in question and the six previous *financial years*; or
 - (2) the period for which the *firm* had been in existence at the end of the *financial year* in question, if shorter.

10 THE BROUGHT FORWARD AMOUNT

- 10.1 Subject to 10.2 and 10.3, the *brought forward amount* is the *general insurance capital requirement* for the prior *financial year*, multiplied, if the ratio is less than one, by the ratio (expressed as a percentage) of:
- (1) the *technical provisions* (calculated net of *reinsurance*) for claims outstanding at the end of the prior *financial year*; to
 - (2) the *technical provisions* (calculated net of *reinsurance*) for claims outstanding at the beginning of the prior *financial year*.
- 10.2 If the amount of the *technical provisions* (calculated net of *reinsurance*) in 10.1(1) and (2) is in both cases zero, the *brought forward amount* is the *general insurance capital requirement* for the prior *financial year*, multiplied, if the ratio is less than one, by the ratio (expressed as a percentage) of:
- (1) the *technical provisions* (calculated gross of *reinsurance*) for claims outstanding at the end of the prior *financial year*; to
 - (2) the *technical provisions* (calculated gross of *reinsurance*) for claims outstanding at the beginning of the prior *financial year*.
- 10.3 If the amount of the *technical provisions* (calculated gross of *reinsurance*) in 10.2(1) and (2) is in both cases zero, the *brought forward amount* is the *general insurance capital requirement* for the prior *financial year*.

11 REINSURANCE RATIO

- 11.1 The *reinsurance ratio* is:
- (1) if the ratio calculated in (a) and (b) lies between 50% and 100%, the ratio (expressed as a percentage) of:
 - (a) the claims incurred (net of *reinsurance*) in the *financial year* in question and the two previous *financial years*; to
 - (b) the gross claims incurred in that three-year period;
 - (2) 50%, if the ratio calculated in (1)(a) and (b) is 50% or less; and
 - (3) 100%, if the ratio calculated in (1)(a) and (b) is 100% or more.

12 ACCOUNTING FOR PREMIUMS AND CLAIMS

- 12.1 For the purposes of 8.2, 9.2, 9.3, 10.1, 10.2 and 11.1, amounts of *premiums* and claims must be:
- (1) determined in accordance with the *insurance accounts rules*; and
 - (2) adjusted for transfers that were approved by the authority with responsibility for the approval of transfers of portfolios of *contracts of insurance* at the relevant time (or became effective where approval by an authority was not required) before the end of the *financial year* in question:

- (a) to exclude any amount included in, or adjustment made to, *premiums* and claims to reflect the consideration for a transfer of *contracts of insurance* to or from the *firm*;
 - (b) to exclude *premiums* and claims (including amounts that arose in the *financial year* in question or previous *financial years*) which arose from *contracts of insurance* that have been transferred by the *firm* to another body; and
 - (c) to account for *premiums* and claims which arose from *contracts of insurance* that have been transferred to the *firm* from another body as if they were receivable by or payable by the *firm* (including where they arose prior to the date of transfer and were, in fact, receivable by or payable by the other body).
- 12.2 For both transfers to and from the *firm*, the consideration receivable or payable in respect of the transfer is excluded from *premiums* and claims in order to avoid double counting.
- 12.3 Where there has been a significant change in the business portfolio of the *firm* since the end of the *financial year* in question, the *gross adjusted premiums amount* and the *gross adjusted claims amount* must both be recalculated to take into account the impact of this change. The recalculation must take into account the requirements of the *insurance accounts rules*.

13 ACTUARIAL HEALTH INSURANCE

- 13.1 The conditions referred to in 8.2(2) and 9.2(2) are that:
- (1) the health insurance is underwritten on a similar technical basis to that of life insurance;
 - (2) the *premiums* paid are calculated on the basis of sickness tables according to the mathematical method applied in insurance;
 - (3) a provision is set up for increasing age;
 - (4) an additional *premium* is collected in order to set up a safety margin of an appropriate amount;
 - (5) it is not possible for the *firm* to cancel the contract after the end of the third year of insurance; and
 - (6) the contract provides for the possibility of increasing *premiums* or reducing payments even for current contracts.

14 LONG-TERM INSURANCE CAPITAL REQUIREMENT

- 14.1 A *firm* carrying on *long-term insurance business* must calculate its *long-term insurance capital requirement* as the sum of:
- (1) the *insurance death risk capital component*;
 - (2) the *insurance health risk and life protection reinsurance capital component*;
 - (3) the *insurance expense risk capital component*;
 - (4) the *insurance market risk capital component*; and

- (5) the *resilience capital requirement*.

15 INSURANCE DEATH RISK CAPITAL COMPONENT

15.1 This Chapter does not apply to:

- (1) a *pure reinsurer*, or
 (2) a *mixed insurer*,

in respect of *life protection reinsurance business*.

15.2 The *insurance death risk capital component* is the aggregate of the amounts which represent the fractions specified by 15.3 of the capital at risk, defined in 15.4, for *contracts of insurance* which fall within *long-term insurance business classes* I, II, III, VII, VIII or IX, in respect of those contracts where the capital at risk is not a negative figure, multiplied by the higher of:

- (1) 50%; and
 (2) the ratio as at the end of the *financial year* in question of:
- (a) the aggregate capital at risk in respect of that category of contracts net of *reinsurance cessions*; to
 (b) the aggregate capital at risk in respect of that category of contracts gross of *reinsurance cessions*.

15.3 For the purpose of 15.2, the fraction is:

- (1) for *long-term insurance business classes* I, II and IX, except for a *pure reinsurer*:
- (a) 0.1% for temporary insurance on death where the original term of the contract is three years or less;
 (b) 0.15% for temporary insurance on death where the original term of the contract is five years or less but more than three years; and
 (c) 0.3% in any other case;
- (2) 0.3% for *long-term insurance business classes* III, VII and VIII, except for a *pure reinsurer*; and
 (3) 0.1% for a *pure reinsurer*.

15.4 For the purpose of 15.2, the capital at risk is:

- (1) where the benefit under a *contract of insurance* payable as a result of death includes periodic or deferred payments, the present value of the benefits payable; and
 (2) in any other case, the amount payable as a result of death,

less, in either case, the *mathematical reserves* for the contract.

16 INSURANCE HEALTH RISK AND LIFE PROTECTION REINSURANCE CAPITAL COMPONENT

- 16.1 Subject to 16.2 the *insurance health risk and life protection reinsurance capital component* is the highest of:
- (1) the *premiums amount*;
 - (2) the *claims amount*; and
 - (3) the *brought forward amount*.
- 16.2 16.1 only applies in respect of:
- (1) *contracts of insurance* falling in *long-term insurance business class IV* (and subject to the conditions set out in 13.1 as modified by 16.3);
 - (2) risks falling in *general insurance business classes 1 or 2* that are written as part of a *contract of long-term insurance*; and
 - (3) in the case of a *pure reinsurer* or a *mixed insurer*, *life protection reinsurance business*.
- 16.3 For the purposes of 16.2, 13.1(3) is replaced with: "either the reserves include a provision for increasing age, or the business is conducted on a group basis."

17 INSURANCE EXPENSE RISK CAPITAL COMPONENT

- 17.1 This Chapter does not apply to:
- (1) a *pure reinsurer*; or
 - (2) a *mixed insurer*;
- in respect of *life protection reinsurance business* or *permanent health reinsurance business*.
- 17.2 The *insurance expense risk capital component* is:
- (1) in respect of *long-term insurance business classes III, VII and VIII*, an amount equivalent to 25% of the net *administrative expenses* in the *financial year* in question relevant to the business of each of those *classes*, in so far as the *firm* bears no investment risk and the allocation to cover *management expenses* in the *contract of insurance* does not have a fixed upper limit which is effective as a limit for a period exceeding five years from the commencement of the contract;
 - (2) in respect of any *tontine (long-term insurance business class V)*, 1% of the assets of the *tontine*;
 - (3) in the case of any other *long-term insurance business*, 1% of the *adjusted mathematical reserves*.

18 INSURANCE MARKET RISK CAPITAL COMPONENT

- 18.1 The *insurance market risk capital component* is 3% of the *adjusted mathematical reserves* for all insurance liabilities except those of a kind which:

- (1) arise from *contracts of insurance* falling in *long-term insurance business classes* III, VII or VIII to the extent that the *firm* does not bear any investment risk; or
- (2) arise from *contracts of insurance* falling in *long-term insurance business class* V; or
- (3) for a *pure reinsurer* or a *mixed insurer*, arise from *contracts of insurance* falling within:
 - (a) its *life protection reinsurance business*; or
 - (b) its *permanent health reinsurance business*.

19 ADJUSTED MATHEMATICAL RESERVES

- 19.1 The *adjusted mathematical reserves* referred to in 17.2 and 18.1 is the aggregate of the amounts which result from the performance of the calculation in 19.3 for each category of insurance liability specified in 19.2.
- 19.2 The categories of insurance liability referred to in 19.1 are:
- (1) for the purpose of 17.2:
 - (a) liabilities of a kind which arise from *contracts of insurance* falling in *long-term insurance business classes* I, II or IX;
 - (b) liabilities of a kind which arise from *contracts of insurance* falling in *long-term insurance business classes* III, VII or VIII to the extent that the *firm* bears an investment risk;
 - (c) liabilities of a kind which arise from *contracts of insurance* falling in *long-term insurance business classes* III, VII or VIII to the extent that the *firm* bears no investment risk and where the allocation to cover *management expenses* in the *contract of insurance* has a fixed upper limit which is effective as a limit for a period exceeding 5 years from the commencement of the contract;
 - (d) liabilities of a kind which arise from *contracts of insurance* falling in *long-term insurance business class* IV; and
 - (e) liabilities of a kind which arise from *contracts of insurance* falling in *long-term insurance business class* VI; and
 - (2) for the purpose of 18.1, those categories described in (1)(a), (b), (d) and (e).
- 19.3 The calculation referred to in 19.1 is the multiplication of the amount of the *mathematical reserves* (gross of *reinsurance* cessions) in respect of a category of insurance liability by the higher of:
- (1) 85% or, in the case of a *pure reinsurer*, 50%; and
 - (2) the ratio as at the end of the *financial year* in question of:
 - (a) the *mathematical reserves* in respect of that category of insurance liability net of *reinsurance* cessions; to
 - (b) the *mathematical reserves* in respect of that category of insurance liability gross of *reinsurance* cessions.

20 RESILIENCE CAPITAL REQUIREMENT

- 20.1 A firm carrying on *long-term insurance business* must calculate a *resilience capital requirement* in accordance with this Chapter.
- 20.2 A firm must identify *relevant assets* which, after applying the scenarios in 20.3, have a value that is equal to the *firm's long-term insurance liabilities* under those scenarios.
- 20.3 For the purpose of 20.2, the scenarios are:
- (1) for those *relevant assets* invested in the *UK*, the *market risk* scenario set out in 20.6;
 - (2) subject to (3) and to 20.10, for those *relevant assets* invested outside of the *UK*, the *market risk* scenario set out in 20.8; and
 - (3) where the *relevant assets* in (2) are:
 - (a) held to cover *index-linked liabilities* or *property-linked liabilities*; or
 - (b) not invested in a *significant territory* outside the *UK*;
 the *market risk* scenario set out in 20.6.
- 20.4 The *resilience capital requirement* is the result of deducting B from A, where:
- (1) A is the value of the *relevant assets* which will produce the result described in 20.2; and
 - (2) B is the *firm's long-term insurance liabilities*.
- 20.5 In calculating the value of the *firm's long-term insurance liabilities* under a scenario specified in 20.3, a firm is not required to adjust the provision made under Insurance Company – Overall Resources and Valuation 3.1 in respect of a *defined benefits pension scheme*.
- 20.6 In 20.3(1) and (3), the *market risk* scenario for assets invested in the *UK* and for assets (including assets invested outside the *UK*) held to cover *index-linked liabilities* or *property-linked liabilities* which a firm must assume is:
- (1) a fall in the *market value* of equities of at least 10% or, if greater, the lower of:
 - (a) a percentage fall in the *market value* of equities which would produce an earnings yield on the FTSE Actuaries All Share Index equal to four-thirds of the *long-term gilt yield*; and
 - (b) a fall in the *market value* of equities of 25% less the *equity market adjustment ratio*;
 - (2) a fall in real estate values of 20% less the *real estate market adjustment ratio* for an appropriate real estate index; and
 - (3) the more onerous of either a fall or rise in yields on all fixed interest *securities* by the percentage point amount equal to 20% of the *long-term gilt yield*.
- 20.7 For the purposes of 20.6(1) and (2), a firm must:

- (1) assume that earnings for equities and rack rents for real estate fall by 10%, but dividends for equities remain unaltered (see Insurance Company – Mathematical Reserves 9.5 and 9.6); and
 - (2) model a fall in equity and real estate markets as if the fall occurred instantaneously.
- 20.8 In 20.3(2), subject to 20.10, the *market risk* scenario for assets invested outside the *UK* (other than assets held to cover *index-linked liabilities* or *property-linked liabilities*) which a *firm* must assume is, for each *significant territory* in which assets are invested outside the *UK*:
- (1) an appropriate fall in the *market value* of equities invested in that territory, which is at least equal to the percentage fall determined in 20.6;
 - (2) a fall in real estate values in that territory of 20% less the *real estate market adjustment ratio* for an appropriate real estate index for that territory; and
 - (3) the more onerous of either a fall or a rise in yields on all fixed interest *securities* by the percentage point amount equal to 20% of the nearest equivalent (in respect of the method of calculation) to the *long-term gilt yield*.
- 20.9 For the purposes of 20.8(1), an appropriate fall in the *market value* of equities invested in a *significant territory* must be determined having regard to:
- (1) an appropriate equity market index for that territory; and
 - (2) the historical volatility of the equity market index selected in (1).
- 20.10 Where the assets of a *firm* invested in a *significant territory* of a kind referred to in 20.8 represent less than 0.5% of the *firm's long-term insurance assets* (excluding assets held to cover *index-linked liabilities* or *property-linked liabilities*), measured by *market value*, the *firm* may assume for those assets the *market risk* scenario for assets of that kind invested in the *UK* set out in 20.6 instead of the *market risk* scenario set out in 20.8.

21 ISPVS

- 21.1 A *firm* must not treat any amounts recoverable from an *ISPV* as *reinsurance* for the purposes of the calculation of:
- (1) the *reinsurance ratio*; or
 - (2) the *insurance death risk capital component*; or
 - (3) the *adjusted mathematical reserves*.

Annex E

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

Part

INSURANCE COMPANY - CAPITAL RESOURCES

Chapter content

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Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *non-directive insurer* other than a *non-directive friendly society*.

1.2 In this Part, the following definitions shall apply:

called-up share capital

has the meaning in section 547 of the Companies Act 2006.

capital contribution

means an item of capital that is a gift of capital and where no *coupon* is payable on it.

capital instrument

means any *security* issued by or loan made to that *firm* or any other investment in, or external contribution to the capital of, that *firm*.

company

has the meaning in section 1(1) of the Companies Act 2006.

coupon

means a dividend, interest payment or any similar payment.

discounts

means discounting or deductions to take account of investment income as set out in paragraph 48 of the *insurance accounts rules*.

fund for future appropriations

means the fund of the same name required by the *insurance accounts rules*, comprising all funds the allocation of which either to *policyholders* or to shareholders has not been determined by the end of the *financial year*, or the balance sheet items under international accounting standards which in aggregate represent as nearly as possible that fund.

initial fund

means the items of capital that were available to a *mutual* on the date it received a *Part 4A permission to effect contracts of insurance or carry out contracts of insurance*.

member contribution

means any paid-up contribution by a member of a *mutual* where the members' accounts meet the following criteria:

- (1) the memorandum and articles of association or other constitutional documents must stipulate that payments may be made from these accounts to members only in so far as this does not cause the *mutual's capital*

resources to fall below the required level, or, if after dissolution of the *mutual*, all the *firm's* other debts have been settled;

- (2) the memorandum and articles of association or other constitutional documents must stipulate, with respect to the payments referred to in (1) made for reasons other than the individual termination of membership, that the *PRA* must be notified at least one *month* in advance of the intended date of such payments; and
- (3) the *PRA* must be notified of any amendment to the relevant provisions of the memorandum and articles of association or other constitutional documents.

step-up

means (in relation to any item of capital) any change in the *coupon* rate on that item that results in an increase in the amount payable at any time, including a change already provided in the original terms governing those payments:

- (1) including (in the case of a fixed rate) an increase in that *coupon* rate;
- (2) including (in the case of a floating rate calculated by adding a fixed amount to a fluctuating amount) an increase in that fixed amount;
- (3) including (in the case of a floating rate) a change to the benchmark by reference to which the fluctuating element of the *coupon* is calculated; and
- (4) not including (in the case of a floating rate) an increase in the absolute amount of the *coupon* caused by fluctuations in the benchmark by reference to which the absolute amount of the *coupon* floats.

tier one capital resources

means the sum calculated at stage F (Total tier one capital after deductions) of the calculation in the *capital resources table*.

valuation differences

means all differences between the valuation of assets and liabilities as valued in accordance with Insurance Company – Overall Resources and Valuation and the valuation that the *firm* uses for its external financial reporting purposes, except valuation differences which are dealt with elsewhere in the *capital resources table*.

- 1.3 Undefined references in this Part to types, tiers or stages of capital or capital instruments must be interpreted in accordance with the *capital resources table*.
- 1.4 A tier one instrument or tier two instrument is treated as not having been redeemed or repaid for the purposes of this Part if:
 - (1) under its terms the instrument is exchanged for or converted into a new instrument or is subject to a similar process, or it is redeemed out of the proceeds of the issue of new securities;
 - (2) any new instrument is included in the same stage of capital or a higher stage of capital as the original instrument; and
 - (3) it would be reasonable (taking into account the economic substance) to treat the original instruments as continuing in issue on the same or a more favourable basis

where the question of whether that basis is more or less favourable must be judged from the point of view of the adequacy of the *firm's capital resources*.

- 1.5 A *share* is not redeemable for the purposes of this Part merely because the Companies Act 1985, the Companies (Northern Ireland) Order 1986 or the Companies Act 2006 allows the *firm* that issued it to purchase it.
- 1.6 A *capital instrument* is not redeemable for the purposes of this Part merely because the *firm* that issued it has a right to purchase it similar to the right in 1.5.

2 CALCULATION AND LIMITS OF RESOURCES

- 2.1 Subject to 2.5, a *firm* must calculate its *capital resources* in accordance with the *capital resources table*.
- 2.2 A *firm* must only include in a lower stage of capital, *capital resources* which are eligible for inclusion in a higher stage of capital if:
- (1) 2.5 would prevent the use of that capital in that higher stage of capital;
 - (1) the *firm* complies with 2.5 following the inclusion of that higher stage of capital included in the lower stage of capital; and
 - (2) the *firm* complies with other rules in this Part governing the eligibility of capital in that lower stage of capital.
- 2.3 A *firm* must have at least 50% of its *tier one capital resources* accounted for by core tier one capital.
- 2.4 A *firm* must have no more than 15% of its *tier one capital resources* accounted for by innovative tier one capital.
- 2.5 A *firm* must exclude from the calculation of its *capital resources* the following:
- (1) the amount (if any) by which *tier two capital resources* exceed the amount calculated at stage F (Total tier one capital after deductions) of the calculation in the *capital resources table*; and
 - (2) the amount (if any) by which lower tier two capital resources exceed 50% of the amount calculated at stage F of the calculation in the *capital resources table*.
- 2.6 A *firm* (other than a *pure reinsurer*) that carries on both *long-term insurance business* and *general insurance business* must apply the relevant limits in 2.5 separately for each type of business.

3 NOTIFICATION OF ISSUANCE OF CAPITAL INSTRUMENTS

- 3.1 [NOT YET IN FORCE]

4 TIER ONE CAPITAL

- 4.1 A *firm* must not include a *capital instrument* in its *tier one capital resources* unless it complies with the following conditions:
- (1) it is included in one of the categories in 4.2;
 - (2) it complies with the conditions set out in 4.3; and

- (3) it is not excluded under 4.4 or 4.5.

4.2 The categories referred to in 4.1(1) are:

- (1) *permanent share capital*;
- (2) a perpetual non-cumulative *preference share* that meets the requirements set out in 6.1; and
- (3) an innovative tier one instrument that meets the requirements set out in 6.3 to 6.7.

4.3 The conditions that an item of capital of a *firm* must comply with under 4.1(2) are as follows:

- (1) it is issued by the *firm*;
- (2) it is fully paid and the proceeds of issue are immediately and fully available to the *firm*;
- (3) it:
 - (a) cannot be redeemed at all or can only be redeemed on a winding up of the *firm*; or
 - (b) complies with the conditions in 4.5 and, if applicable, 4.11;
- (4) the item of capital meets the following conditions in relation to any *coupon*:
 - (a) the *firm* is under no obligation to pay a *coupon*; or
 - (b) if the *firm* is obliged to pay the *coupon*, the *coupon* is payable in the form of an item of capital that is included in a higher stage of capital or the same stage of capital as that first item of capital;
- (5) any *coupon* is either:
 - (a) non-cumulative; or
 - (b) (if it is cumulative) it must, if deferred, be paid by the *firm* in the form of *tier one capital* complying with (4)(b);
- (6) it is able to absorb losses to allow the *firm* to continue trading and in particular it complies with 4.12 and 4.13 and, in the case of an innovative tier one instrument, 6.7;
- (7) the amount of the item included must be net of any foreseeable tax charge at the moment of its calculation or must be suitably adjusted in so far as such tax charges reduce the amount up to which that item may be applied to cover risks or losses;
- (8) it is available to the *firm* for unrestricted and immediate use to cover risks and losses as soon as these occur;
- (9) it ranks for repayment upon winding up, administration or any other similar process no higher than a *share* of a company incorporated under the Companies Act 2006 (whether or not it is such a *share*); and
- (10) the description of its characteristics used in its marketing is consistent with the characteristics required to satisfy (1) to (9).

- 4.4 An item of capital does not qualify for inclusion as *tier one capital* if the issue of that item of capital by the *firm* is connected with one or more other transactions or arrangements which, when taken together with the issue of that item, could result in that item of capital no longer displaying all of the characteristics set out in 4.3(1) to (9).
- 4.5 A *firm* must not include a *capital instrument* as *tier one capital*, unless its contractual terms are such that:
- (1) if it is redeemable other than in circumstances set out in 4.3(3)(a), it is redeemable only at the option of the *firm*;
 - (2) the *firm* cannot exercise any redemption right:
 - (a) before the fifth anniversary of its date of issue, unless the conditions in 4.6 are met;
 - (b) unless it has given notice to the *PRA* in accordance with 4.8; and
 - (c) unless at the time of exercise of that right it complies with Insurance Company - Capital Resources Requirements 3.1 and will continue to do so after redemption.
- 4.6 The conditions in 4.5(2)(a) are that:
- (1) the circumstance that entitles the *firm* to exercise that right is a change in law or regulation in any relevant jurisdiction or in the interpretation of such law or regulation by any court or authority entitled to do so;
 - (2) it would be reasonable for the *firm* to conclude that it is unlikely that that circumstance will occur, judged at the time of issue or, if later, at the time that the term is first included in the terms of the *capital instrument*; and
 - (3) the *firm's* right is conditional on it obtaining a *waiver* of 4.7.
- 4.7 A *firm* must not redeem a tier one instrument in accordance with a term that meets the conditions set out in 4.6(1) and (2).
- 4.8 A *firm* must not redeem any tier one instrument that it has included in its *tier one capital resources* unless it has notified the *PRA* in accordance with Notifications 7 of its intention at least one *month* before it becomes committed to do so.
- 4.9 When giving notice under 4.8, the *firm* must provide details of its position after such redemption in order to show how it will:
- (1) comply with Insurance Company – Capital Resources Requirements 3.1; and
 - (2) have sufficient financial resources to meet Insurance Company – Overall Resources and Valuation 2.3.
- 4.10 If a *firm* gives notice to the *PRA* of the redemption or repayment of any tier one instrument, the *firm* must no longer include that instrument in its *tier one capital resources* from the time the notice is given.
- 4.11 If an innovative tier one instrument is redeemable and satisfies the following conditions:
- (1) it is or may become subject to a *step-up*; and

- (2) a reasonable *person* would think that:
- (a) the *firm* is likely to redeem it before the tenth anniversary of its date of issue; or
 - (b) the *firm* is likely to have an economic incentive to redeem it before the tenth anniversary of its date of issue,

the redemption date in 4.5(2)(a) is amended by replacing “fifth anniversary” with “tenth anniversary”.

4.12 A *firm* must not include a *share* in its *tier one capital resources* unless:

- (1) in the case of a *firm* that is a *company*, it is *called-up share capital*; or
- (2) in the case of any other *firm*, it is:
 - (a) in economic terms; and
 - (b) in its characteristics as capital (including loss absorbency, permanency, ranking for repayment and fixed costs);

substantially the same as *called-up share capital* falling into (1).

4.13 A *firm* must not include a *capital instrument* other than a *share* in its *tier one capital resources* unless it complies with 4.12(2).

4.14 Where the redemption proceeds or any *coupon* on a potential tier one instrument can be satisfied by the issue of another *capital instrument*, a *firm* must not include an item of capital in its *tier one capital resources* unless the *firm* has unissued *capital instruments* of the kind in question (and the authority to issue them):

- (1) that are sufficient to satisfy all such payments then due; and
- (2) are of such amount as is prudent in respect of such payments that could become due in the future.

5 CORE TIER ONE CAPITAL

5.1 *Permanent share capital* means an item of capital which (in addition to satisfying the conditions in 4.3) meets the following conditions:

- (1) it is:
 - (a) an ordinary *share*;
 - (b) a *member contribution*; or
 - (c) part of the *initial fund* of a *mutual*;
- (2) any *coupon* on it is not cumulative, the *firm* is under no obligation to pay a *coupon* in any circumstances and the *firm* has the right to choose the amount of any *coupon* that it pays; and
- (3) the terms upon which it is issued do not permit redemption and it is otherwise incapable of being redeemed to at least the same degree as an ordinary *share* issued

by a company incorporated under the Companies Act 2006 (whether or not it is such a *share*).

- 5.2 A *firm* must deduct from its *capital resources* negative amounts, including any interim net losses, from its profit and loss account and other reserves.
- 5.3 A *firm* must deduct dividends from reserves as soon as they are foreseeable.
- 5.4 A *firm* must account for a *capital contribution* as an increase in reserves and may count that increase in reserves as core tier one capital.
- 5.5 A *firm* must include in its core tier one capital a *share* premium account relating to the issue of a *share* forming part of its core tier one capital.
- 5.6 A *firm* must include *share* premium account relating to the issue of a *share* forming part of another tier of capital:
- (1) in that other tier;
 - (2) for a *firm* that is incorporated under the Companies Act 2006, as core tier one capital to the extent that the terms of issue of the *share* concerned provide that any premium is not repayable on redemption; or
 - (3) for a *firm* that is not incorporated under the Companies Act 2006 as core tier one capital if its *share* premium account is subject to substantially the same or greater restraints on use than a *share* premium account falling into (2).
- 5.7 A *firm* must either add (if positive) or deduct (if negative) *valuation differences* from its *capital resources* in accordance with the *capital resources table*.
- 5.8 A *firm* that carries on *general insurance business* and which *discounts* or reduces its *technical provisions* for claims outstanding must deduct from its *capital resources* the difference between the undiscounted *technical provisions* or *technical provisions* before deductions, and the discounted *technical provisions* or *technical provisions* after deductions.
- 5.9 The adjustment referred to in 5.8 must be made for all *classes* of *general insurance business*, except for risks listed under *classes* 1 and 2.
- 5.10 For *classes* other than 1 and 2, no adjustment needs to be made in respect of the discounting of annuities included in *technical provisions*.
- 5.11 For *classes* 1 and 2 (other than annuities), if the expected average interval between the settlement date of the claims being discounted and the accounting date is not at least four years, the *firm* must deduct:
- (1) the difference between the undiscounted *technical provisions* and the discounted *technical provisions*; or
 - (2) where it can identify a subset of claims such that the expected average interval between the settlement date of the claims and the accounting date is at least four years, the difference between the undiscounted *technical provisions* and the discounted *technical provisions* for the other claims.
- 5.12 5.8 to 5.11 do not apply to a *pure reinsurer* which ceased to conduct new *reinsurance contracts* before 31 December 2006.
- 5.13 A *firm* must include in its core tier one capital any *fund for future appropriations*.

6 OTHER TIER ONE CAPITAL

- 6.1 A *firm* must only include a perpetual non-cumulative *preference share* at stage B of the calculation in the *capital resources table* if (in addition to satisfying the conditions in 4.3) it satisfies the following conditions:
- (1) any *coupon* on it is not cumulative, and the *firm* is under no obligation to pay a *coupon* in any circumstances; and
 - (2) it is not an innovative tier one instrument.
- 6.2 A *firm* must not include an item of capital that is an innovative tier one instrument in stages A (Core tier one capital) or B (Perpetual non-cumulative preference shares) of the calculation in the *capital resources table*.
- 6.3 A tier one instrument is an innovative tier one instrument if:
- (1) it is redeemable; and
 - (2) a reasonable *person* would think that:
 - (a) the *firm* is likely to redeem it; or
 - (b) the *firm* is likely to have an economic incentive to redeem it.
- 6.4 A tier one instrument is an innovative tier one instrument if it has a cumulative or mandatory *coupon*.
- 6.5 A potential tier one instrument is an innovative tier one instrument if:
- (1) it is or may become subject to a *step-up*; and
 - (2) it is redeemable at any time (whether before, at or after the time of the *step-up*).
- 6.6 A *firm* must not include in its *tier one capital resources* a potential tier one instrument that is or may become subject to a *step-up* if that *step-up* can arise earlier than the tenth anniversary of the date of issue of that item of capital.
- 6.7 A *firm* must not include a *capital instrument* that is not a *share* in its innovative tier one capital resources unless (in addition to satisfying the conditions in 4.3) the *firm's* obligations under the instrument either:
- (1) do not constitute a liability (actual, contingent or prospective) under section 123(2) of the Insolvency Act 1986; or
 - (2) do constitute such a liability but the terms of the instrument are such that:
 - (a) any such liability is not relevant for the purposes of deciding whether:
 - (i) the *firm* is, or is likely to become, unable to pay its debts; or
 - (ii) its liabilities exceed its assets;
 - (b) a *person* (including, but not limited to, a holder of the instrument) is not able to petition for the winding up or administration of the *firm* or for any similar procedure in relation to the *firm* on the grounds that the *firm* is or may become unable to pay any such liability; and

- (c) the *firm* is not obliged to take into account such a liability for the purposes of deciding whether or not the *firm* is, or may become, insolvent for the purposes of section 214 of the Insolvency Act 1986 (wrongful trading).

7 STEP-UPS

- 7.1 Where a rule in this Part says that a particular treatment applies to an item of capital that is subject to a *step-up* of a specified amount, the question of whether that rule is satisfied must be judged by reference to the cumulative amount of all *step-ups* since the issue of that item of capital rather than just by reference to a particular *step-up*.
- 7.2 A *firm* must not include in its *tier one capital resources* a tier one instrument that is or may be subject to a *step-up* that is not one which results in an increase over the initial rate that is no greater than the higher of the following two amounts as at the date of issue of the relevant instrument:
- (1) 100 basis points, less the swap spread between the initial index basis and the stepped-up index basis; or
 - (2) 50% of the initial credit spread, less the swap spread between the initial index basis and the stepped-up index basis.
- 7.3 Subject to 7.4, if a tier two instrument is or may be subject to a *step-up* that does not meet the condition in 7.2 as at the date of issue, the first date that a *step-up* can take effect is deemed to be its final maturity date if that date is before its actual maturity date.
- 7.4 If a tier two instrument:
- (1) is or may be subject to a *step-up* during the period beginning on the fifth anniversary of the date of issue of that item and ending immediately before the tenth anniversary of the date of issue; and
 - (2) the *step-up* or possible *step-up* is one which may result in an increase over the initial rate that is greater than 50 basis points, less the swap spread between the initial index basis and the stepped-up index basis;
- the first date that a *step-up* can take effect is deemed to be its final maturity date if that date is before its actual maturity date.

8 DEDUCTIONS FROM TIER ONE

- 8.1 A *firm* must deduct from its *tier one capital resources* the value of intangible assets.

9 TIER TWO CAPITAL

- 9.1 A *firm* must not include a *capital instrument* in its *tier two capital resources* unless it complies with the following conditions:
- (1) the claims of the creditors must rank behind those of all unsubordinated creditors;
 - (2) the only events of default must be non-payment of any amount falling due under the terms of the *capital instrument* or the winding-up of the *firm* and any such event of default must not prejudice the subordination in (1);
 - (3) to the fullest extent permitted under the laws of the relevant jurisdictions, the remedies available to the subordinated creditor in the event of non-payment or other

breach of the terms of the *capital instrument* must (subject to 9.2) be limited to petitioning for the winding-up of the *firm* or proving for the debt in the liquidation or administration;

- (4) any:
- (a) remedy permitted by (3);
 - (b) remedy that cannot be excluded under the laws of the relevant jurisdictions as referred to in (3);
 - (c) remedy permitted by 9.2; and
 - (d) terms about repayment as referred to in (5);
- must not prejudice the matters in (1) and (2) and in particular any damages permitted by (b) or (c) and repayment obligation must be subordinated in accordance with (1);
- (5) without prejudice to (1), the debt must not become due and payable before its stated final maturity date (if any) except on an event of default complying with (2) or as permitted by 9.4 or 11.1 and any remedy described in (4)(a) to (c) must not prejudice this requirement;
- (6) subject to 9.3, the debt agreement or terms of the *capital instrument* are governed by the law of England and Wales, or of Scotland or of Northern Ireland;
- (7) to the fullest extent permitted under the laws of the relevant jurisdictions, creditors must waive their right to set off amounts they owe the *firm* against subordinated amounts included in the *firm's capital resources* owed to them by the *firm*;
- (8) the terms of the *capital instrument* must be set out in a written agreement that contains terms that provide for the conditions set out in (1) to (7);
- (9) the debt must be unsecured and fully paid up;
- (10) the description of its characteristics used in its marketing is consistent with the characteristics required to satisfy (1) to (9); and
- (11) the amount of the item included must be net of any foreseeable tax charge at the moment of its calculation or must be suitably adjusted in so far as such tax charges reduce the amount up to which that item may be applied to cover risks or losses.

9.2 A *firm* must only include a *capital instrument* in its *tier two capital resources* when the remedies available to the subordinated creditor go beyond those referred to in 9.1(3), if the following conditions are satisfied:

- (1) those remedies are not available for failure to pay any amount of principal, interest or expenses or in respect of any other payment obligation; and
- (2) those remedies do not in substance amount to remedies to recover payment of the amounts in (1).

9.3 9.1(6) does not apply if the *firm* has obtained a properly reasoned independent legal opinion from an appropriately qualified individual confirming that the same degree of subordination has been achieved under the law that governs the debt and the agreement as that which would have been achieved under the laws of England and Wales, or of Scotland, or of Northern Ireland.

- 9.4 A tier two instrument must not provide for any right of the *firm* to redeem the instrument to be exercisable earlier than the fifth anniversary of the date of issue of the instrument unless the conditions in 9.5 are met.
- 9.5 The conditions in 9.4 are that:
- (1) the circumstance that entitles the *firm* to exercise that right is a change in law or regulation in any relevant jurisdiction or in the interpretation of such law or regulation by any court or authority entitled to do so;
 - (2) it would be reasonable for the *firm* to conclude that it is unlikely that that circumstance will occur, judged at the time of issue or, if later, at the time that the term is first included in the terms of the tier one instrument; and
 - (3) the *firm's* right is conditional on it obtaining a *waiver* of 9.6.
- 9.6 A *firm* must not redeem a tier one instrument in accordance with a term that meets the conditions set out in 9.5.
- 9.7 A *firm* must notify the *PRA* in accordance with Notifications 7 three *months* before it becomes committed to the proposed repayment of a tier two instrument (unless that *firm* intends to repay an instrument on its final maturity date).
- 9.8 When giving notice under 9.7, the *firm* must provide details of its position after such repayment in order to show how it will:
- (1) comply with Insurance Company – Capital Resources Requirements 3.1; and
 - (2) have sufficient financial resources to meet Insurance Company – Overall Resources and Valuation 2.3.
- 9.9 If a *firm* gives notice to the *PRA* of the redemption or repayment of any tier two instrument, the *firm* must no longer include that instrument in its *tier two capital resources* from the time the notice is given.
- 9.10 A *firm* must not include in its *tier two capital resources* a *capital instrument* that is or may become subject to a *step-up* if that *step-up* can arise earlier than the fifth anniversary of the date of issue of that item of capital.
- 9.11 A *firm* must not include in its *tier two capital resources* an item of capital does not comply with any requirement in 9 to 11 if the issue of that item of capital by the *firm* is connected with one or more other transactions or arrangements which, when taken together with the issue of that item, could result in that item of capital no longer displaying all of the characteristics set out in whichever of those rules apply.

10 UPPER TIER TWO CAPITAL

- 10.1 A *firm* must not include a *capital instrument* in its upper tier two capital resources unless it meets the following conditions:
- (1) it must have no fixed maturity date;
 - (2) the terms of the instrument must provide for the *firm* to have the option to defer any *coupon*, except that the *firm* need not have that right in the case of a *coupon* payable in the form of an item of capital that is included in the same stage of capital or a higher stage of capital as that first item of capital;

- (3) the terms of the instrument must provide for the loss-absorption capacity of the *capital instrument* and unpaid *coupons*, whilst enabling the *firm* to continue its business;
- (4) it meets the conditions in 10.2; and
- (5) the terms of the instrument are such that either the instrument is not redeemable or repayable or it is repayable or redeemable only at the option of the *firm*.

10.2 A *firm* must not include a *capital instrument* in its upper tier two capital resources unless (in addition to satisfying all the other requirements in relation to tier two capital) the *firm's* obligations under the instrument either:

- (1) do not constitute a liability (actual, contingent or prospective) under section 123(2) of the Insolvency Act 1986; or
- (2) do constitute such a liability but the terms of the instrument are such that:
 - (a) any such liability is not relevant for the purposes of deciding whether:
 - (i) the *firm* is, or is likely to become, unable to pay its debts; or
 - (ii) its liabilities exceed its assets;
 - (b) a *person* (including but not limited to a holder of the instrument) is not able to petition for the winding up or administration of the *firm* or for any similar procedure in relation to the *firm* on the grounds that the *firm* is or may become unable to pay any such liability; and
 - (c) the *firm* is not obliged to take into account such a liability for the purposes of deciding whether or not the *firm* is, or may become, insolvent for the purposes of section 214 of the Insolvency Act 1986 (wrongful trading).

11 LOWER TIER TWO CAPITAL

11.1 A *firm* must only include a *capital instrument* in its lower tier two capital resources if (in addition to meeting the requirements of the rules about eligibility for inclusion in tier two capital) either the holder has no right to repayment or it satisfies either of the following conditions:

- (1) it has an original maturity of at least five years; or
- (2) it is redeemable on notice from the holder, but the period of notice of repayment required to be given by the holder is five years or more.

11.2 For the purposes of calculating the amount of a lower tier two instrument which may be included in a *firm's capital resources*:

- (1) in the case of an instrument with a fixed maturity date, in the final five years to maturity; and
- (2) in the case of an instrument with or without a fixed maturity date but where five years' or more notice of redemption or repayment has been given, in the final five years to the date of redemption or repayment;

the principal amount must be amortised on a straight line basis.

12 DEDUCTIONS FROM CAPITAL

- 12.1 A *firm* which is not a *pure reinsurer* must deduct from total *capital resources* the value of any asset which is not an *admissible asset*, unless the asset is held to cover *linked long-term liabilities* under Insurance Company – Risk Management 4.
- 12.2 A *firm* must deduct from its *capital resources* the value of its investments in any *affiliated company* that is an *ancillary services undertaking*.
- 12.3 In relation to each *affiliated company* that has a *Part 4A permission* a *firm* must add to (if positive), at stage J in the *capital resources table* (Positive adjustments for related undertakings), or deduct from (if negative), at stage L in the *capital resources table* (Deductions from total capital), its *capital resources* the value of its *shares* in that *undertaking* calculated in accordance with Insurance Companies: Overall Resources and Valuation 8.1.

13 ADMISSIBLE ASSETS

- 13.1 An *admissible asset* is:
- (1) investments that are, or amounts owed arising from the disposal of:
 - (a) *debt securities*, bonds and other money and capital market instruments;
 - (b) loans;
 - (c) *shares* and other variable yield participations;
 - (d) *units* in:
 - (i) *collective investment schemes* falling within the *UCITS Directive*;
 - (ii) *non-UCITS retail schemes*;
 - (iii) *recognised schemes*; or
 - (iv) any other *collective investment scheme* where the *firm's* investment in the scheme is sufficiently small to be consistent with a prudent overall investment strategy, having regard to the investment policy of the scheme and the information available to the *firm* to enable it to monitor the investment risk being taken by the scheme;
 - (e) land, buildings and immovable property rights; or
 - (f) an *approved derivative* or *quasi-derivative* transaction that satisfies the conditions in Insurance Company – Risk Management 6.2 or a *stock lending* transaction in respect of which the conditions in Insurance Company – Risk Management 8.2 have been met.
 - (2) debts and claims that are:
 - (a) debts owed by *reinsurers*, including *reinsurers' shares of technical provisions* (but excluding amounts recoverable from an *ISPV*);
 - (b) deposits with and debts owed by ceding *undertakings*;

- (c) debts owed by *policyholders* and intermediaries arising out of direct and *reinsurance* operations (except where overdue for more than 3 *months* and other than commission prepaid to agents or intermediaries);
 - (d) for *general insurance business* only, claims arising out of salvage and subrogation;
 - (e) for *long-term insurance business* only, advances secured on, and not exceeding the *surrender value* of, *contracts of long-term insurance* issued by the *firm*;
 - (f) tax recoveries; or
 - (g) claims against the *compensation scheme* or any analogous scheme in any *EEA state*.
- (3) assets that are:
- (a) tangible fixed assets, other than land and buildings;
 - (b) cash at *bank* and in hand, *deposits* with *credit institutions* and any other bodies authorised to receive *deposits*;
 - (c) for *general insurance business* only, *deferred acquisition costs*;
 - (d) accrued interest and rent, other accrued income and prepayments; or
 - (e) for *long-term insurance business* only, reversionary interests.

13.2 Subject to 13.3 below a *unit* in a *collective investment scheme* is only admissible for the purposes of 13.1 above if it falls within 13.1(1)(d), notwithstanding that it may also fall into one or more other categories in 13.1.

13.3 A *derivative*, *quasi-derivative* or *stock lending* transaction is only admissible for the purposes of 13.1 if it falls within 13.1(1)(f), notwithstanding that it may also fall into one or more other categories in 13.1.

Annex F

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

Part

INSURANCE COMPANY – CAPITAL RESOURCES TABLE

Chapter content

- 1. APPLICATION**
- 2. CAPITAL RESOURCES TABLE**

Links

1 APPLICATION

- 1.1 Unless otherwise stated, this Part applies to a *non-directive insurer* other than a *non-directive friendly society*.

2 CAPITAL RESOURCES TABLE

- 2.1 A *firm* must use the following table to calculate its *capital resources* pursuant to Insurance Company – Capital Resources 2.1:

Type of capital	Related rules	Stage
Core tier one capital		A
<i>Permanent share capital</i>	Insurance Company – Capital Resources 5.1	
Profit and loss account and other reserves (taking into account interim net losses)	Insurance Company – Capital Resources 5.2 to 5.4	
<i>Share premium account</i>	Insurance Company – Capital Resources 5.5 to 5.6	
Positive valuation differences	Insurance Company – Capital Resources 5.7	
Fund for future appropriations	Insurance Company – Capital Resources 5.13	
Perpetual non-cumulative preference shares		B
Perpetual non-cumulative <i>preference shares</i>	Insurance Company – Capital Resources 6.1	
Innovative tier one capital		C
Innovative tier one instruments	Insurance Company – Capital Resources 6.2 to 6.7	
Total tier one capital before deductions = A + B + C		D
Deductions from tier one capital		E
Investments in own <i>shares</i>	None	
Intangible assets	Insurance Company – Capital Resources 8.1	
Amounts deducted from <i>technical provisions</i> for discounting and other negative valuation differences	Insurance Company – Capital Resources 5.7 to 5.11	
Total tier one capital after deductions = D - E		F
Upper tier two capital		G
Upper tier two capital	Insurance Company – Capital Resources 10	
Lower tier two capital		H
Lower tier two capital	Insurance Company – Capital Resources 11	
Total tier two capital = G + H		I
Positive adjustments for affiliated companies		J
<i>Affiliated companies</i> that have a <i>Part 4A permission</i> (other than <i>insurance undertakings</i>)	Insurance Company – Capital Resources 12.3	
Total capital after positive adjustments for insurance undertakings but before deductions = F + I + J		K

Deductions from total capital		L
Inadmissible assets	Insurance Company – Capital Resources 12.1 and 13.1	
Assets in excess of <i>market risk</i> and <i>counterparty</i> limits	Insurance Company – Exposure Limits 7.2 to 7.4	
<i>Affiliated companies</i> that are <i>ancillary services undertakings</i>	Insurance Company – Capital Resources 12.2	
Negative adjustments for <i>affiliated companies</i> that have a <i>Part 4A permission</i> (other than <i>insurance undertakings</i>)	Insurance Company – Capital Resources 12.3	
Total capital resources after deductions = K - L		M

Annex G

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

Part

INSURANCE COMPANY - INTERNAL CONTAGION RISK

Chapter content

- 1. APPLICATION**
- 2. RESTRICTION OF BUSINESS**
- 3. FINANCIAL LIMITATION OF NON-INSURANCE ACTIVITIES**
- 4. SEPARATELY IDENTIFY AND MAINTAIN LONG-TERM INSURANCE ASSETS**
- 5. EXCLUSIVE USE OF LONG-TERM INSURANCE ASSETS**

Links

1 APPLICATION

- 1.1 Unless otherwise stated, this Part applies to a *non-directive insurer*, other than a *non-directive friendly society*.
- 1.2 This Part applies to the whole of the *firm's* business carried on world-wide.

2 RESTRICTION OF BUSINESS

- 2.1 A *firm* other than a *pure reinsurer* must not carry on any commercial business other than *insurance business* and activities directly arising from that business.
- 2.2 A *pure reinsurer* must not carry on any business other than the business of *reinsurance* and related operations.

3 FINANCIAL LIMITATION OF NON-INSURANCE ACTIVITIES

- 3.1 A *firm* must limit, manage and control its non-insurance activities so that there is no significant risk arising from those activities such that it may be unable to meet its liabilities as they fall due.

4 SEPARATELY IDENTIFY AND MAINTAIN LONG-TERM INSURANCE ASSETS

- 4.1 A *firm* carrying on *long-term insurance business* must identify the assets relating to its *long-term insurance business* which it is required to hold by virtue of:
- (1) in the case of a *pure reinsurer*:
 - (a) Insurance Company - Technical Provisions 4.1 or 4.2; and
 - (b) Insurance Company - Risk Management 5.1; and
 - (2) in any other case:
 - (a) Insurance Company - Technical Provisions 4.1 or 4.2; and
 - (b) Insurance Company - Risk Management 4.2 and 4.3.
- 4.2 (1) A *firm's long-term insurance assets* are the items in (2), adjusted to take account of:
- (a) outgoings in respect of the *firm's long-term insurance business*; and
 - (b) any transfers made in accordance with 4.5.
- (2) The items referred to in (1) are:
- (a) the assets identified under 4.1 (including assets into which those assets have been converted) but excluding any assets identified as being held to cover liabilities in respect of subordinated debt;
 - (b) any other assets identified by the *firm* as being available to cover its *long-term insurance liabilities* (including assets into which those assets have been converted) including, if the *firm* so elects, assets which are excluded under (a);

- (c) *premiums* and other receivables in respect of *contracts of long-term insurance*;
 - (d) other receipts of the *long-term insurance business*; and
 - (e) all income and capital receipts in respect of the items in (a) to (d).
- 4.3 (1) Unless (2) applies, all the *long-term insurance assets* of the *firm* constitute its *long-term insurance fund*.
- (2) Where a *firm* identifies particular *long-term insurance assets* in connection with different parts of its *long-term insurance business*, the assets identified in relation to each such part constitute separate *long-term insurance funds* of the *firm*.
- 4.4 A *firm* must maintain a separate accounting record in respect of each of its *long-term insurance funds*.
- 4.5 A *firm* may not transfer assets out of a *long-term insurance fund* unless:
- (1) the assets represent an *established surplus*; and
 - (2) no more than three months have passed since the determination of that surplus.

5 EXCLUSIVE USE OF LONG-TERM INSURANCE ASSETS

- 5.1 (1) A *firm* must apply a *long-term insurance asset* only for the purposes of its *long-term insurance business*.
- (2) For the purposes of (1), applying an asset includes coming under any obligation (even if only contingently) to apply that asset.
- 5.2 A *firm* must not agree to, or allow, any mortgage or charge on its *long-term insurance assets* other than in respect of a *long-term insurance liability*.

Annex H

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

Part

INSURANCE COMPANY - EXPOSURE LIMITS

Chapter content

1. APPLICATION AND DEFINITIONS
2. OVERALL LIMITATION OF CREDIT RISK
3. ASSET EXPOSURE
4. COUNTERPARTY EXPOSURE
5. REINSURANCE EXPOSURE
6. LARGE EXPOSURE LIMITS
7. MARKET RISK AND COUNTERPARTY LIMITS
8. LARGE EXPOSURE CALCULATION FOR REINSURANCE EXPOSURES
9. EXPOSURES EXCLUDED FROM LIMITS
10. CLOSELY RELATED

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *non-directive insurer*, other than a *non-directive friendly society*; and
- (2) subject to 1.2, a *Swiss general insurer*.

1.2 This Part only applies to a *Swiss general insurer* in respect of the activities of the *firm* carried on from a *branch* in the *UK*.

1.3 This Part applies to a *firm* in relation to the whole of its business, except where a particular provision provides for a narrower scope.

1.4 Where a *firm* carries on both *long-term insurance business* and *general insurance business*, this Part applies separately to each type of business.

1.5 In this Part, the following definitions shall apply:

asset exposure

has the meaning in 3.

business amount

means the sum of:

- (1) the *firm's* total gross *technical provisions* (that is, calculated gross of *reinsurance*);
- (2) the amount of its other liabilities (except those included in the calculation of capital resources in accordance with the *capital resources table*); and
- (3) such amount as the *firm* may select not exceeding the amount of the *firm's* total capital after deductions as calculated at stage M of the *capital resources table* or if higher:
 - (i) in the case of a *firm* carrying on *general insurance business*, the amount of its *general insurance capital requirement*; and
 - (ii) in the case of a *firm* carrying on *long-term insurance business*, the amount of its *long-term insurance capital requirement*.

and for the purposes of (1), a *firm's* total gross *technical provisions* exclude *technical provisions* in respect of *index-linked liabilities* or *property-linked liabilities*, except that where the *linked long-term contract of insurance* in question includes a guarantee of investment performance or some other guaranteed benefit, the total gross *technical provisions* include the *technical provisions* in respect of that guaranteed element.

closely related

has the meaning in 10.1.

control

means the relationship between a *parent undertaking* and a *subsidiary* where that relationship falls within s1162(2), (4) and (5) of the Companies Act 2006, or a similar relationship between any *person* and an *undertaking*.

counterparty exposure

has the meaning in 4.

hybrid security

means a *debt security*, other than an *approved security*, the terms of which provide, or have the effect that, the holder does not, or would not, have an unconditional entitlement to payment of interest and repayment of capital in full within 75 years of the date on which the *security* is being valued.

reinsurance

includes retrocession and *analogous non-reinsurance financing agreements*.

reinsurer

includes an issuer of an *analogous non-reinsurance financing agreement*.

reinsurance exposure

has the meaning in 5.

total default

occurs where:

- (a) the single *counterparty* or all of the *counterparties* within the group of closely related *counterparties* fail to meet its or their obligations and simultaneously any securities issued or guaranteed by it or any of them become worthless; or
- (b) the asset becomes worthless or all of the assets within the identical class become worthless at the same time.

unsecured debt

means any debt in respect of which the conditions in 9.3 or 9.4 are not satisfied or, if satisfied only in relation to part of the debt, that part of the debt which is not covered by *collateral* or a guarantee, letter of credit or credit *derivative* in accordance with those rules.

2 OVERALL LIMITATION OF CREDIT RISK

- 2.1 Taking into account all relevant risks, a *firm* must restrict its *counterparty exposures* and *asset exposures* to prudent levels and ensure that those exposures are adequately diversified.
- 2.2 If a *firm* elects under 9.3 to make a deduction in respect of *collateral*, the *firm* must deduct from the loss so much of the value of that *collateral* as:
 - (1) would be realised by the *firm* were it to exercise its rights in relation to the *collateral*; and

(2) does not exceed any of the relevant limits in 7.4.

2.3 For the purposes of 2.1 and of determining *counterparty exposure*, *asset exposure* and *reinsurance exposure*, a *firm* must:

- (1) only rely upon a loss mitigation technique where it has good reason to believe that, taking into account the possible circumstances of default, it is likely to be effective; and
- (2) not rely upon preferential access to assets unless it has taken into account appropriate professional advice as to its effectiveness.

3 ASSET EXPOSURE

- 3.1 (1) For the purposes of this Part, *asset exposure* is the amount a *firm* would lose if an asset or class of identical assets (whether or not held directly by the *firm*) were to become worthless.
- (2) For the purposes of (1), the amount of loss is the amount, if any, by which the *firm's* capital resources (as calculated in accordance with the *capital resources table* but without making any deduction for assets in excess of *market risk* and *counterparty* limits) would decrease as a result of the *counterparty* failing to meet its obligations and the *securities* or assets becoming worthless.
- (3) In determining the amount of loss in accordance with (2), the *firm* must take into account decreases in its capital resources that would result not only from its own direct exposures but also from:
- (a) exposures held by any of its *subsidiaries*; and
 - (b) synthetic exposures arising from *derivatives* or *quasi-derivatives* held or entered into by the *firm* or any of its *subsidiaries*.

4 COUNTERPARTY EXPOSURE

- 4.1 (1) For the purposes of this Part, *counterparty exposure* is the amount a *firm* would lose if a *counterparty* were to fail to meet its obligations (either to the *firm* or to any other *person*) and if simultaneously *securities* issued or guaranteed by the *counterparty* were to become worthless.
- (2) For the purposes of (1), the amount of loss is the amount, if any, by which the *firm's* capital resources (as calculated in accordance with the *capital resources table* but without making any deduction for assets in excess of *market risk* and *counterparty* limits) would decrease as a result of the *counterparty* failing to meet its obligations and the *securities* or assets becoming worthless.
- (3) In determining the amount of loss in accordance with (2), the *firm* must take into account decreases in its capital resources that would result not only from its own direct exposures but also from:
- (a) exposures held by any of its *subsidiaries*; and
 - (b) synthetic exposures arising from *derivatives* or *quasi-derivatives* held or entered into by the *firm* or any of its *subsidiaries*.

5 REINSURANCE EXPOSURE

- 5.1 (1) For the purposes of this Part, a *reinsurance exposure* is the amount of loss which a *firm* would suffer if a *reinsurer* or group of *closely related reinsurers* were to fail to meet its or their obligations under contracts of *reinsurance* reinsuring any of the *firm's contracts of insurance*.
- (2) For the purposes of (1), the amount of loss is the amount, if any, by which the *firm's* capital resources (as calculated in accordance with the *capital resources table* but without making any deduction for assets in excess of *market risk* and *counterparty* limits) would decrease as a result of the *reinsurer* or group of *closely related reinsurers* failing to meet its or their obligations under the contracts of *reinsurance*.

6 LARGE EXPOSURE LIMITS

- 6.1 This Chapter does not apply to:
- (1) a *reinsurance exposure*; or
 - (2) a *counterparty exposure* or *asset exposure* to an *CRD credit institution*.
- 6.2 A *firm* must take reasonable steps to limit its *counterparty exposure* or *asset exposure* to:
- (1) a single *counterparty*;
 - (2) each of the *counterparties* within a group of *closely related counterparties*; and
 - (3) an asset or class of identical assets;
- to a level where, if a *total default* were to occur, the *firm* would not become unable to meet its liabilities as they fall due.

7 MARKET RISK AND COUNTERPARTY LIMITS

- 7.1 This Chapter does not apply to a *pure reinsurer*.
- 7.2 A *firm* must calculate the amount of the deduction from total capital required by stage L in the *capital resources table* in respect of assets in excess of *market risk* and *counterparty* limits as the aggregate amount by which its *counterparty exposures* and *asset exposures* exceed the relevant limits set out in 7.4.
- 7.3 Except where the contrary is expressly stated, whenever:
- (1) a rule refers to assets of a *firm*, or of any part of a *firm*, or of any fund or part of a fund within a *firm*, which are assets of a kind referred to in any of the limits in 7.4; and
 - (2) the *firm's counterparty exposure* (or aggregate exposure arising from the *counterparty exposures* to each member of a group of *closely related persons*) or *asset exposure* in respect of those assets exceeds any of the limits in 7.4
- the *firm* must deduct from the measure of the value of those assets (as determined in accordance with Insurance Company – Overall Resources and Valuation 3 to 8) the amount by which that exposure exceeds the relevant limit in 7.4, or that portion of the deduction that relates to the part of the *firm* or fund or part of a fund in question.
- 7.4 The limits referred to in 7.2 and 7.3 are the following, expressed as a percentage of the *firm's business amount*.

- (1) for a *counterparty exposure* to an individual, unincorporated body of individuals or the aggregate exposure arising from the *counterparty exposures* to each member of a group of *closely related* individuals or unincorporated bodies of individuals:
- (a) 0.25% for that part of the exposure that arises from *unsecured debt*; and
 - (b) 1% for the whole exposure (after deduction of the excess arising from the limit in (a));
- (2) for a *counterparty exposure* to an *approved counterparty* or the aggregate exposure arising from the *counterparty exposures* to each member of a group of *closely related approved counterparties*:
- (a) 40% for that part of the exposure arising from *covered bonds*;
 - (b)
 - (i) subject to (ii), 5% for that part of the exposure not arising from *covered bonds* or, if the *counterparty* is an *CRD credit institution*, from *short term deposits*; and
 - (ii) the limit in (i) is increased to 10% if the total of such exposures which are greater than 5% arising from applying a 10% limit, when taken together with any exposures arising from *covered bonds* which are within the 40% limit in (a), does not exceed 40%;
 - (c) 20% or £2 million, if larger, for the whole exposure (but excluding any exposure arising from *covered bonds* and after deduction of the excess arising from the limit in (b));
- (3) for a *counterparty exposure* to a *person*, or the aggregate exposure arising from the *counterparty exposures* to each member of a group of *closely related persons*, who do not fall into the categories of *counterparty* to whom (1) and (2) apply:
- (a)
 - (i) subject to (ii), 1% for that part of the exposure arising from *unsecured debt*;
 - (ii) the limit in (i) is increased to 2.5% in the case of an exposure to a *regulated institution*;
 - (b)
 - (i) subject to (ii), 1% for that part of the exposure arising from *shares* and other variable yield participations, bonds, *debt securities* and other *money-market instruments* and capital market instruments from the same *counterparty* that are not dealt in on a *regulated market*, or a beneficial interest in a *collective investment scheme* to which 9.5 applies;
 - (ii) the limit in (i) for that part of the exposure arising from *debt securities* (other than *hybrid securities*) issued by the same *regulated institution* is increased to 5%; and
 - (c) 5% for the whole exposure (after deduction of the excesses arising from the limits in (a) and (b));
- (4) 5% for the aggregate of all *counterparty exposures* that fall within (3)(a) whether or not they arise from *persons* who are *closely related*, but excluding amounts that are in excess of the limit in (3)(a);

- (5) 10% for the aggregate of all *counterparty exposures* and *asset exposures* that fall within (3)(b) above or (10) below, whether or not they arise from *persons* who are *closely related*, but excluding amounts that are in excess of the limit in (3)(b) above or, in the case of an *asset exposure*, (10) below;
- (6) 5% for the aggregate of all *counterparty exposures* arising from unsecured loans, other than those falling within (2);
- (7) 3% for the *asset exposure* arising from all cash in hand;
- (8) 10% for the *asset exposure* (including an exposure arising from a reversionary interest) arising from any one piece of land or building, or a number of pieces of land or buildings close enough to each other to be considered effectively as one investment;
- (9) 5% for the *asset exposure* arising from a beneficial interest in any single *non-UCITS retail scheme* or *recognised scheme* which does not fall within the *UCITS Directive*; and
- (10) 1% for the *asset exposure* arising from a beneficial interest in any single *collective investment scheme* which does not fall within the *UCITS Directive* and is not a *non-UCITS retail scheme* or a *recognised scheme*.

8 LARGE EXPOSURE CALCULATION FOR REINSURANCE EXPOSURES

- 8.1 A *firm* must notify the *PRA* immediately, in accordance with Notifications 7, as soon as it first becomes aware:
- (1) that a *reinsurance exposure* to a *reinsurer* or group of *closely related reinsurers* is reasonably likely to exceed the limit of 100% of its *capital resources*; or
 - (2) if (1) does not apply, that it has exceeded the limit referred to in (1).
- 8.2 Upon notification under 8.1, a *firm* must:
- (1) demonstrate that prudent provision has been made for the *reinsurance exposure* in excess of the 100% limit, or explain why in the opinion of the *firm* no provision is required; and
 - (2) explain how the *reinsurance exposure* is being safely managed.
- 8.3 If a *firm* elects under 9.3 to make a deduction in respect of *collateral*, the *firm* must deduct from the amount of loss determined in accordance with 5.1(2) so much of the value of that *collateral* as:
- (1) would be realised by the *firm* were it to exercise its rights in relation to the *collateral*; and
 - (2) does not exceed any of the relevant limits in 7.4(3).
- 8.4 A *firm* must, in determining its *reinsurance exposures* for the purposes of this Part, aggregate any *reinsurance exposure* where the identity of the *reinsurer* is not known by the *firm* with the highest *reinsurance exposure* where it does know the identity of the *reinsurer*.

8.5 A *firm* must notify the *PRA* immediately in accordance with Notifications 7 if the *gross earned premiums* which it pays to a *reinsurer* or group of *closely related reinsurers* has exceeded, or is anticipated to exceed, the higher of:

- (1) 20% of the *firm's* projected *gross earned premiums* for that *financial year*; or
- (2) £4 million.

8.6 Upon notification under 8.5, a *firm* must explain to the *PRA* how, despite exceeding the limits in 8.5, the credit risk is being safely managed.

9 EXPOSURES EXCLUDED FROM LIMITS

9.1 In 6 and 7, references to a *counterparty exposure* or an *asset exposure* do not include such an exposure arising from:

- (1) *premium debts*;
- (2) advances secured on, and not exceeding the *surrender value* of, the *firm's contracts of long-term insurance*;
- (3) rights of salvage or subrogation;
- (4) *deferred acquisition costs*;
- (5) assets held to cover *index-linked liabilities* or *property-linked liabilities*, except that where the *linked long-term contract of insurance* in question includes a guarantee of investment performance or some other guaranteed benefit, 6 and 7 will nevertheless apply to assets held to cover that guaranteed element;
- (6) *monies* due from, or guaranteed by, the government of an *approved State*;
- (7) an *approved security*; and
- (8) a holding in a *collective investment scheme* falling within the *UCITS Directive*.

9.2 In 7, references to a *counterparty exposure* or an *asset exposure* do not include such an exposure resulting from debts arising from *reinsurance* ceded and the *reinsurer's* share of *technical provisions*.

9.3 If:

- (1) a *firm* has a *counterparty exposure*, an *asset exposure* or a *reinsurance exposure* in respect of which it has rights over *collateral* (except where that *collateral* is a letter of credit); and
- (2) the assets constituting that *collateral* would, if owned by the *firm*, be *admissible assets*;

the *firm* may, in determining the amount of that exposure, deduct the value of that *collateral* in accordance with 2.2 or, in the case of a *reinsurance exposure*, 8.3.

9.4 (1) If a *firm* has a *counterparty exposure*, *asset exposure* or *reinsurance exposure* the whole or any part of which is:

- (a) guaranteed by a *credit institution* or an *investment firm* subject in either case to the *CRD* or supervision by a *third country* supervisory authority with a *CRD*-equivalent regime; or
- (b) adequately mitigated by a credit *derivative*;

the *firm* may, for the purposes of 6, 7 and 8.1, treat that exposure, or that part of the exposure which is so guaranteed or mitigated, as an exposure to the guarantor or derivative *counterparty*, rather than to the original *counterparty*, asset or *reinsurer*.

- (2) For the purposes of (1), references to an exposure being guaranteed include an exposure secured by a letter of credit, but to fall within (1) the guarantee or letter of credit must be direct, explicit, unconditional and irrevocable.

9.5 For the purposes of 6 and 7, *units* in a *collective investment scheme* that does not fall within the *UCITS Directive* must be treated as a *counterparty exposure* to the *issuer* of the *units* in that scheme if the issuer and those *units* are to be regarded as constituting a single risk because they are so interconnected that, if the *issuer* were to experience financial problems, this would be likely to affect the value of the *units*.

10 CLOSELY RELATED

- 10.1 In this Part, a group of *persons* is *closely related* if it consists solely of two or more *persons* who, unless it is shown otherwise, constitute a single risk because as between any two of them one or other of the following relationships apply:
- (1) one of them, directly or indirectly, has *control* over the other or they are both controlled by the same third party; or
 - (2) there is no relationship of *control* but they are to be regarded as constituting a single risk because they are so interconnected that, if one of them were to experience financial problems, the other would be likely to encounter repayment difficulties.

Annex I

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

Part

INSURANCE COMPANY - RISK MANAGEMENT

Chapter content

1. APPLICATION AND DEFINITIONS
2. CURRENCY RISK: COVER FOR SPOT AND FORWARD CURRENCY TRANSACTIONS
3. CURRENCY MATCHING OF ASSETS AND LIABILITIES
4. COVERING LINKED LONG-TERM LIABILITIES
5. PURE REINSURERS
6. DERIVATIVES AND QUASI-DERIVATIVES
7. COVER
8. STOCK LENDING

Links

1 APPLICATION AND DEFINITIONS

- 1.1 Unless otherwise stated, this Part applies to;
- (1) a *non-directive insurer*, other than a *non-directive friendly society*; and
 - (2) subject to 1.2, a *Swiss general insurer*.
- 1.2 This Part only applies to a *Swiss general insurer* in respect of the activities of the *firm* carried on from a *branch* in the *UK*.
- 1.3 This Part applies to a *firm* in relation to the whole of its business, except where a particular provision provides for a narrower scope.
- 1.4 Where a *firm* carries on both *long-term insurance business* and *general insurance business*, this Part applies separately to each type of business.
- 1.5 In this Part, the following definitions shall apply:

investment risk

means the risk that the assets held by a *firm*:

- (1) (where they are *admissible assets* held by the *firm* to cover its *technical provisions*) might not be:
 - (a) of a value at least equal to the amount of those *technical provisions* as required by Insurance Company – Technical Provisions 4.1; or
 - (b) of appropriate safety, yield and marketability as required by Insurance Company – Technical Provisions 6.2(1); or
 - (c) of an appropriate currency match as required by 3.2;
- (2) (where they are held to cover *index-linked liabilities*) might not be appropriate cover for those liabilities as required by 4.2; and
- (3) (where they are held to cover *property-linked liabilities*) might not be appropriately selected in accordance with the requirements of INSPRU 1.5.36 R of the *FCA Handbook* and appropriate cover for those liabilities as required by 4.2.

linked assets

means assets held to cover *linked long-term liabilities* 4.2.

2 CURRENCY RISK: COVER FOR SPOT AND FORWARD CURRENCY TRANSACTIONS

- 2.1 A *firm* must cover a contract providing for the purchase or sale of foreign currency by:
- (1) holding the currency that must be paid by the *firm* under the contract; or
 - (2) being subject to an *offsetting transaction*.

3 CURRENCY MATCHING OF ASSETS AND LIABILITIES

- 3.1 This Chapter does not apply:
- (1) to a *pure reinsurer*; or
 - (2) in respect of *linked assets*.
- 3.2 (1) A *firm* must hold *admissible assets* in each currency of an amount equal to at least 80% of the amount of its liabilities in that currency arising under or in connection with *contracts of insurance*, except where the amount of those assets does not exceed 7% of the assets in other currencies.
- (2) For the purposes of (1), references to an asset in a currency are to an asset which is expressed in or capable of being realised (without exchange risk) in that currency, and an asset is capable of being so realised if it is reasonably capable of being realised in that currency without risk that changes in exchange rates would reduce the cover for liabilities in that currency.
- 3.3 For the purposes of 3.2, the currency of the liability under a *contract of insurance* is the currency in which the cover under the *contract of insurance* is expressed or, if the contract does not specify a currency:
- (1) the currency of the country or territory in which the risk is situated;
 - (2) if the *firm* on reasonable grounds so decides, the currency in which the *premium* payable under the contract is expressed;
 - (3) if, taking into account the nature of the risks insured, the *firm* considers it more appropriate:
 - (a) the currency (based on past experience) in which it expects the claims to be paid; or
 - (b) if there is no past experience, the currency of the country or territory in which the *firm* or relevant branch is established:
 - (i) for contracts covering risks falling within *general insurance business classes* 4, 5, 6, 7, 11, 12 and 13 (producer's liability only); and
 - (ii) for contracts covering risks falling within any other *general insurance business class* where, in accordance with the nature of the risks, the *firm's* liabilities are liabilities to be provided in a currency other than that which would result from the application of (1) or (2);
 - (4) (where a claim has been notified to the *firm* and the *firm's* liability in respect of that claim is payable in a currency other than that which would result from the application of (1), (2) or (3)) the currency in which the claim is to be paid; or
 - (5) (where a claim is assessed in a currency known to the *firm* in advance and is a currency other than that which would result from the application of (1), (2), (3) or (4)) the currency in which the claim is to be assessed.

4 COVERING LINKED LONG-TERM LIABILITIES

- 4.1 This Chapter does not apply to a *pure reinsurer*.

- 4.2 A *firm* must cover its *technical provisions* in respect of its *linked long-term liabilities* as closely as possible with:
- (1) where the *linked benefits* are linked to the value of *units*, those *units*;
 - (2) where the *linked benefits* are linked to the value of assets contained in an internal fund of the *firm*:
 - (a) in a case where the internal fund is divided into notional units, the assets represented by those notional units; or
 - (b) in a case where notional units are not established, those assets; and
 - (3) where the *linked benefits* are linked to a *share* index or other reference value not mentioned in (1) or (2), assets of appropriate security and marketability which correspond as closely as possible to the assets on which the reference value is based.

5 PURE REINSURERS

- 5.1 A *pure reinsurer* must invest its assets in accordance with the following requirements:
- (1) the assets must take account of the type of business carried out by the *firm*, in particular the nature, amount and duration of expected claims payments, in such a way as to secure the sufficiency, liquidity, security, quality, profitability and matching of its investments;
 - (2) the *firm* must ensure that the assets are diversified and adequately spread and allow the *firm* to respond adequately to changing economic circumstances, in particular developments in the financial markets and real estate markets or major catastrophic events; the *firm* must assess the impact of irregular market circumstances on its assets and must diversify the assets in such a way as to reduce such impact;
 - (3) investment in assets which are not admitted to trading on a *regulated market* must be kept to prudent levels;
 - (4) investment in *derivatives* and *quasi-derivatives* must contribute to a reduction of *investment risks* or facilitate efficient portfolio management and such investments must be valued on a prudent basis, taking into account the underlying assets, and included in the valuation of the *firm's* assets;
 - (5) the *firm* must avoid excessive risk exposure to a single *counterparty* and to other *derivative* or *quasi-derivative* operations;
 - (6) the assets must be properly diversified in such a way as to avoid:
 - (a) excessive reliance on any one particular asset, *issuer* or *group* of *undertakings*; and
 - (b) accumulations of risk in the portfolio as a whole;
 - (7) investments in assets issued by the same *issuer* or by *issuers* belonging to the same *group* must not expose the *firm* to excessive risk concentration; and
 - (8) (6) and (7) do not apply to investment in government bonds.

6 DERIVATIVES AND QUASI-DERIVATIVES

- 6.1 This Chapter does not apply to a *pure reinsurer*.
- 6.2 For the purposes of Insurance Company – Capital Resources 13, a *derivative* or *quasi-derivative* is approved if:
- (1) it is held for the purpose of efficient portfolio management or reduction of *investment risk*;
 - (2) it is covered; and
 - (3) it is effected or issued:
 - (a) on or under the rules of a *regulated market*; or
 - (b) off-market with an *approved counterparty* and, except for a forward transaction, on approved terms and is capable of valuation.
- 6.3 (1) For the purposes of 6.2, a *derivative* or *quasi-derivative* is held for the purpose of reducing *investment risk* if the *derivative* or *quasi-derivative* (either alone or together with other fully covered transactions) reduces any aspect of *investment risk* without significantly increasing any other aspect of that risk.
- (2) For the purposes (1), an increase in risk from a *derivative* or *quasi-derivative* is significant unless:
- (a) relative to any reduction in *investment risk* it is both small and reasonable; or
 - (b) the risk is remote.
- 6.4 For the purposes of 6.2(3)(b), a *derivative* or *quasi-derivative* is on approved terms only if the *firm* reasonably believes that it could, in all reasonably foreseeable circumstances and under normal market conditions, readily enter into a further transaction with the *counterparty* or a third party to close out the *derivative* or *quasi-derivative* at a price not less than the value attributed to it by the *firm*, taking into account any valuation adjustments or reserves established by the *firm* under Insurance Company – Overall Resources and Valuation 7.
- 6.5 For the purposes of 6.2(3)(b), a *derivative* or *quasi-derivative* is capable of valuation only if the *firm*:
- (1) is able to value it with reasonable accuracy on a reliable basis in compliance with Insurance Company - Overall Resources and Valuation 3.1; and
 - (2) reasonably believes that it will be able to do so throughout the life of the transaction.
- 6.6 For the purposes of 6.2(1), a *derivative* or *quasi-derivative* is held for the purpose of efficient portfolio management if the *firm* reasonably believes the *derivative* or *quasi-derivative* (either alone or together with any other covered transactions) enables the *firm* to achieve its investment objectives by one of the following:
- (1) generating additional capital or income in one of the ways described in 6.7; or
 - (2) reducing tax or investment cost in relation to *admissible assets* or *linked assets*; or
 - (3) acquiring or disposing of rights in relation to *admissible assets* or *linked assets*, or their equivalent, more efficiently or effectively.

- 6.7 The generation of additional capital or income falls within 6.6(1) where it arises from:
- (1) taking advantage of pricing imperfections in relation to the acquisition and disposal (or disposal and acquisition) of rights in relation to assets the same as, or equivalent to, *admissible assets* or *linked assets*; or
 - (2) receiving a premium for selling a covered call *option* or its equivalent, the underlying of which is an *admissible asset* or *linked assets*, even if that additional capital or income is obtained at the expense of surrendering the chance of greater capital or income.

7 COVER

- 7.1 This Chapter does not apply to a *pure reinsurer*.
- 7.2 (1) A *firm* must cover an obligation to transfer assets or pay monetary amounts that arise from:
- (a) a *derivative* or *quasi-derivative*; or
 - (b) a contract (other than a *contract of insurance*) for the purchase, sale or exchange of assets.
- (2) Cover used for one transaction must not be used for cover in respect of another transaction or any other agreement to acquire, or dispose of, assets or to pay or repay *money*.
- 7.3 For the purposes of 7.2, an obligation to transfer assets or pay monetary amounts must be covered:
- (1) by assets, a liability or a provision; or
 - (2) by an *offsetting transaction*.
- 7.4 For the purposes of 7.2, an obligation to transfer assets (other than *money*) or to pay monetary amounts based on the value of, or income from, assets is covered if the *firm* holds:
- (1) those assets; or
 - (2) in the case of an index or basket of assets, a reasonable approximation to those assets.
- 7.5 For the purposes of 7.2, an obligation to pay a monetary amount (whether or not falling in 7.4) is covered if:
- (1) the *firm* holds *admissible assets* or *linked assets*, that are sufficient in value so that the *firm* reasonably believes that following reasonably foreseeable adverse variations (relying solely on cashflows from, or from realising, those assets) it could pay the monetary amount in the right currency when it falls due; or
 - (2) the obligation to pay the monetary amount is offset by a liability. An obligation is offset by a liability where an increase in the amount of that obligation would be offset by a decrease in the amount of that liability; or
 - (3) a provision at least equal to the value of the assets in (1) is, in accordance with 7.6, implicitly or explicitly set up.

- 7.6 For the purposes of 7.5(3), a provision is:
- (1) implicitly set up to the extent that the obligation to pay the monetary amount is recognised under Insurance Company – Overall Resources and Valuation 3 to 7 either by offset against an asset or as a separate liability; and
 - (2) explicitly set up if it is in addition to an implicit provision.
- 7.7 A *firm* must implicitly or explicitly set up a provision equal to the value of the assets or *offsetting transactions* held to cover a non-approved *derivative* or *quasi-derivative* transaction.
- 7.8 For the purposes of 7.3(2), an *offsetting transaction* offsets an obligation to transfer assets away from the *firm* only if it provides for the transfer to the *firm* of those assets, or their value, at the time, or before, the obligation falls due.
- 7.9 For the purposes of 7.3(2), an *offsetting transaction* offsets an obligation to pay a monetary amount only if it provides for that monetary amount to be paid to the *firm* at or before the earliest date on which the obligation might fall due.
- 7.10 For the purposes of this Chapter, assets that have been lent by the *firm* are not available for cover, unless:
- (1) they are non-monetary assets that have been lent under a transaction that fulfils the conditions in 8.2; and
 - (2) the *firm* reasonably believes the assets to be obtainable (by return or re-acquisition) in time to meet the obligation for which cover is required.
- 7.11 For the purposes of this Chapter, assets that have been borrowed by the *firm* are not available for cover except as allowed by 7.12.
- 7.12 For the purposes of this Chapter, borrowed *money* may be used as cover only where:
- (1) the *money* has been advanced or an *approved credit institution* has committed itself to advance the *money*; and
 - (2) the borrowing is or would be covered.

8 STOCK LENDING

- 8.1 This Chapter does not apply to a *pure reinsurer*.
- 8.2 (1) For the purposes of Insurance Company – Capital Resources 13, a *stock lending* transaction (including a *repo* transaction) is approved if:
- (a) the *firm* is the lender;
 - (b) the assets lent by the *firm* are *admissible assets*;
 - (c) the *counterparty* is an *authorised person*, an *approved counterparty*, a *person* registered as a broker-dealer with the Securities and Exchange Commission of the United States of America or a bank, or a branch of a bank, supervised, and authorised to deal in investments as principal, with respect to *OTC derivatives* by at least one of the following federal banking supervisory authorities of the United States of America:
 - (i) the Office of the Comptroller of the Currency;

- (ii) the Federal Deposit Insurance Corporation; and
 - (iii) the Board of Governors of the Federal Reserve System; and
 - (d) adequate and sufficiently immediate *collateral* is obtained to secure the obligation of the *counterparty*.
 - (2) 8.2(1)(d) does not apply to a *stock lending* transaction made through Euroclear Bank SA/NV's Securities Lending and Borrowing Programme.
- 8.3 For the purposes of 8.2(1)(d), *collateral* is adequate only if it:
- (1) is transferred to the *firm* or its agent or, in the case of a letter of credit, meets the conditions described in 8.4;
 - (2) is:
 - (a) at the time of the transfer and on a continuing basis; or
 - (b) (in the case of a letter of credit) at the time of issue and on a continuing basis;
 at least equal in value to the value of the *securities* transferred, or consideration provided, by the *firm*; and
 - (3) is of adequate quality.
- 8.4 The conditions referred to in 8.3(1) are that the letter of credit is:
- (1) direct, explicit, unconditional and irrevocable; and
 - (2) issued by an *undertaking* which is:
 - (a) not an *affiliated company* of the *counterparty*; and
 - (b) either an *approved credit institution* or a bank, or a branch of a bank, whether chartered by the federal government of the United States of America or a US state, that is supervised and examined by at least one of the following US federal banking supervisory authorities:
 - (i) the Office of the Comptroller of the Currency;
 - (ii) the Federal Deposit Insurance Corporation; and
 - (iii) the Board of Governors of the Federal Reserve System.
- 8.5 For the purposes of 8.3(2), where the validity of the *collateral* or the *firm's* interest in the *collateral* is about to expire or has expired, *collateral* will only be adequate on a continuing basis if sufficient *collateral* will again be transferred or issued at the latest by the close of business on the day of expiry.
- 8.6 For the purposes of 8.2(1)(c), *collateral* is sufficiently immediate only if:
- (1) it is transferred or, in the case of a letter of credit, issued before, or at the same time as, the transfer of the *securities* by the *firm*; or
 - (2) it will be transferred or, in the case of a letter of credit, issued, at latest, by the close of business on the day of the transfer.

Annex J

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

Part

FRIENDLY SOCIETY - OVERALL RESOURCES AND GUARANTEE FUND

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. BASIC MARGIN OF SOLVENCY REQUIREMENT**
- 3. CALCULATING THE REQUIRED MARGIN OF SOLVENCY**
- 4. GUARANTEE FUND**
- 5. CALCULATING THE GUARANTEE FUND**
- 6. MINIMUM GUARANTEE FUND: LONG-TERM INSURANCE BUSINESS**
- 7. MINIMUM GUARANTEE FUND: GENERAL INSURANCE BUSINESS**
- 8. VALUATION OF SOLVENCY MARGINS**

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *non-directive friendly society*.

1.2 In this Part, the following definitions shall apply:

ancillary risk

means, in relation to a principal risk belonging to a *class of general insurance business*, a risk included in another such *class* which is:

- (1) connected with the principal risk;
- (2) concerned with the object which is covered against the principal risk; and
- (3) the subject of the same *contract of insurance* as the principal risk.

annual contribution income

means, in relation to a *firm's long-term insurance business*, the income of the *firm* in a *financial year* without any deduction for *reinsurance* cessions.

implicit items

means economic reserves arising in respect of assets which relate to future surpluses, *zillmerising* or hidden reserves.

initial fund

means the items of capital that were available to a *mutual* on the date it received a *Part 4A permission to effect contracts of insurance or carry out contracts of insurance*.

1.3 For the purposes of this Part:

- (1) a *contract of insurance* is to be treated as falling within a *class of long-term insurance business* notwithstanding the fact that it contains supplementary provisions falling within *general insurance business class 1 (accident)* or *class 2 (sickness)* if:
 - (a) its principal object is that of a contract falling within a *class of long-term insurance business*;
 - (b) it is effected or carried out by a *firm* which has *Part 4A permission to effect contracts of insurance or carry out contracts of insurance* falling within *long-term insurance business class I (life and annuity)*; and
- (2) a *contract of insurance* whose principal risk falls within any of *general insurance business classes 1, 2 or 16* is to be treated as falling within that *class* and no other, notwithstanding the fact that it also covers *ancillary risks*.

2 BASIC MARGIN OF SOLVENCY REQUIREMENT

2.1 Subject to 2.3, a *firm* (other than a *flat rate benefits business friendly society*) must maintain a *margin of solvency* equal to or greater than the *required margin of solvency*.

- 2.2 Where a *firm* carries on both *long-term insurance business* and *general insurance business*, 2.1 has effect as if the requirement to maintain a *margin of solvency* were a requirement to maintain separate margins in respect of the two kinds of business.
- 2.3 2.1 does not apply to a *firm* which does not have *Part 4A permission* to effect contracts of insurance and is only carrying out contracts of insurance which were effected before 13 September 1993 (or effected pursuant to the terms of such a contract), provided that the *firm* maintains an excess of the value of its assets over the amount of its liabilities.

3 CALCULATING THE REQUIRED MARGIN OF SOLVENCY

- 3.1 Subject to 3.2 to 3.6, the *required margin of solvency* must be determined:
- (1) with respect to *long-term insurance business* carried on by a *firm*, in accordance with Friendly Society - Required Margin 2 to 6; and
 - (2) with respect *general insurance business* carried on by a *firm*, by taking the greater of:
 - (a) the higher of the two sums resulting from the calculation of a premiums basis solvency margin set out in Friendly Society - Required Margin 7; and
 - (b) the sum resulting from the calculation of a claims basis solvency margin set out in Friendly Society - Required Margin 8.
- 3.2 For a *contract of insurance* to which 1.3 applies, the *required margin of solvency* must be determined by taking the aggregate of the results arrived at by applying:
- (1) in the case of that portion of the contract as is within any *class of long-term insurance business*, the method of calculation set out in 3.1(1) for that *class*; and
 - (2) in the case of that portion of the contract as is within *general insurance business class 1 or 2*, the method of calculation set out in 3.1(2).
- 3.3 Where a *firm* carries on *long-term insurance business* and owing to the nature of that business more than one *required margin of solvency* applies in respect of that business by the operation of these rules, those *required margins of solvency* must be aggregated.
- 3.4 Where a *firm* carries on both *long-term insurance business* and *general insurance business* and is accordingly required to maintain separate *margins of solvency* in respect of the two kinds of business:
- (1) the provisions in 3.1 to 3.3 apply for determining the *required margin of solvency* for each kind of business separately; and
 - (2) assets other than those representing the funds maintained by the *firm* in respect of its *long-term insurance business* must only be taken into account in covering the liabilities and the *required margin of solvency* for the *firm's long-term insurance business* if they are not included among the assets covering the liabilities and the *required margin of solvency* relating to the *firm's general insurance business*.
- 3.5 Subject to 3.6, in each case in which 3.1(2) applies, if the *required margin of solvency* under 3.1(2) is lower than the *required margin of solvency* of the preceding *financial year*, then the *required margin of solvency* must be adjusted so it is at least equal to the *required margin of solvency* of the preceding *financial year* multiplied, if the ratio is less than one, by the ratio (expressed as a percentage) of:

- (1) the amount of the *insurance liabilities* for claims outstanding at the end of the preceding *financial year*; to
- (2) the amount of the *insurance liabilities* for claims outstanding at the beginning of the preceding *financial year*.

3.6 For the purpose of 3.5:

- (1) *insurance liabilities* must not be discounted, or reduced, to take account of investment income, unless:
 - (a) they relate to risks in *general insurance business classes* 1 or 2; or
 - (b) they are reduced to reflect the discounting of annuities; and
- (2) *insurance liabilities* must be calculated net of *reinsurance*.

3.7 A *firm* must notify the *PRA* immediately in accordance with Notifications 7 where the nature or quality of *reinsurance* relied on to reduce the *required margin of solvency* materially changes during the *financial year*.

4 GUARANTEE FUND

4.1 This Chapter only applies to an *incorporated friendly society*.

4.2 A *firm* must ensure that its *margin of solvency* does not fall below the *guarantee fund*.

5 CALCULATING THE GUARANTEE FUND

5.1 The *guarantee fund* is an amount equal to the greater of:

- (1) one-third of the *required margin of solvency*; and
- (2) the *minimum guarantee fund*.

5.2 In the case of *long-term insurance business*, a *firm* must maintain a *margin of solvency* (excluding *implicit items*), that are sufficient to cover the greater of:

- (1) the *minimum guarantee fund*; and
- (2) 50% of the *guarantee fund*.

5.3 In the case of *general insurance business*, the unpaid *initial fund* of a *firm* and, in the case of a *firm* with variable contributions, any claim which the *firm* has against its members by way of a call for supplementary contributions for a *financial year* may not be taken into account in complying with 4.2.

5.4 In the case of *long-term insurance business*, the unpaid *initial fund* of a *firm* and *implicit items* which relate to future profits and *zillmerising* may not be taken into account in complying with 4.2.

6 MINIMUM GUARANTEE FUND: LONG-TERM INSURANCE BUSINESS

6.1 Subject to 6.2, the *minimum guarantee fund* for *long-term insurance business* is the amount in column 2 of the following table, which corresponds to the *firm's* highest *annual contribution income* in respect of that business in any preceding *financial year*, as shown in column 1 of the table:

Contribution income (in UK sterling)	Minimum guarantee fund (in UK sterling)
800,000	90,000
800,001 - 1,200,000	185,000
1,200,001 – 1,600,000	280,000
1,600,001 – 2,000,000	370,000
2,000,001 – 2,400,000	470,000
2,400,001 or more	560,000

6.2 If a *firm* has not been in existence long enough to have a preceding *financial year*, the *minimum guarantee fund* for *long-term insurance business* is £90,000.

7 MINIMUM GUARANTEE FUND: GENERAL INSURANCE BUSINESS

7.1 The *minimum guarantee fund* for *general insurance business* is £210,000.

8 VALUATION OF SOLVENCY MARGINS

8.1 A *firm* must take account of 8.2 to 8.6 in determining the extent to which a *firm's margin of solvency* covers the *required margin of solvency*, the *guarantee fund* and the *minimum guarantee fund*.

8.2 A *firm* with variable contributions, carrying on *general insurance business*, must treat any claim which the *firm* has against its members by way of a call for supplementary contributions for a *financial year* as having no value.

8.3 A *firm* must treat *implicit items* as having no value.

8.4 A *firm* must treat an unpaid *initial fund* as having no value.

8.5 Subject to 8.6, if a *firm* discounts or reduces its *insurance liabilities* for claims outstanding to take account of investment income, the *margin of solvency* must be reduced by the difference between:

- (1) the undiscounted *insurance liabilities* for claims outstanding or the *insurance liabilities* for claims outstanding before deductions; and
- (2) the discounted *insurance liabilities* for claims outstanding or the *insurance liabilities* for claims outstanding after deductions.

For these purposes, *insurance liabilities* must be calculated net of *reinsurance*.

8.6 8.5 does not apply:

- (1) to risks in *general insurance business classes 1 or 2*; or
- (2) in respect of the discounting of annuities.

Annex K

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

Part

FRIENDLY SOCIETY – REQUIRED MARGIN

Chapter content

1. APPLICATION AND DEFINITIONS
2. LONG-TERM INSURANCE BUSINESS MARGIN OF SOLVENCY: CLASSES I AND II
3. LONG-TERM INSURANCE BUSINESS MARGIN OF SOLVENCY: CLASSES III AND VII
4. LONG-TERM INSURANCE BUSINESS MARGIN OF SOLVENCY: CLASS IV
5. LONG-TERM INSURANCE BUSINESS MARGIN OF SOLVENCY: CLASS V
6. LONG-TERM INSURANCE BUSINESS MARGIN OF SOLVENCY: CLASS VI
7. GENERAL INSURANCE BUSINESS SOLVENCY MARGIN: PREMIUMS BASIS
8. GENERAL INSURANCE BUSINESS SOLVENCY MARGIN: CLAIMS BASIS

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *non-directive friendly society*.

1.2 In this Part, the following definitions shall apply:

amount of claims paid

means, in relation to a *financial year*, the amount that is recorded in the *firm's* books at the end of the *financial year* as paid by it (whether or not payment has been effected in that year) in full or partial settlement of:

- (1) claims including claims relating to business accounted for over a longer period than a *financial year*, and
- (2) expenses (including legal or medical costs) which are incurred by the *firm*, whether through the employment of its own staff or otherwise, and are directly attributable to the settlement of individual claims, whether or not the individual claims in question are those mentioned in (1),

less any amounts *recoverable* by the *firm* in respect of the claims mentioned in (1) or other claims, including amounts *recoverable* from third parties and amounts *recoverable* from other *insurance undertakings* but excluding amounts *recoverable* in respect of *reinsurance* ceded by the *firm*.

capital at risk

means:

- (1) in any case in which an amount is payable in consequence of death other than a case falling within (2), the amount payable on death; or
- (2) in any case in which the benefit under the contract in question consists of the making, in consequence of death, of the payment of an annuity, payment of a sum by instalments or any other kind of periodic payments, the present value of that benefit,

less in either case the *mathematical reserves* in respect of the relevant contracts.

gross premiums

means, in respect of a *financial year*, *premiums* after deduction of discounts, refunds and rebates of *premiums* but before deduction of *premiums* for *reinsurance* ceded and before deduction of commission payable.

gross premiums earned

means, in respect of a *financial year*, such proportion of *gross premiums receivable* as is attributable to risk borne by the *firm* during that *financial year*.

provision for claims outstanding

means, in respect of a *financial year*, the amount set aside by the *firm* as at the beginning or end of the *financial year* as being an amount likely to be sufficient to meet:

- (1) claims in respect of incidents occurring:

- (a) in the case of an amount set aside as at the beginning of the *financial year*, before the beginning of that year; and
- (b) in the case of an amount set aside as at the end of a *financial year*, before the end of that year,

being claims which have not been treated as claims paid and including claims relating to business accounted for over a longer period than a *financial year*, claims the amounts of which have not been determined and claims arising out of incidents that have not been notified to the *firm*; and

- (2) expenses (such as, for example, legal or medical costs) which are likely to be incurred by the *firm*, whether through the employment of its own staff or otherwise and are directly attributable to the settlement of individual claims, whether or not the individual claims in question are those mentioned in (1),

less any *recoverable* amounts estimated by the *firm* to be *recoverable* by it in respect of the claims mentioned in (1), including amounts *recoverable* from third parties and amounts *recoverable* from other *insurance undertakings* but excluding amounts *recoverable* in respect of *reinsurance* ceded by the *firm*.

receivable

means such amounts as become due to a *firm*, whether or not received (including, where appropriate, income which has accrued) in respect of *contracts of insurance* incepted in the relevant period.

recoverable

means, in relation to a *financial year*:

- (1) for the purpose of a *provision for claims outstanding*, amounts estimated by the *firm* to be recorded in the *firm's* books as due in that year; or
- (2) otherwise, recorded in the *firm's* books as due in that year, whether or not the *firm* has received any payment.

reference period

means the three last preceding *financial years*.

2 LONG-TERM INSURANCE BUSINESS MARGIN OF SOLVENCY: CLASSES I AND II

2.1 A *firm* must calculate the *required margin of solvency* in respect of *classes I and II* as the aggregate of the results arrived at by applying the calculation described in 2.2 and the calculation described in 2.3.

2.2 A *firm* must calculate the following:

- (1) a sum equal to 4% of the *mathematical reserves* for direct *insurance business* and *reinsurance* acceptances without any deduction for *reinsurance* cessions;
- (2) the amount of the *mathematical reserves* at the end of the last preceding *financial year* after the deduction of *reinsurance* cessions, expressed as a percentage of the amount of those *mathematical reserves* before any such deduction; and
- (3) the sum mentioned in (1) must be multiplied:

- (a) where the percentage arrived at under (2) is greater than 85%, by that percentage; or
- (b) in any other case, by 85%.

2.3 A *firm* must calculate the following:

- (1) subject to (4) and (5), a sum equal to 0.3% of the *capital at risk* for contracts on which the *capital at risk* is not a negative figure;
- (2) the amount of the *capital at risk* at the end of the last preceding *financial year* for contracts on which the *capital at risk* is not a negative figure, after the deduction of *reinsurance* cessions, expressed as a percentage of the amount of that *capital at risk* before any such deduction; and
- (3) the sum arrived at under (1) must be multiplied:
 - (a) where the percentage arrived at under (2) is greater than 50%, by that greater percentage; or
 - (b) in any other case, by 50%.
- (4) Where a contract provides for benefits payable only on death within a specified period and:
 - (a) is valid for a period of not more than three years from the date when the contract was first made, the percentage to be taken for the purposes of (1) must be 0.1%; or
 - (b) is valid for a period of more than three years but not more than five years from the date when the contract was first made, the percentage to be taken for the purposes of (1) must be 0.15%.
- (5) For the purposes of (4), the period of validity of the contract evidencing a group policy is the period from the date when the *premium* rates under the contract were last reviewed for which the *premium* rates are guaranteed.

2.4 A *firm* must calculate the amount of *mathematical reserves* referred to in 2.2(1) and the *capital at risk* referred to in 2.3(1) as at the day on which the *required margin of solvency* is determined.

2.5 For the purposes of calculating the *capital at risk*, a *firm* must calculate the *mathematical reserves*:

- (1) in respect of 2.3(1), on the day on which the *capital at risk* is calculated; and
- (2) in respect of 2.3(2), as at the last preceding *financial year*.

3 LONG-TERM INSURANCE BUSINESS MARGIN OF SOLVENCY: CLASSES III AND VII

3.1 A *firm* must calculate the *required margin of solvency* in respect of *classes III and VII* in accordance with 3.2 to 3.4.

3.2 If and in so far as a *firm* bears an investment risk, the calculation in 2.2 must be applied.

3.3 If and in so far as a *firm* bears no investment risk and if the allocation to cover *management expenses* in the relevant contract:

- (1) has a fixed upper limit which is effective as a limit for a period exceeding five years, the calculation in 2.2 must be applied, but as if 2.2(1) contained a reference to 1% instead of 4%; or
- (2) does not have a fixed upper limit which is effective as a limit for a period exceeding five years, the *required margin of solvency* is an amount equivalent to 25% of the preceding *financial year's* net administrative expenses pertaining to such business.

3.4 Where a *firm* covers a death risk, a sum arrived at by applying the calculation in 2.3 (but excluding for these purposes 2.3(4) and (5)) must be added to the *required margin of solvency*, including a *required margin of solvency* of zero, arrived at under any of 3.2 and 3.3.

4 LONG-TERM INSURANCE BUSINESS MARGIN OF SOLVENCY: CLASS IV

- 4.1 A *firm* must calculate the *required margin of solvency* in respect of *class IV* by applying the calculation in 2.2 plus the sum arrived at by applying Friendly Society – Overall Resources and Guarantee Fund 3.1(2) as though it were *general insurance business class 2*.
- 4.2 If both 4.1 and Friendly Society – Overall Resources and Guarantee Fund 3.2(2) apply, a single combined *required margin of solvency* must be calculated under Friendly Society – Overall Resources and Guarantee Fund 3.2(2) in respect of the *class IV* business and subsidiary provisions in *classes 1 and 2*.

5 LONG-TERM INSURANCE BUSINESS MARGIN OF SOLVENCY: CLASS V

- 5.1 A *firm* must calculate the *required margin of solvency* in respect of *class V* as 1% of the assets of the relevant *tontine*.

6 LONG-TERM INSURANCE BUSINESS MARGIN OF SOLVENCY: CLASS VI

- 6.1 A *firm* must calculate the *required margin of solvency* in respect of *class VI* by applying the calculation in 2.2.

7 GENERAL INSURANCE BUSINESS SOLVENCY MARGIN: PREMIUMS BASIS

- 7.1 A *firm* must calculate a premiums basis solvency margin by:
 - (1) aggregating the *gross premiums receivable* (or contributions, as the case may be) in respect of the *firm's* entire *general insurance business* for the last preceding *financial year*; and
 - (2) aggregating the *gross premiums earned* (or contributions, as the case may be) in respect of the *firm's* entire *general insurance business* for the last preceding *financial year*,
 and applying the calculation set out in 7.2 to 7.10.
- 7.2 From each of the aggregates arrived at under 7.1(1) and 7.1(2) a *firm* must deduct:
 - (1) any taxes included in the *premiums*; and
 - (2) any levies that are related to *premiums* and are recorded in the *firm's* books as payable in the last preceding *financial year* in respect of *general insurance business*.
- 7.3 A *firm* must multiply the amount arrived at under 7.2 by twelve and divide by the number of *months* in the *financial year*.

- 7.4 A *firm* must calculate 18% of the amount arrived at under 7.3.
- 7.5 In the case of *general insurance business* consisting of health insurance based on actuarial principles, 7.4 applies with the substitution of 6% for 18% if the following conditions are satisfied:
- (1) the *gross premiums* paid are calculated on the basis of sickness tables appropriate to *insurance business*;
 - (2) the reserves include provision for increasing age or, in the case of *class IV*, either the reserves include provision for increasing age, or the business is conducted on a group basis;
 - (3) an additional *premium* is collected in order to set up a safety margin of an appropriate amount;
 - (4) the contract does not allow the *firm* to cancel the contract after the end of the third year of the contract; and
 - (5) the contract provides for the possibility of increasing *premiums* or reducing payments during its currency.
- 7.6 Where 7.5 applies to a *firm* whose *general insurance business* consists partly of health insurance based on actuarial principles and partly of other business, the procedure provided in 7.1 to 7.5 must operate separately for each part of the *general insurance business*, so as to produce a sum under 7.5 for the health insurance and a sum under 7.4 for the other business.
- 7.7 If the *provision for claims outstanding* at:
- (1) the end of the last preceding *financial year* exceeds the *provision for claims outstanding* at the beginning of the *financial year* two years prior to the last preceding *financial year*, then a *firm* must add the amount of the excess to the *amount of claims paid* in the three year period; and
 - (2) the beginning of the *financial year* two years prior to the *financial year* in question exceeds the *provision for claims outstanding* at the end of the *financial year* in question, then a *firm* must deduct the amount of the excess from the *amount of claims paid* in the three year period.
- 7.8 From the amount determined under 7.7(1) or (2), a *firm* must deduct the total sum *recoverable* in respect of that amount under *reinsurance* contracts ceded during the relevant period.
- 7.9 A *firm* must express the amount determined under 7.8 as a percentage of the amount determined under 7.7(1) or (2).
- 7.10 A *firm* must multiply the sum arrived at under 7.4 or 7.5, or the aggregate of the sums arrived at under 7.4 and 7.5, as the case may be:
- (1) where the percentage arrived at under 7.9 is greater than 50% but not greater than 100%, by the percentage so arrived at;
 - (2) where the percentage arrived at under 7.9 is greater than 100%, by 100%; and
 - (3) in any other case, by 50%.

8 GENERAL INSURANCE BUSINESS SOLVENCY MARGIN: CLAIMS BASIS

- 8.1 This Chapter does not apply to a *firm* that has not been in existence long enough to acquire a *reference period*.
- 8.2 A *firm* must calculate a claims basis solvency margin by applying the calculation in 8.3 to 8.9.
- 8.3 If the provision for claims outstanding at:
- (1) the end of the *reference period* exceeds the provision for claims outstanding at the beginning of the *reference period*, a *firm* must add the amount of the excess to the *amount of claims paid* in the *reference period*; or
 - (2) the beginning of the *reference period* exceeds the provision for claims outstanding at the end of the *reference period*, a *firm* must deduct the amount of the excess from the *amount of claims paid* in the *reference period*,

where for the purposes of this Chapter, the definitions of *amount of claims paid* and *provision for claims outstanding* must be read so as to refer to a *reference period* rather than a *financial year*.

- 8.4 A *firm* must divide the aggregate obtained under 8.3(1) or (2) by the number of *months* in the *reference period* and multiply by twelve.
- 8.5 A *firm* must calculate 26% of the amount arrived at under 8.4.
- 8.6 In the case of *general insurance business* consisting of health insurance based on actuarial principles, 8.5 applies with the substitution of 8.66% for 26% if the conditions in 7.5(1) to (5) are satisfied.
- 8.7 Where 8.6 applies to a *firm* whose *general insurance business* consists partly of health insurance based on actuarial principles and partly of other business, 8.2 to 8.6 must operate separately for each part of the *general insurance business*, so as to produce a sum under 8.6 for the health insurance and a sum under 8.5 for the other business.
- 8.8 A *firm* must multiply the sum arrived at under 8.6 or 8.7, or the aggregate of the sums arrived at under 8.6 and 8.7, by the same percentage as is applicable for the purposes of 7.10.

Annex L

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

Part

FRIENDLY SOCIETY - FINANCIAL PRUDENCE

Chapter content

1. APPLICATION
2. ADEQUACY OF ASSETS
3. SEPARATION BETWEEN LONG-TERM INSURANCE BUSINESS ASSETS AND OTHER ASSETS
4. LIQUIDITY

Links

1 APPLICATION

1.1 Unless otherwise stated, this Part applies to a *non-directive friendly society*.

2 ADEQUACY OF ASSETS

2.1 This Chapter only applies to an *incorporated friendly society*.

2.2 A *firm* must ensure that:

- (1) its liabilities under *contracts of insurance*, other than *linked long-term liabilities*, are covered by assets of appropriate safety, yield and marketability having regard to the *classes* of business it carries on; and
- (2) its investments, other than those in respect of *linked long-term liabilities*, are appropriately diversified and adequately spread and excessive reliance is not placed on investments of any particular category or description.

2.3 A *firm* must cover its *insurance liabilities* in respect of its *linked long-term liabilities* as closely as possible with:

- (1) where the *linked benefits* are linked to the value of *units*, those *units*;
- (2) where the *linked benefits* are linked to the value of assets contained in an internal fund of the *firm*:
 - (a) in a case where the internal fund is divided into notional units, the assets represented by those notional units; or
 - (b) in a case where notional units are not established, those assets; and
- (3) where the *linked benefits* are linked to a *share* index or other reference value not mentioned in (1) or (2), assets of appropriate security and marketability which correspond as closely as possible to the assets on which the reference value is based.

3 SEPARATION BETWEEN LONG-TERM INSURANCE BUSINESS ASSETS AND OTHER ASSETS

3.1 This Chapter only applies to an *incorporated friendly society*.

3.2 A *firm* must, in relation to any *long-term insurance business*, ensure that:

- (1) the assets representing the funds maintained by the *firm* in respect of its *long-term insurance business* are only applied for the purposes of that business; and
- (2) adequate arrangements are in place for ensuring that transactions affecting the assets of the *firm* do not operate unfairly between the assets representing the funds maintained by the *firm* in respect of its *long-term insurance business* and the other assets of the *firm*.

4 LIQUIDITY

4.1 A *firm* must maintain liquid assets sufficient to meet its liabilities as they become due.

Annex M

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

Part

FRIENDLY SOCIETY - ASSET VALUATION

Chapter content

1. APPLICATION AND DEFINITIONS
2. SECURED DEBTS
3. PROPERTY-LINKED BENEFITS
4. GENERAL PRINCIPLES
5. SHARES IN AN AFFILIATED COMPANY
6. VALUE OF NON-CAPITAL INTERESTS IN A GROUP UNDERTAKING
7. DEBTS DUE OR TO BECOME DUE FROM AN AFFILIATED COMPANY
8. REPO AGREEMENTS
9. DEBTS AND OTHER RIGHTS
10. LAND
11. EQUIPMENT
12. SECURITIES AND BENEFICIAL INTERESTS IN LIMITED PARTNERSHIPS
13. BENEFICIAL INTERESTS IN COLLECTIVE INVESTMENTS SCHEMES
14. DEFERRED ACQUISITION COSTS
15. FUTURE INTERESTS
16. CONTRACTS AND ASSETS HAVING THE EFFECT OF DERIVATIVES
17. ASSETS TO BE TAKEN INTO ACCOUNT ONLY TO A SPECIFIED EXTENT
18. CALCULATION OF EXPOSURE TO ASSETS
19. ADJUSTMENTS IN RESPECT OF FUTURES CONTRACTS
20. ADJUSTMENTS IN RESPECT OF OPTIONS
21. ADJUSTMENTS IN RESPECT OF INITIAL MARGINS
22. ADJUSTMENTS IN RESPECT OF CERTAIN CONTRACTS
23. ADJUSTMENT IN RESPECT OF SUBSIDIARIES
24. EXCESS ASSET EXPOSURE
25. CALCULATION OF EXPOSURE TO A COUNTERPARTY
26. EXCESS COUNTERPARTY EXPOSURE
27. EXCESS CONCENTRATION WITH A NUMBER OF COUNTERPARTIES
28. PERMITTED ASSET EXPOSURE LIMITS
29. PERMITTED COUNTERPARTY EXPOSURE LIMITS

Links

1 APPLICATION AND DEFINITIONS

- 1.1 Unless otherwise stated, this Part applies to a *non-directive friendly society*.
- 1.2 Subject to Friendly Society – Financial Prudence 2.2, this Part applies with respect to the determination of the value of assets of a *firm*.
- 1.3 In this Part, the following definitions shall apply:

business amount

means:

- (1) for a *friendly society* carrying on only *general insurance business*, the *general insurance business amount*;
- (2) for a *friendly society* carrying on only *long-term insurance business*, the *long-term insurance business amount*; and
- (3) for a *friendly society* carrying on both *general insurance business* and *long-term insurance business*, in the case of its *general insurance business assets*, the *general insurance business amount* and in the case of its *long-term insurance business assets*, the *long-term insurance business amount*.

connected individual

of a *friendly society*, means a natural *person* who:

- (1) controls, or is a partner of a natural *person* who controls, the *friendly society*; or
- (2) is a member of the *governing body* of the *friendly society* or the spouse or civil partner or a minor son or daughter of such a member;

and for the purposes of the above, a natural *person* controls a *friendly society* if he is:

- (3) a natural *person* in accordance with whose directions or instructions the *governing body* is accustomed to act; or
- (4) a natural *person* who either alone or with any *associate* or *associates* is entitled to exercise or control the exercise of, 15% or more of the voting power at any general meeting of the *friendly society*.

deferred acquisition costs

means those items referred to at G II under the heading "Assets" in Part I of Schedule 2 to the *Accounts Regulations*.

dependant

of a *friendly society*, means:

- (1) a *subsidiary* of that *friendly society*; or
- (2) a *jointly controlled body*.

deposit back arrangement

(in relation to a contract of *reinsurance*) means an arrangement whereby an amount is deposited by the *reinsurer* with the cedant.

established surplus

means an excess of assets representing the whole or a particular part of the fund or funds maintained by the *firm* in respect of its *long-term insurance business* over the liabilities, or a particular part of the liabilities, of the *firm* attributable to that business as shown by an investigation to which IPRU(FSOC) 5.1 or 5.2 of the *PRA Handbook* as at 31 December 2015 applies pursuant to Non-Solvency II Firms – Transitional Measures 3.

excess concentration with a number of counterparties

means the amount by which the *firm* is exposed to a *counterparty* in excess of the *permitted counterparty exposure limit*, calculated in accordance with 26.

exposure

means:

- (1) (in relation to assets), an amount determined in accordance with 18 to 24;
- (2) (in relation to a *counterparty*), an amount determined in accordance with 25 to 27.

general insurance business amount

means the higher of:

- (1) the total of:
 - (a) the *friendly society's insurance liabilities* (net of *reinsurance* ceded) in respect of *general insurance business* less *debts*:
 - (i) which are due from *dependants* to which 23.3 relates,
 - (ii) which are not *reinsurance* which has already been netted off the *friendly society's insurance liabilities*, and
 - (iii) which are included in *general insurance business assets*; which amount is to be zero where the *debts* are greater than the *friendly society's insurance liabilities*, and
 - (b) an amount equal to whichever is the greater of £320,000 or 20% of the *general premium income*; or
- (2) such other amount as the *friendly society* may select not exceeding:
 - (a) the value of its *general insurance business assets* as determined in accordance with this Part;
 - (b) excluding *debts* due from *dependants* to which paragraph 23.2 relates and *reinsurance* recoveries; and
 - (c) less *debts* due to *dependants* of the *friendly society* included in *general insurance business liabilities* (excluding *reinsurance*

recoveries, other than amounts due or that relate to claims already paid by the *dependant*) except that for a *dependant* to which 23.2 does not relate, the amount deducted will not exceed the *dependant's surplus assets* (or *proportional share*).

general insurance business assets

means the assets of a *firm* which are, for the time being, identified as representing the *general insurance business* fund or funds maintained by that body in respect of its *general insurance business*.

general premium income

means, in any year, the net amount, after deduction of any *premiums* payable for *reinsurance*, of the *premiums receivable* in that year in respect of all *insurance business* other than *long-term insurance business*.

implicit item

means economic reserves arising in respect of items which relate to future surpluses, *zillmerising* or hidden reserves.

linked assets

means, in relation to a *friendly society*, *long-term insurance business assets* of the *friendly society* which are, for the time being, identified in the records of the *friendly society* as being assets by reference to the value of which *property-linked benefits* are to be determined.

long-term insurance business assets

means the assets of a *firm* which are, for the time being, identified as representing the *long-term insurance business* fund or funds maintained by that firm in respect of its *long-term insurance business*.

long-term insurance business amount

means the higher of:

- (1) the total of:
 - (a) the *friendly society's insurance liabilities* in respect of *long-term insurance business* (net of *reinsurance* ceded) and the amount of any deposit back under a *deposit-back arrangement* in relation to a contract of *reinsurance* in respect of *long-term insurance business*;
 - (i) excluding *property-linked liabilities*; and
 - (ii) less:
 - (A) the amount of any *debt*, that is a *long-term insurance business asset* (excluding *reinsurance* ceded which has already been deducted from the *friendly society's insurance liabilities*), due from a *dependant* to which paragraph 23.2 relates, and

- (B) the amount of any *implicit item* valued in accordance with a *waiver*; (which amount is to be zero where the result is negative); and
 - (C) the amount of the *required margin of solvency* or *minimum guarantee fund*, whichever is greater for its long-term *insurance business* (or, in the case of a *friendly society* whose head office is not in the *UK*, that amount which would apply if its head office were in the *UK*); or
- (2) such other amount as the *friendly society* may select not exceeding the value of its assets determined in accordance with the this Chapter;
- (a) excluding:
 - (i) *reinsurance recoveries*;
 - (ii) assets required to match *property-linked liabilities*;
 - (iii) *debts* due from *dependants* of the *friendly society* to which 23.2 relates; and
 - (iv) if the *friendly society* is a *general insurer*, *general insurance business assets*, and
 - (b) less:
 - (i) if the *friendly society* is a *general insurer*, *debts* due to *dependants* of the *friendly society* included in *long-term insurance liabilities* (excluding *reinsurance recoveries* (other than amounts due or that relate to claims already paid by the *dependant*)); or
 - (ii) if the *friendly society* is not a *general insurer*, *debts* due to *dependants* of the *friendly society* (excluding *reinsurance recoveries* (other than amounts due or that relate to claims already paid by the *dependant*)), but for the purposes of (b) above, for *dependants* to which 23.2 does not relate, the amount deducted will not exceed the *dependant's surplus assets* (or *proportional share*);

except that for the purposes of determining the *permitted asset exposure limit* under 28, *index-linked liabilities* must also be excluded from (1)(a) and assets required to match such liabilities must be also excluded from (2).

permitted asset exposure limit

means the limits referred to in 28.

permitted counterparty exposure limit

means the limits referred to in 29.

readily realisable

means a *listed* investment in respect of which 12.4 does not apply or, by virtue of 12.5, is to be taken not to apply.

receivable

means such amounts as become due to a *friendly society*, whether or not received (including where appropriate, income which has accrued) in respect of *contracts of insurance* incepted in the relevant period.

2 SECURED DEBTS

2.1 In this Part, a *debt* owed to (or an obligation to be fulfilled for the benefit of) a *firm* must be regarded as being secured only to the extent that it is:

- (1) secured by;
 - (a) a letter of credit established with a *CRD credit institution*; or
 - (b) a guarantee provided by a *CRD credit institution*

and the sum of the aggregate amount available under all letters of credit established for the benefit of the *firm* with the same *counterparty*, the aggregate amount of all guarantees issued for the benefit of the *firm* by that *counterparty* and the amount of any *exposure* of the *firm* to that *counterparty* does not exceed the *permitted counterparty exposure limit* for that *counterparty*; or

- (2) secured by assets for the valuation of which provision is made in this Part and;
 - (a) the value of such assets (after deducting reasonable expenses of sale and the amount of any other *debt* or obligation secured thereon having priority to or ranking equally with the *debt* or obligation) is sufficient to enable the *debt* or obligation to be discharged in full;
 - (b) the value of the assets when aggregated with the *firm's exposure* to assets of the same description does not exceed the *permitted asset exposure limits*; and
 - (c) where the assets give rise to *exposure* to a *counterparty*, the *exposure* of the *firm* to that *counterparty*, when added to the sum of the aggregate amount available under all letters of credit established for the benefit of the *firm* with that *counterparty*, and the aggregate amount of all guarantees issued for the benefit of the *firm* by that *counterparty*, does not exceed the *permitted counterparty exposure limit* for that *counterparty*.

2.2 For the purposes of 2.1:

- (1) the aggregate amount available under letters of credit established with a *counterparty* must be taken not to exceed the sum of the aggregate amount of all *debts* and the aggregate value of all obligations in respect of which those letters of credit were established;
- (2) the aggregate amount of guarantees issued by a *counterparty* must be taken not to exceed the sum of the aggregate amount of all *debts* and the aggregate value of all obligations so guaranteed; and

- (3) assets which are securing any other *debt* owed to (or obligation to be fulfilled for the benefit of) the *firm* must be treated as if they were assets of the *firm*.

3 PROPERTY-LINKED BENEFITS

- 3.1 Where a *firm* has entered into any contracts for the payment of *property-linked benefits*, 4 to 17 do not apply with respect to the determination of the value of the *linked assets* to the extent that they are held in compliance with the requirements of Friendly Society - Financial Prudence 2.3 to match liabilities in respect of such benefits under such contracts and the value of such assets must be determined in accordance with generally accepted accounting practice or other generally accepted methods appropriate for *insurance business*.

4 GENERAL PRINCIPLES

- 4.1 (1) Subject to (2), any asset to which this Part applies, for the valuation of which no provision is made in this Part, must be left out of account for the purposes specified in 1.2.
- (2) (1) does not apply to cash.
- 4.2 Where in all the circumstances of the case it appears that any asset is of a lesser value than the amount calculated in accordance with this Part, such lesser value must be taken to be the value of the asset.
- 4.3 For the purposes of 4.2, in determining whether it appears that an asset is of a lesser value than the amount calculated in accordance with this Part, regard must be had to:
- (1) the underlying security; and
- (2) in the case of bonds, *debt securities* and other money and capital market instruments, the credit rating of the *issuer*.
- 4.4 (1) In relation to an actuarial investigation of its *long-term insurance business*, a *firm* may, subject to the conditions set out in (2), elect to assign to any of its assets the value given to the asset in question in the books or other records of the *firm*.
- (2) The conditions referred to in (1) are:
- (a) that the election must not enable the *firm* to bring into account any asset for the valuation of which no provision is made in this Part; and
- (b) that the value assigned to the aggregate of the assets must not be higher than the aggregate of the value of those assets as determined in accordance with this Part.
- 4.5 (1) Where a *firm* has entered into a contract for the conversion of currency which satisfies the conditions set out in (2), then for any of the purposes of this Part, the *firm* must treat the conversion as having been made on the *relevant date*.
- (2) The conditions referred to in (1) are that:
- (a) the contract provides for either;
- (i) the conversion into another currency of an amount representing the sale of an asset which has, on the *relevant date*, been sold but not delivered; or

- (ii) the purchase of currency for the purpose of settling the purchase of an asset which has, on the *relevant date*, been purchased but not delivered;
- (b) the conversion referred to in (1) is to take place during a period which is:
 - (i) where the contract is in connection with the delivery of a *listed security* or a *security admitted to trading*, a period commencing on the date of the contract and extending for the usual period of settlement as laid down by the rules of the relevant stock exchange or *regulated market*; or
 - (ii) where the contract is in connection with the delivery of any other asset, a period commencing on the date of the contract and extending for 20 *working days* thereafter; and
- (c) the contract is *listed* or has been entered into with an *approved counterparty*.

4.6 A *firm* must derecognise any *defined benefit asset*.

5 SHARES IN AN AFFILIATED COMPANY

5.1 Where any *shares* are held by a *firm* in a *regulated affiliated company*, the value of the *shares* may be taken as, and in any event must not exceed:

- (1) the value; or
- (2) where the shareholding, whether held directly or indirectly, is less than 100%, the relevant *proportional share* of the value,

determined in accordance with this Part (other than 17.2(1) to (3)), of the *surplus assets* of that *regulated affiliated company*.

5.2 Where any *shares* are held by a *firm* in an *affiliated company* other than a *regulated affiliated company*, the value of the *shares* must not exceed the greater of:

- (1) the value (or, where the shareholding, whether held directly or indirectly, is less than 100%, the relevant *proportional share* of the value), determined in accordance with this Part (other than 17.2(1) to(3)), of the *affiliated company's surplus assets*; and
- (2) the value of those *shares* as determined under 12 reduced:
 - (a) by an appropriate amount, to the extent that the *shares* cannot effectively be made available or realised to meet losses (if any) arising in the *firm*;
 - (b) by an appropriate amount, to the extent needed to exclude value attributable to goodwill generated from business with the *firm* or any *regulated affiliated company* of the *firm*; and
 - (c) by the amount by which the value of any *shares* held by the *affiliated company* in a *regulated affiliated company* of the *firm* exceeds the value (or *proportional share*), determined in accordance with this Part (other than 17.2(1) to(3)), of the *surplus assets* of the *affiliated company*.

5.3 The surplus assets of an *affiliated company* are its total assets excluding:

- (1) the assets that are selected to cover liabilities and, in the case of a *regulated affiliated company*, to cover any capital requirement imposed by any relevant provisions of the *PRA Rulebook* or *FCA Handbook*;
- (2) assets that are interests directly or indirectly held in the *affiliated company's* own capital (as defined by any relevant provisions of the *PRA Rulebook* or *FCA Handbook* for that *affiliated company*);
- (3) where the *affiliated company* carries on *long-term insurance business*, profit reserves and future profits;
- (4) assets which represent either a *long-term insurance* fund or a fund the allocation of which as between *policyholders* and other purposes has yet to be determined;
- (5) amounts due, or to become due, in respect of *share* capital, or other contributions from members of the *affiliated company*, subscribed or called for but not fully paid up; and
- (6) assets that cannot effectively be made available or realised to meet losses (if any) arising in the *firm*, including assets that represent capital not owned, directly or indirectly, by the *firm*.

5.4 The assets selected pursuant to 5.3(1) and which are excluded from the total assets:

- (1) where the *affiliated company* is an *insurance undertaking*, must be identified and valued in accordance with any relevant provision of the *PRA Rulebook* or *FCA Handbook* as to the value, admissibility, nature, location or matching that apply to the assets available to cover its liabilities (determined under any relevant provision of the *PRA Rulebook* or *FCA Handbook*);
- (2) where the *group undertaking* is a *regulated affiliated company* (excluding an *insurance undertaking*), must be identified and valued in accordance with the relevant provisions of the *PRA Rulebook* or *FCA Handbook* applicable to the *regulated affiliated company* as to cover its liabilities and the applicable regulatory requirement identified in 5.3(1);
- (3) where the *group undertaking* is not a *regulated affiliated company*, must be of a value at least equal to the amount of its liabilities, determining that value and that amount in accordance with this Part (other than 17.2(1) to(3)) and Friendly Society - Liability Valuation Part; and
- (4) in all cases, must not include:
 - (i) assets falling within 5.3(2), or
 - (ii) assets falling within 5.3(5) where the amount is due, or to become due, from an *affiliated company*, but
- (5) notwithstanding 5.1, 5.2 and 5.3, a liability of an *affiliated company* which is a *debt* due to the *firm* is not required to be determined at an amount which is higher than the value placed on that *debt* as an asset of the *firm*.

5.5 For the purposes of 5.4, the relevant provisions of the *PRA Rulebook* or *FCA Handbook* must be treated as if 17.2(1) to (3) do not apply for the purpose of valuing *shares* in *affiliated companies* that are not *dependants*.

- 5.6 For the purposes of this Part, any value attributed to any *shares* held directly or indirectly in an *affiliated company* which is an *ancillary services undertaking* must be deducted from the assets of the *firm*.

6 VALUE OF NON-CAPITAL INTERESTS IN A GROUP UNDERTAKING

- 6.1 A *firm* must notify the *PRA* of:
- (1) any *affiliated company*:
 - (a) in which no participation is held by another *affiliated company*; and
 - (b) which is not a *subsidiary*; but
 - (c) which is linked by a consolidation *Article 12(1) relationship* with another *affiliated company*; and
 - (2) the value of that *affiliated company* calculated in accordance with 5.

7 DEBTS DUE OR TO BECOME DUE FROM AN AFFILIATED COMPANY

- 7.1 The value of any *debt* due, or to become due, from an *affiliated company* must not exceed the amount reasonably expected to be recovered in respect of the *debt* taking into account only the value of:
- (1) the assets identified in 5.3(1); and
 - (2) any security held in respect of the *debt*.

8 REPO AGREEMENTS

- 8.1 Where a *firm* has sold *securities* to or purchased *securities* from a *CRD credit institution* or a *MiFID investment firm* and such sale or purchase was made subject to an agreement that the *CRD credit institution* or *MiFID investment firm* would, either on demand by the *firm* or within six *months* of such sale or purchase, subsequently sell to or purchase from the *firm* equivalent *securities*, then if at the relevant date such subsequent sale or purchase has not taken place and the conditions specified in 8.2 and either 8.3 or 8.4 (as appropriate) are satisfied, the *firm*:
- (1) must value:
 - (a) *securities* sold by it under such agreement as if such *securities* had been retained by it, and
 - (b) assets provided by it as consideration for the purchase of *securities* under such agreement as if such consideration had not been provided by it; and
 - (2) must not ascribe a value to:
 - (a) any consideration received for the sale of *securities* under such agreement (or any assets purchased by it with such consideration) up to the limit of the value of the *securities* sold; or
 - (b) any *securities* purchased by it under such agreement (or any assets purchased with the proceeds of the sale of any such *securities*) up to the limit of the consideration (valued in accordance with generally accepted

accounting practice or other generally accepted methods appropriate to *friendly societies*) provided by it.

8.2 The condition specified in this Chapter is that, where at any time after the sale or purchase of *securities* by the *firm* under an agreement described in 8.1 either:

- (1) the amount of the consideration received by the *firm* for the sale of the *securities* fell below the value of the *securities* sold by it; or
- (2) the value of the *securities* purchased by the *firm* fell below the value of the consideration provided by it,

by more than 2.5% of the value of the *securities* sold or purchased (as the case may be), the *firm* demanded additional consideration equal to the shortfall and such demand was complied with before the end of the *working day* following the day on which the shortfall occurred.

8.3 The conditions specified in this Chapter are that, if the *firm* purchases *securities* from a *CRD credit institution* or a *MiFID investment firm* and the consideration provided by the *firm* is other than by way of sale of *securities*:

- (1) the *securities* purchased are:
 - (a) *approved securities*,
 - (b) *listed securities*, or
 - (c) *securities* issued by a *CRD credit institution*; and
- (2) the *securities* purchased do not include:
 - (a) *securities* (other than *approved securities*) issued by the same *counterparty* whose aggregate value amounts to more than 15% of the value of the *securities* purchased; or
 - (b) if the condition in (2)(a) is not satisfied, *securities* whose value when aggregated with the *firm's* existing *exposure* to assets of the same description or to the same *counterparty* would exceed the appropriate *permitted asset exposure limit* or *permitted counterparty exposure limit* as determined in accordance with 17 to 29.

8.4 The conditions specified in this Chapter are that, if the *firm* sells *securities* to a *CRD credit institution* or a *MiFID investment firm*:

- (1) the consideration provided by the *CRD credit institution* or *MiFID investment firm* is:
 - (a) cash;
 - (b) *approved securities*;
 - (c) *listed securities*;
 - (d) *securities* issued by a *CRD credit institution*;
 - (e) a charge over assets set out in (a) to (d);
 - (f) a letter of credit established with a *CRD credit institution*; or
 - (g) a guarantee provided by a *CRD credit institution*; and

- (2) the consideration :
- (a) except to the extent that the condition in (2)(b) is satisfied, when aggregated with the *firm's* existing *exposure* to assets of the appropriate description or to the relevant *counterparty*, does not exceed the appropriate *permitted asset exposure limit* or *permitted counterparty exposure limit* as determined in accordance with 17 to 29; or
 - (b) does not include :
 - (i) *securities* (other than *approved securities*) issued by;
 - (ii) letters of credit established with;
 - (iii) guarantees provided by,
 - (iv) cash deposited with:
 - (v) a charge over cash deposited with; or
 - (vi) a charge over *securities* issued by,

the same *counterparty* in excess of 15% of the total consideration; and
- (3) the consideration to be provided by the *firm* for the subsequent purchase of *equivalent securities* is:
- (a) where the consideration for the original purchase by the *CRD credit institution* or *MiFID investment firm* was (wholly or in part) cash, cash denominated in the same currency; and
 - (b) where the consideration was (wholly or in part) *securities*, *securities* equivalent to the *securities* provided by way of consideration.

8.5 For the purposes of this Chapter, where the *firm* has received consideration in respect of a sale of the kind described in 8.1, in addition to any other *exposure* to assets or to a *counterparty*:

- (1) if such consideration takes the form of a letter of credit established with, or a guarantee provided by, a *CRD credit institution*, it must be considered to give rise to *exposure* to that institution by the amount of the consideration;
- (2) if such consideration takes the form of a charge over *securities*, it must be considered to give rise to *exposure* to *securities* of the same description and to the *issuer* of those *securities* by the amount of the consideration; and
- (3) if such consideration takes the form of cash deposited with another party for the benefit of the *firm*, or a charge over cash deposited with another party, it must be considered to give rise to *exposure* to that party by the amount of the consideration.

8.6 For the purposes of this Chapter, the amount of any consideration must be:

- (1) where the consideration is a letter of credit established with a *CRD credit institution*, the lower of the amount made available under the letter of credit and the value of the assets sold;

- (2) where the consideration is a guarantee provided by a *CRD credit institution*, the lower of the amount of the guarantee and the value of the assets sold; and
- (3) where the consideration takes the form of assets of any of the types mentioned in 8.4(1)(a) to (d), or a charge over such assets, the value of the assets as determined in accordance with this Part.

8.7 Where a *firm* has entered into a number of agreements described in 8.1, for the purposes of 8.3 and 8.4:

- (1) any or all agreements under which the subsequent sale or purchase has not taken place at the *relevant date* may be treated as one agreement; and
- (2) in such case, the 15% limits referred to in 8.3(2)(a) and 8.4(2)(b) must be calculated by reference to the aggregate of the value of the *securities* purchased under 8.3 and the amount of any consideration under 8.4.

9 DEBTS AND OTHER RIGHTS

9.1 This Chapter does not apply to any rights (other than *debts* due) in respect of:

- (1) investments in an *affiliated company*;
- (2) *securities* or beneficial interests in a limited partnership;
- (3) units or other beneficial interests in a *collective investment scheme*;
- (4) a *derivative*, except as provided under 9.8 or 9.9; or
- (5) a contract or asset which has the effect of a *derivative* except as provided under 9.8 or 9.9 or under 16.4 or 9.6.

9.2 The value of any *debt* due, or to become due, to a *firm*, other than a *debt* to which 7, 9.3, 9.4, 9.5, 9.7 or 14 applies, must be:

- (1) in the case of a *debt* which is due, or will become due, within twelve *months* of the *relevant date* (including any *debt* which would become due within that period if the *firm* were to exercise any right to which it is entitled to require payment of the same), the amount which can reasonably be expected to be recovered in respect of that *debt*; and
- (2) in the case of any other *debt*, the amount which would reasonably be paid by way of consideration for an immediate assignment of the *debt*; and

in either case due account being taken of the terms and conditions for payment of the *debt* and, where the *debt* is secured, the nature and quality of the security.

9.3 Any *debt* due, or to become due, to a *firm* under a letter of credit must be left out of account for the purposes of this Part.

9.4 In the case of *long-term insurance business* carried on by a *firm*, the value of any *debt* due, or to become due, to the *firm* which is secured on a policy of insurance issued by the *firm* and which (together with any other *debt* secured on that policy) does not exceed the amount payable on a surrender of that policy at the *relevant date* must be the amount of that *debt*.

- 9.5 Subject to 9.6, the value of any rights of the *firm* under a contract of *reinsurance* to which it is a party must be the amount which can reasonably be expected to be recovered in respect of those rights.
- 9.6 9.5 does not apply to:
- (1) rights under a contract of *reinsurance* in respect of *long-term insurance business* except to the extent that *debts* are due under such contracts; or
 - (2) *debts* to which 7 applies which are due or are to become due.
- 9.7 Any *debt* due, or to become due, to a *firm*:
- (1) from an *intermediary* in respect of money advanced on account of commission to which that *intermediary* is not absolutely entitled at the *relevant date*; or
 - (2) which is a *debt* owed in respect of *premiums* (due account being taken of rebates, refunds and commissions payable) which is recorded in the *firm's* accounting records as due and payable and has been outstanding for more than three *months*,
- must be left out of account for the purposes of this Part.
- 9.8 The value of any right to recover assets transferred by way of *initial margin* in respect of a *derivative* or a contract or asset having the effect of a *derivative* must be determined:
- (1) where the *initial margin* was a payment in cash, as if there were a *debt* owed to the *firm* for that amount; and
 - (2) where the *initial margin* took the form of a transfer of *securities*, as if there were a *debt* owed to the *firm* of an amount equal to the value of such *securities* as determined in accordance with this Part.
- 9.9 The value of any rights arising under a *derivative* or under a contract or asset having the effect of a *derivative*, must be the value of any right to recover assets transferred by way of *initial margin* together with the value of any other unconditional right to receive a specified amount.

10 LAND

- 10.1 The value of any land of a *firm* (other than land held by the *firm* as security for a *debt* or to which 10.2 or 15.1 applies) must be not greater than the amount which (after deduction of the reasonable expenses of sale) would be realised if the land were sold at a price equal to the most recent *proper valuation* of that land which has been provided to the *firm* and any such land of which there is no *proper valuation* must be left out of account for the purposes of this Part.
- 10.2 The value of any interest in land which is determinable upon the death of any *person* or upon the happening of some other future event or at some future time must be the amount which would reasonably be paid by way of consideration for an immediate transfer thereof.

11 EQUIPMENT

- 11.1 The value of any computer equipment of a *firm*:
- (1) in the *financial year* of the *firm* in which it is purchased, must not be greater than three-quarters of the cost thereof to the *firm*;

- (2) in the first *financial year* thereafter, must not be greater than one-half of that cost;
- (3) in the second *financial year* thereafter, must be not greater than one-quarter of that cost; and
- (4) in any subsequent *financial year*, must be left out of account for the purposes of this Part.

11.2 The value of any office machinery (other than computer equipment), furniture, motor vehicles and other equipment of a *firm*, must be, in the *financial year* of the *firm* in which it is purchased, not greater than one-half of the cost thereof and must be, in any subsequent *financial year*, left out of account for the purposes of this Part.

12 SECURITIES AND BENEFICIAL INTERESTS IN LIMITED PARTNERSHIPS

12.1 Subject to 12.2, this Chapter applies to the valuation of investments comprising *securities* and beneficial interests in limited partnerships.

12.2 This Chapter does not apply to the valuation of *securities* which are:

- (1) *derivatives*;
- (2) units or other beneficial interests in *collective investment schemes*; or
- (3) contracts or assets having the effect of *derivatives*.

12.3 Subject to 12.6, the value of an investment to which this Chapter applies must be:

- (1) where the investment is transferable and 12.4 does not apply, the *market value*;
- (2) where the investment is transferable and 12.4 applies, the lower of:
 - (a) the *market value*; and
 - (b) the amount which would reasonably be expected to be received by way of consideration for an assignment or transfer of the investment at a date not later than twelve *months* after the *relevant date*, it being assumed that negotiations for the assignment or transfer commenced on the *relevant date* and the assignment or transfer was made other than to the *issuer* or to an *associate* of the *issuer* or of the *firm*; or
- (3) where the investment is not transferable:
 - (a) the amount payable on redemption on the *relevant date* or the most recent date before the *relevant date* on which the *issuer* of the investment could have been required to redeem the investment; or
 - (b) where the investment cannot be redeemed, the amount which would reasonably be paid by way of compensation for the surrender of the interest in the investment.

12.4 Subject to 12.5, this Chapter applies where it is not reasonable to assume that, had negotiations for the assignment or transfer of the investment commenced not more than seven *working days* before the *relevant date*, the investment could have been assigned or transferred on the *relevant date* for an amount not less than 97.5% of the *market value* other than to the *issuer* or to an *associate* of the *issuer* or of the *firm*.

- 12.5 12.4 does not apply where it would otherwise apply because:
- (1) the *listing* or *admission to trading* of the investment has been temporarily suspended following receipt of price sensitive information by the stock exchange on which the investment is *listed*, or *admitted to trading* or the *regulated market* on which facilities for dealing have been granted; or
 - (2) the extent of the holding would prevent an orderly disposal of the investment for an amount equal to or greater than 97.5% of the *market value*.
- 12.6 Where a *firm* has made more than one investment (including loans) that is not *listed* (other than a number of investments exclusively comprising loans) and the value of such investments when taken together is greater than the aggregate of the values of each investment valued separately, then such higher value may be ascribed to the investments if it is reasonable to assume that none of the investments would be assigned or transferred separately.

13 BENEFICIAL INTERESTS IN COLLECTIVE INVESTMENTS SCHEMES

- 13.1 Subject to 13.2, this Chapter applies to holdings of units, or other beneficial interests in:
- (1) a scheme falling within the *UCITS Directive*;
 - (2) an *authorised unit trust scheme* or a *recognised scheme* (not falling within (1)); or
 - (3) any other *collective investment scheme* where:
 - (a) the scheme does not employ *derivatives* unless they are *approved derivatives* or *approved quasi-derivatives*; and
 - (b) the property of the scheme does not include assets other than those for the valuation of which provision is made in this Part.
- 13.2 This Chapter does not apply to units or other beneficial interests in a *collective investment scheme* which has the effect of a *derivative*.
- 13.3 The value of units or other beneficial interests in a *collective investment scheme* to which this Chapter applies must be:
- (1) where the *issuer* can be required to purchase the units or other beneficial interests from the holder upon the holder giving notice of one *month* or less, the price at which the *issuer* would have purchased the units or other beneficial interests on the *relevant date* or the most recent date before the *relevant date* on which it could have been required to make such a purchase; or
 - (2) where the *issuer* cannot be required to purchase the units or other beneficial interests as set out in (1), a value determined in accordance with 12.

14 DEFERRED ACQUISITION COSTS

- 14.1 In the case of *general insurance business*, the value of *deferred acquisition costs* must be the value as determined in accordance with generally accepted accounting practice or other generally accepted methods appropriate to *friendly societies*.

15 FUTURE INTERESTS

- 15.1 The value of any *long-term insurance business asset* of a *firm* consisting of an interest in property which is a remainder, reversionary interest, right of fee subject to a life rent or other future interest, whether vested or contingent, must be the amount which would reasonably be paid by way of consideration for an immediate transfer or assignment of it.

16 CONTRACTS AND ASSETS HAVING THE EFFECT OF DERIVATIVES

- 16.1 Rights in respect of a contract or asset whose effect is that of a *derivative* must have a value determined in accordance with 9.9.
- 16.2 Subject to 16.4, for the purposes of this Part, a contract has the effect of a *derivative* if it is a contract (other than a *derivative*) which provides whether upon the exercise of a right by the *firm* or otherwise:
- (1) for payment (at any time) of amounts which are determined by fluctuations in:
 - (a) the value of property of any description;
 - (b) an index of the value of property of any description;
 - (c) income from property of any description; or
 - (d) an index of income from property of any description;
 - (2) for delivery of an asset (other than an asset for the valuation of which provision is made in 11) to or by the *firm*; or
 - (3) for the conversion of an asset held by the *firm* or another party to:
 - (a) an asset of a different type; or
 - (b) a different asset of the same type.
- 16.3 Subject to 16.4 for the purposes of this Part an asset has the effect of a *derivative* if the asset is an asset (other than an *approved security* or an asset falling within 13.1(1)) and the holding of the asset confers contractual rights or imposes contractual obligations to make or accept payment, delivery or conversion as set out in 16.2.
- 16.4 A contract or asset does not have the effect of a *derivative* by reason only that:
- (1) it provides for the unconditional delivery of assets, or for the payment for unconditional delivery of assets, such delivery or payment to be made within a period not exceeding the period commencing at the date of the contract and extending:
 - (a) in the case of a *listed security* or a *security admitted to trading*, for the usual period for delivery or payment as determined by the rules of the stock exchange or *regulated market* on which the *securities* are *listed* or *admitted to trading*, or facilities for dealing have been granted; or
 - (b) in any other case, for 20 *working days*;
 - (2) it is a contract of the type described in 4.5(1) in respect of which the conditions set out in 4.5(2) have been satisfied; or
 - (3) it is a transaction to which 8.1 applies.

17 ASSETS TO BE TAKEN INTO ACCOUNT ONLY TO A SPECIFIED EXTENT

- 17.1 This Chapter only applies to an *incorporated friendly society*.
- 17.2 Subject to 17.2 to 17.6, the aggregate value of the assets of a *firm* must be reduced by an amount representing the aggregate of:
- (1) the amount by which the *firm* is exposed to assets of any description in excess of the *permitted asset exposure limit* for assets of that description;
 - (2) the amount by which the *firm* is exposed to a *counterparty* in excess of the *permitted counterparty exposure limit* for such *counterparty*;
 - (3) the amount by which the *firm* has an *excess concentration with a number of counterparties*;
 - (4) the value of any assets transferred to or for the benefit of the *firm* in pursuance of a condition in a *derivative* or a related contract; and
 - (5) the value of any assets transferred to or for the benefit of the *firm* in pursuance of a contract whose effect is that of a *derivative* or a related contract,
- as determined in accordance with 18 to 29.
- 17.3 Where a *firm* is exposed to assets of any description in excess of the *permitted asset exposure limit* for such assets, the reduction required to be made by 17.2(1) must be made:
- (1) by deducting (as far as possible) the amount of the excess from the assets of that description held by the *firm*; and
 - (2) where the *firm* does not hold sufficient (or any) assets of that description to eliminate the excess, by making an appropriate deduction from the aggregate value of the assets which the *firm* would otherwise be permitted to take into account for any of the purposes of this Part.
- 17.4 Where a *firm* is required to make a reduction in accordance with 17.2(2), (3), (4) or (5), the reduction must be made by making a deduction from the aggregate value of the assets which the *firm* would otherwise be permitted to take into account for any of the purposes of this Part.
- 17.5 Where a *firm* carrying on *long-term insurance business* has attributed assets partly to a *long-term insurance business* fund and partly to its other assets, any reduction required to be made by this rule must be made in the same proportion as the attribution.
- 17.6 Assets of a *firm* comprising:
- (1) *approved securities* or any interest accrued thereon;
 - (2) *debts* to which 9.4 applies;
 - (3) rights to which 9.5 applies;
 - (4) *debts* in respect of *premiums*;
 - (5) moneys due from, or guaranteed by, the government of any *approved State*;
 - (6) *shares* in or *debts due or to become due* from a *dependant* falling within 5;

- (7) holdings in a scheme falling within the *UCITS Directive*; or
- (8) *deferred acquisition costs*,

must not be taken into account in any of the calculations described in 17.2.

- 17.7 Assets of *dependants* of the *firm* that are *debts due or to become due* from the *firm* or from a *dependant* of the *firm* must not be taken into account in any of the calculations described in 17.2.
- 17.8 Where a *firm* has entered into any contracts providing for the payment of *index-linked benefits*, the provisions of 17.2(1) must not apply to assets of that *firm* to the extent that they are held to match liabilities in respect of such benefits.

18 CALCULATION OF EXPOSURE TO ASSETS

- 18.1 A value must be ascribed to assets of each description which must be an amount determined in accordance with this Part or, where the assets are of a description for the valuation of which no provision is made in those rules, an amount which would reasonably be paid by way of consideration for an immediate assignment or transfer of such assets. The amount by which the *firm* is exposed to assets of each description must be determined by adjusting the value of the assets in accordance with 19 to 23.

19 ADJUSTMENTS IN RESPECT OF FUTURES CONTRACTS

- 19.1 The value ascribed under 18 in respect of assets of each description must be increased or decreased by the value of assets of that description which the *firm* is deemed to have acquired or disposed of pursuant to a *futures* contract.
- 19.2 For the purposes of 19.1, the *firm* must be deemed to have acquired or disposed of assets pursuant to a *futures* contract if, at the *relevant date*, it has entered into (and not closed out) a *futures* contract which:
- (1) provides for the acquisition of assets by the *firm*;
 - (2) is *listed* and provides for the disposal of assets by the *firm*; or
 - (3) is not *listed* but provides for the disposal of assets by the *firm* to an *approved counterparty* and it is prudent to assume that such disposal will take place within one year of the *relevant date*.

20 ADJUSTMENTS IN RESPECT OF OPTIONS

- 20.1 The value ascribed under 18 to 19 in respect of assets of each description must be increased or decreased by the value of assets of that description which the *firm* is deemed to have acquired or disposed of pursuant to an *option*.
- 20.2 For the purposes of 20.1, the *firm* must be deemed to have acquired or disposed of assets pursuant to an *option* if, at the *relevant date*, it is a party to an *option* and it is prudent to assume that the *option* will be exercised and the *option* is one which:
- (1) provides for the acquisition of assets by the *firm*;
 - (2) is *listed* and provides for the disposal of assets by the *firm*; or

- (3) is not *listed* but provides for the disposal of assets by the *firm* to an *approved counterparty* and it is prudent to assume that such disposal will take place within one year of the *relevant date*.

21 ADJUSTMENTS IN RESPECT OF INITIAL MARGINS

- 21.1 The value ascribed under 18 to 20 in respect of assets of each description must be increased by an amount representing the value of any assets of that description which have been transferred by the *firm* by way of *initial margin*.

22 ADJUSTMENTS IN RESPECT OF CERTAIN CONTRACTS

- 22.1 The value ascribed under 18 to 21 must be increased or decreased by an amount representing the value of assets which the *firm* is deemed to have acquired or disposed of under:
- (1) an undiversified *contract for differences*; or
 - (2) a contract or asset other than a diversified *contract for differences* which has the effect of a *derivative*.
- 22.2 For the purposes of 22.1, the *firm* must be deemed to have achieved the effect of such contract by entering into appropriate *futures* contracts or *options*. The assets deemed to be acquired or disposed of must be dealt with in accordance with the provisions in 19.1 and 20.1 respectively.

23 ADJUSTMENT IN RESPECT OF SUBSIDIARIES

- 23.1 Subject to 23.2 and 23.3, the amount of the *firm's exposure* to assets determined in accordance with 18 to 22 must be increased by an amount representing the *exposure*, if any, of the *firm's dependants* to assets of that description.
- 23.2 For the purposes of 23.1, the *exposure* of each *dependant* must be calculated by applying 18 to 22 to that *dependant* as if it were a *firm* to which those provisions apply (whether it is or not).
- 23.3 In relation to a *dependant*:
- (1) which is an *insurance undertaking*; or
 - (2) in respect of which 17.2(1) to (3) have (notwithstanding 5.4(1)) been applied when valuing the assets selected under 5.3(1),

23.1 applies only in relation to the *dependant's surplus assets* (or *proportional share*).

24 EXCESS ASSET EXPOSURE

- 24.1 (1) The amount by which the *firm* is exposed to assets of a particular description in excess of the *permitted asset exposure limit* must be calculated by subtracting the *permitted asset exposure limit* for assets of that description from the corresponding amount of the *exposure*, calculated in accordance with 18 to 23.
- (2) For the purpose of (1), *exposure* to assets must be excluded to the extent that such *exposure* has caused the recognition of excess *exposure* to assets of a different description and if the figure arrived at is negative, it must be taken to be zero.

25 CALCULATION OF EXPOSURE TO A COUNTERPARTY

- 25.1 (1) Subject to 25.2 to 25.4, the value of all investments (determined in accordance with 12) issued by any one *counterparty* and the value of all rights (determined in accordance with 9 and 16) against that *counterparty*, in each case up to the amount of the appropriate *permitted asset exposure limit*, must be aggregated.
- (2) For the purposes of (1), where the *counterparty* is an *issuer of a collective investment scheme* falling within 13.1(3), the value of units or other beneficial interest in the *collective investment scheme* must be included.

25.2 Where a *firm* has rights in respect of a secured obligation to be fulfilled by a *counterparty*:

- (1) which:
- (a) is secured by cash deposited with, or a letter of credit established with, or *securities* issued by, or a guarantee provided by, a *CRD credit institution* or an *approved financial institution*; and
 - (b) is due to be fulfilled within 12 *months* of the *relevant date*; or
- (2) which is secured by *listed securities* which are *readily realisable* or by *approved securities* which in either case:
- (a) have been deposited with a *CRD credit institution*, an *approved financial institution* or a *MiFID investment firm*; and
 - (b) are beneficially owned by the *counterparty* but will not be available for the benefit of creditors generally in the event of the winding-up of the *counterparty*,

the aggregation required by 25.1 need not include the value of such rights.

25.3 If the *firm* has liabilities to the *counterparty* which may be offset against the assets in 25.1 in accordance with generally accepted accounting practice or other generally accepted methods appropriate for *friendly societies*, then such liabilities may be offset for the purposes of the aggregation required by 25.1.

25.4 Subject to 25.5, the amount arrived at under 25.1 to 25.4 must be increased by the amount by which any *dependant* of the *firm* is exposed to the same *counterparty*.

25.5 In relation to a *dependant*:

- (1) which is an *insurance undertaking*; or
- (2) in respect of which 17.2(1) to (3) have (notwithstanding 5.4(1)) been applied when valuing the assets selected under 5.3(1),

25.4 applies only in relation to the *dependant's surplus assets* (or *proportional share*).

26 EXCESS COUNTERPARTY EXPOSURE

26.1 The amount by which a *firm* is exposed to a *counterparty* in excess of the *permitted counterparty exposure limit* must be calculated by subtracting from the amount of the *exposure* to such *counterparty* the amount of the *permitted counterparty exposure limit* for such *counterparty*. If the figure arrived at is negative, it must be taken to be zero. If the *firm* is exposed to a *counterparty* in excess of the *permitted counterparty exposure limit* in more than

one of the circumstances set out in 29(1), it must make the deduction required under 17.2(2) only in respect of the circumstances leading to the greatest excess *exposure*.

27 EXCESS CONCENTRATION WITH A NUMBER OF COUNTERPARTIES

- 27.1 In accordance with 27.2, where there is *exposure* to a *counterparty* of the type mentioned in 29.1(3)(b), 40% of the *business amount* must be deducted from the aggregate of such *exposures*. The amount so arrived at is the excess concentration with a number of counterparties. Where this amount is negative, it must be taken to be zero.
- 27.2 For the purposes of this Chapter:
- (1) *exposure* to a *counterparty* must be taken into account only up to the level of the *permitted counterparty exposure limit* for that *counterparty*;
 - (2) *exposure* to a *counterparty* must not be taken into account if it does not exceed 5% of the *business amount*; and
 - (3) *exposure* to a *counterparty* must not be taken into account if the corresponding *permitted counterparty exposure limit* does not exceed 5% of the *business amount*.

28 PERMITTED ASSET EXPOSURE LIMITS

- 28.1 The *permitted asset exposure limits* are those set out in 28.2 to 28.23.
- 28.2 5% for a piece of land or a number of pieces of land (or one or more interests in such pieces of land) to which in the most recent *proper valuation* of such pieces of land an aggregate value is ascribed which is greater than the aggregate of the value of each of such pieces of land or interests valued separately.
- 28.3 1% for a reversionary interest or a remainder not falling within 28.2.
- 28.4 1% for all *debts due or to become due* from any one individual (other than a *connected individual* of the *firm*), being *debts* which are fully secured on any dwelling or any land appurtenant (or in Scotland, appertaining) thereto owned or to be purchased by the individual and used or to be used by him for his own residence.
- 28.5 0.25% for all *debts due or to become due* from any one individual, other than *debts* specified in 28.4.
- 28.6 1% for all unsecured *debts* (other than *debts* arising under the terms of *debt securities* or *debts* from a *regulated institution*) *due or to become due* from any one *counterparty* other than an individual, body corporate or group.
- 28.7 1% for all unsecured *debts* (other than *debts* arising under the terms of *debt securities* or *debts* from a *regulated institution*) *due or to become due* from any one *body corporate*, taken together with all such *debts due or to become due* from an *affiliated company* of that *body corporate*.
- 28.8 2.5% for all unsecured *debts* (other than *debts* arising under the terms of *debt securities* or *debts* from an *approved counterparty*) *due or to become due* from any one *regulated institution*, taken together with (where that institution is a *body corporate*) all such *debts due or to become due* from an *affiliated company* of that institution.
- 28.9 5% for all *debts*, other than *debts* arising under the terms of *debt securities*, *due or to become due* from any one *counterparty*, which is not an *approved counterparty*, taken together with all

such *debts due or to become due* from any *affiliated company* (other than an *approved counterparty*) of that *counterparty*.

- 28.10 10% for all *debts*, other than short-term deposits with a *CRD credit institution* or *debts* arising under the terms of *debt securities, due or to become due* from any one *approved counterparty*, taken together with all such *debts due or to become due* from any *affiliated company* of that *approved counterparty*.
- 28.11 20% for all *debts due or to become due* from a *CRD credit institution* (or an *affiliated company* of that institution) taken together unless:
- (1) the *firm* has notified the *PRA* that it places deposits with that institution; and
 - (2) the total amount of *debts due or to become due* does not exceed £2 million.
- 28.12 5% for the aggregate of *debts* of the descriptions in 28.5, 28.6 and 28.7.
- 28.13 1% for all investments of a kind which may be valued in accordance with 12 (other than secured *debt securities, debt securities* issued by a *regulated institution* or investments which are *listed and readily realisable*) issued by any one *issuer* taken together with:
- (1) all units or other beneficial interests in a *collective investment scheme* falling within 13.1(3) issued by that *issuer*; and
 - (2) all investments of the kinds mentioned in this Chapter issued by an *affiliated company* of that *issuer*.
- 28.14 10% for the aggregate of assets of any of the descriptions in 28.3 and 28.13.
- 28.15 2.5% for all *shares* and hybrid *securities* issued by any one *issuer* taken together with all such *securities* issued by an *affiliated company* of that *issuer*.
- 28.16 In the case of a *firm effecting contracts of insurance* or *carrying out contracts of insurance* that are *with-profits policies* and holding *shares* as *long-term insurance business assets*, for *shares* that are ordinary *listed shares* in the issuer, the *permitted asset exposure limit* in 28.15 may exceed 2.5% of the *long-term insurance business amount* to a maximum of 5% of the *long-term insurance business amount* or the formula result, whichever is lower, where:
- (1) the 'formula result' means 0.8 multiplied by M/T multiplied by P, expressed as a percentage of the *long-term insurance business amount*, where:
 - (a) M = the aggregate market capitalisation of the ordinary *listed shares* in the *issuer*,
 - (b) T = the aggregate market capitalisation of all *securities* in the Financial Times Stock Exchange All Share Index, and
 - (c) P = the value of the assets supporting the *firm's long-term insurance business* fund, determined in accordance with this Part; and
 - (2) 'value of the assets' means the value of the assets:

less

 - (a) the amount of the *firm's mathematical reserves* for *linked-long-term contract of insurance* and *non-profit policies* net of *reinsurance*, and

plus

- (b) (if the *firm* does not *effect contracts of insurance* or *carry out contracts of insurance* that are *contracts of general insurance*) the *firm's* net assets outside the *firm's long-term insurance business fund*.

- 28.17 5% for all *securities* issued by any one *issuer* which is not an *approved counterparty* taken together with (where that *issuer* is a *body corporate*) all *securities* issued by an *affiliated company*, other than an *approved counterparty*, of that *issuer*.
- 28.18 10% for all *securities* issued by any one *counterparty*.
- 28.19 5% for all holdings in any one authorised unit trust scheme or recognised scheme.
- 28.20 3% for all cash.
- 28.21 5% for all computer equipment.
- 28.22 2.5% for all office machinery (other than computer equipment) taken together with all furniture, motor vehicles and other equipment.
- 28.23 In the case of an asset which is not covered by 28.2 to 28.22 (other than a *derivative*), the *permitted asset exposure limit* is nil.

29 PERMITTED COUNTERPARTY EXPOSURE LIMITS

- 29.1 The *permitted counterparty exposure limits* are as follows:
- (1) where the *counterparty* is an individual or an unincorporated body of persons, 5% of the *business amount*;
 - (2) where the *counterparty* is a *counterparty* of the type mentioned in (5) in the definition of *counterparty*, 5% of the *business amount*;
 - (3) where the *counterparty* is a body corporate or group, each of:
 - (a) 20% of the *business amount* or £2 million, whichever is the larger;
 - (b) 10% of the *business amount* where the *exposure* arises otherwise than by reason that *debts* are due, or are to become due, as a result of *short term deposits* made with an *CRD credit institution*; and
 - (c) 5% of the *business amount* where the *exposure* is to bodies which are not *approved counterparties*.

Annex N

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

Part

FRIENDLY SOCIETY - LIABILITY VALUATION

Chapter content

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- 5. GENERAL INSURANCE BUSINESS LIABILITIES**
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Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *non-directive friendly society*.

1.2 In this Part, the following definitions shall apply:

defined percentage

means the percentage arrived at by taking (for all contracts of the same type as the contract in question for which an adjustment is made) the average of the percentages of the *relevant capital sum* under each such contract that represent the acquisition costs incurred which, after allowing for the effects of taxation, might reasonably be recovered from the *premiums* payable under the contract.

established surplus

means an excess of assets representing the whole or a particular part of the fund or funds maintained by the *firm* in respect of its *long-term insurance business* over the liabilities, or a particular part of the liabilities, of the *firm* attributable to that business as shown by an investigation to which IPRU(FSOC) 5.1 or 5.2 of the *PRA Handbook* as at 31 December 2015 applies pursuant to Non-Solvency II Firms – Transitional Measures 3.

exposure

means:

- (1) (in relation to assets), an amount determined in accordance with Friendly Society - Asset Valuation 18 to 24;
- (2) (in relation to a *counterparty*), an amount determined in accordance with Friendly Society - Asset Valuation 25 to 27.

general insurance business liabilities

means liabilities of the *friendly society* which are attributable to its *general insurance business*.

linked assets

means the *long-term insurance business assets* of the *friendly society* which are, for the time being, identified in the records of the *friendly society* as being assets by reference to the value of which *property-linked benefits* are to be determined.

valuation date

in relation to an actuarial investigation, means the date to which the investigation relates.

variable interest investments

means investments other than *fixed interest securities*.

2 LONG-TERM AND GENERAL INSURANCE BUSINESS

- 2.1 Subject to 2.2, the amount of liabilities of a *firm* in respect of *long-term insurance business* and *general insurance business* and other lawful activities must be determined in accordance with generally accepted accounting practice or other generally accepted methods appropriate for *insurance business*.
- 2.2 In determining under 2.1 the amount of liabilities of a *firm*, all contingent and prospective liabilities must be taken into account.

3 PROVISION FOR ADVERSE CHANGES

- 3.1 This Chapter does not apply to a contract to the extent that it relates to, or is for the purposes of the making of an investment in, or is in connection with the making of an investment in, a building which is to be occupied by the *firm* and used by the *firm* for the conduct of its business.
- 3.2 Subject to 3.1, this Chapter applies to an obligation:
- (1) under a contract relating to investments of the kind mentioned in item B under the heading "Assets" in Part I of Schedule 2 to *Accounts Regulations* (whether such contract constitutes an asset or liability of the *firm*);
 - (2) undertaken for the purposes of, or in connection with the making of, investments of the kind mentioned in (1); or
 - (3) under a contract providing for the purchase, sale or exchange of currency.
- 3.3 A *firm* which has or may have (following the exercise of any right by the *firm* or any other party) an obligation referred to in 3.2, to deliver assets or make a payment must:
- (1) at all times identify the assets held by it which it considers to be the most suitable to cover such obligation; and
 - (2) make prudent provision for the effect on the amount of its excess assets of all reasonably foreseeable adverse variations between the value of the assets identified and the value of the assets which it is or may be obliged to deliver or the amount of the payment which it is or may be obliged to make.
- 3.4 For the purposes of 3.3, the 'amount of its excess assets' is the difference between the aggregate value of its assets (other than *linked assets* to the extent that they are held to match *property-linked liabilities*) determined in accordance with Friendly Society - Asset Valuation and the amount of its liabilities (other than *property-linked liabilities* or liabilities for which provision is made in accordance with this Chapter).

4 PROVISION FOR AFFILIATED COMPANIES

- 4.1 Except to the extent that provision for the deficit has been made (whether in the calculation of *surplus assets* or otherwise) in another *affiliated company* the value of whose *shares* is taken to be the value of its *surplus assets* under Friendly Society – Asset Valuation 5.1 or 5.2 (but only to the extent of the *firm's proportional share* of that *undertaking*), a *firm* must make provision in respect of a *regulated affiliated company*:
- (1) where the *affiliated company* is also a *subsidiary* of the *firm*, for the whole of any *solvency deficit*; and

(2) in any other case, for the *firm's proportional share* of any such deficit.

4.2 For the purposes of 4.1, the identification and valuation of assets of a *regulated affiliated company*, available to cover liabilities and any capital requirement imposed by any relevant provisions of the *PRA Rulebook* or *FCA Handbook*, must be determined in accordance with *Friendly Society – Asset Valuation 5.4*.

5 GENERAL INSURANCE BUSINESS LIABILITIES

5.1 The amount of *insurance liabilities* which are *general insurance business liabilities* must be determined in accordance with the regulations set out in Part VI of Schedule 6 to the *Accounts Regulations*.

6 LONG-TERM INSURANCE BUSINESS LIABILITIES

6.1 In accordance with 6.2 to 6.4, the determination of the amount of *long-term insurance liabilities* (other than liabilities which have fallen due for payment before the *valuation date*) must be made in accordance with generally accepted actuarial principles and have due regard to the reasonable expectations of *policyholders* and make proper provision for all liabilities on prudent assumptions that include appropriate margins for adverse deviation.

6.2 The determination referred to in 6.1 must take account of all prospective liabilities as determined by the policy conditions for each existing contract, taking credit for *premiums* payable after the *valuation date*.

6.3 Without prejudice to the generality of 6.1, the amount of the *long-term insurance liabilities* must be determined in compliance with 7 to 16 and must take into account at least the following factors:

- (1) all guaranteed benefits, including guaranteed surrender values;
- (2) declared bonuses to which *policyholders* are already contractually entitled;
- (3) all options available to the *policyholder* under the terms of the contract;
- (4) discretionary charges and deductions;
- (5) expenses, including commissions; and
- (6) any rights under contracts of reinsurance in respect of *long-term insurance business*.

6.4 The determination referred to in 6.1 must take into account the nature and term of the assets representing those liabilities and the value placed upon them and must include prudent provision against the effects of possible future changes in the value of the assets on:

- (1) the ability of the *firm* to meet its obligations arising under contracts for *long-term insurance business* as they arise; and
- (2) the adequacy of the assets to meet the liabilities as determined in accordance with 7 to 16.

7 METHOD OF CALCULATION

7.1 Subject to 7.2, 7.3 and 7.4, the amount of the *long-term insurance liability* must be determined for each contract by a prospective calculation.

- 7.2 A retrospective calculation may only be applied to determine the liabilities where a prospective method cannot be applied to a particular type of contract or benefit, or where it can be demonstrated that the resulting amount of liabilities would be no lower than would be required by a prudent prospective calculation.
- 7.3 Appropriate approximations or generalisations may only be made where they are likely to provide the same, or a higher, result than a determination made in accordance with 7.1.
- 7.4 Where necessary, additional amounts must be set aside on an aggregated basis for general risks which are not specific to individual contracts.
- 7.5 The method of calculation of the amount of the liabilities and the assumptions used must not be subject to discontinuities from year to year arising from arbitrary changes and must recognise the distribution of profits in an appropriate way over the duration of each policy.
- 7.6 The liabilities for contracts under which the *policyholder* is eligible to participate in any *established surplus* must have regard to the level of the *premiums* under the contracts, to the assets held in respect of those liabilities, and to the custom and practice of the *firm* in the manner and timing of the distribution of profits or the granting of discretionary additions, as the case may be.

8 AVOIDANCE OF FUTURE VALUATION STRAIN

- 8.1 The amount of the liability determined in respect of a group of contracts must not be less than such amount as, if the assumptions adopted for the valuation were to remain unaltered and were fulfilled in practice, would enable liabilities similarly determined at all times in the future to be covered from resources arising solely from the contracts and the assets covering the amount of the liability determined at the current valuation.

9 VALUATION OF FUTURE PREMIUMS

- 9.1 Where further specified *premiums* are payable by the *policyholder* under a contract (not being a *linked long-term contract of insurance*) under which the *policyholder* is eligible to participate in any *established surplus* and benefits (other than benefits arising from a distribution of surplus) are determined from the outset in relation to the total *premiums* payable thereunder, then, subject to 9.4 and 10:
- (1) where the *premiums* under the contract are at a uniform rate throughout the period for which they are payable, the *premiums* to be valued must not be greater than such level *premiums* as, if payable for the same period as the actual *premiums* under the contract and calculated according to the rates of interest and rates of mortality or disability which are to be employed in calculating the liability under the contract, would have been sufficient at the outset to provide for the benefits under the contract according to the contingencies upon which they are payable, exclusive of any additions for profits, expenses or other charges;
 - (2) where the *premiums* under the contract are not at a uniform rate throughout the period for which they are payable, the *premiums* to be valued must not be greater than such *premiums* as would be determined on the principles set out in (1) modified as appropriate to take account of the variations in the *premiums* payable by the *policyholder* in each year,

save that a *premium* to be valued must in no year be greater than the amount of the *premium* payable by the *policyholder*.

9.2 Where the terms of the contract have changed since the contract was first made (the terms of the contract being taken to change, for the purposes of this rule, if the change is indicated in an endorsement on the policy but not if a new policy is issued), then, for the purposes of 9.1 one of the following assumptions must be made, namely that;

- (1) the change from the date it occurred was provided for in the contract when it was made;
- (2) the terms of the contract are those which apply from the date of the change except that a single *premium* is payable, at the date of the change, of an amount equal to the liability under the policy immediately before the change, calculated on a basis consistent with this Part and with the *premiums* actually payable from the date of the change; or
- (3) the contract is in two parts, the first of which is for the benefits purchased by the actual *premiums* payable from the date of the change under the *firm's* scales of *premiums* at that date, and the second of which is for all other benefits under the policy for which no *premiums* are payable after that date.

9.3 Where under a contract (not being a *linked long-term contract of insurance*) the *policyholder* is eligible to participate in any *established surplus*; and

- (1) each *premium* paid increases the benefits (other than benefits arising from a distribution of surplus) provided under the contract; or
- (2) the amount of a *premium* payable in future is not determinable until it comes to be paid,

future *premiums* and the corresponding liability may be left out of account so long as adequate provision is made against any risk that the increase in the liabilities of the *firm* resulting from the payment of future *premiums* might exceed the amount of the *premiums*.

9.4 An alternative valuation method to that described in 9.1 to 9.3 may be used where it can be demonstrated that the alternative method results in reserves no less, in aggregate, than would result from use of the method described in 9.1 to 9.3.

10 ACQUISITION EXPENSES

10.1 In order to take account of acquisition expenses, the maximum annual *premium* to be valued under 9 may, subject to 10.2, be increased by an amount not greater than the equivalent, taken over the whole period of *premium* payments and calculated according to the rates of interest and rates of mortality or disability employed in valuing the contract, of 3.5% (or the *defined percentage*, if it is lower than 3.5%) of the *relevant capital sum* under the contract.

10.2 The increase permitted by 10.1 must be subject to the limitation that the amount of a future *premium* valued must not in any event be greater than the amount of the *premium* actually payable by the *policyholder*.

11 RATES OF INTEREST

11.1 The rates of interest to be used in calculating the present value of future payments by or to a *firm* must be no greater than the rates of interest determined from a prudent assessment of the yields on existing assets attributed to the *long-term insurance business* and, to the extent appropriate, the yields which it is expected will be obtained on sums to be invested in the future.

- 11.2 For the purposes of 11.1, the assumed yield on an asset attributed to the *long-term insurance business*, before any adjustment to take account of the effect of taxation, must not exceed the yield on that asset calculated in accordance with 11.3 to 11.13, reduced by 2.5% of that yield.
- 11.3 For the purpose of calculating the yield on an asset:
- (1) the asset must be valued in accordance with the Friendly Society – Asset Valuation Part of the *PRA Rulebook*, excluding any provision under which assets may be taken at lower book values for the purposes of an investigation to which IPRU(FSOC) 5.1 or 5.2 of the *PRA Handbook* as at 31 December 2015 applies pursuant to Non-Solvency II Firms – Transitional Measures 3; and
 - (2) the future income from the asset required to be taken into account (whether interest, dividends or repayment of capital) must be reduced by a proportion corresponding to such part of any excess *exposure* to assets of that description, calculated in accordance with Friendly Society – Asset Valuation 22.2, as may reasonably be attributed to such assets.
- 11.4 For *fixed interest securities* the yield on an asset, subject to 11.13, must be that annual rate of interest which, if used to calculate the present value of future payments of interest before the deduction of tax and the present value of repayments of capital, would result in the sum of those amounts being equal to the value of the asset.
- 11.5
- (1) For *variable interest investments* that are equity *shares* (other than those within 11.6) or land, the yield on an asset must, subject to 11.13, be the ratio to the value of the asset of the income before deduction of tax which would be received in the period of twelve *months* following the *valuation date* on the assumption that the asset will be held throughout that period and that the factors which affect income will remain unchanged.
 - (2) Account must be taken of any changes in the factors referred to in (1) known to have occurred by the *valuation date* and in particular:
 - (a) any known changes in the rental income from property or in dividends on equity *shares*;
 - (b) any forecast changes in dividends which have been publicly announced by the *valuation date*;
 - (c) the effect of any alterations in capital structure; and
 - (d) the value (at the most recent date for which it is known at the *valuation date*) of any determinant of the amount of any future interest payment, such value being deemed to remain unaltered for all subsequent dates.
- 11.6 For *variable interest investments* that are equity *shares* in *bodies corporate* drawing up accounts in accordance with legislation implementing the *Accounts Directives* or in accordance with the International Accounting Standards Committee accounting standards or US generally accepted accounting practice, the yield on an asset must, subject to 11.14, be the ratio to the value of the asset of:
- (1) A + B; or
 - (2) 2 times A,

whichever is lower, where A = the income which would be received if it were calculated in accordance with 11.5, and B = half the excess (if any) of the relevant amount over A, but B must not be less than zero.

- 11.7 For the purposes of 11.6, the 'relevant amount' in relation to equity *shares* is the *issuer's* profits after taxation from its ordinary activities for the most recent financial year ending on or before the *valuation date* which is reported in accounts in accordance with 11.8 which are publicly available, in so far as attributable to those equity *shares*, taking account of the effect of any alterations in capital structure.
- 11.8 For the purposes of 11.7, the *issuer's* profits after taxation from its ordinary activities for the relevant financial year must be derived from accounts drawn up in accordance with legislation implementing the *Accounts Directives* or, if accounts are not drawn up in accordance with the *Accounts Directives*, from accounts drawn up in accordance with International Accounting Standards Committee accounting standards or US generally accepted accounting practice.
- 11.9 Where 11.6 applies, and a *undertaking's* accounting period is longer or shorter than a year, the amount of profits or losses for that period must be annualised, and the annualised figure must be used to calculate the yield.
- 11.10 If the requirements in 11.7 and 11.8 are not, or cannot be, met, then the relevant amount is zero.
- 11.11 Subject to 11.12, for *variable interest investments* other than equity *shares* or land, the yield on an asset must, subject to 11.13, be that annual rate of interest which, if used to calculate the present value of future payments of interest (before deduction of tax), and the present value of repayments of capital, where applicable, would result in the sum of these amounts being equal to the value of the asset, on the assumption that:
- (1) the value of any determinant of the amount of the next interest rate payment and capital repayment made during the following 12 *months* will be the value of that determinant at the most recent date for which it is known at the *valuation date*;
 - (2) the amount of future interest payments and capital repayments will take account, where appropriate, of:
 - (a) the right of either party to have the investment repaid, and
 - (b) an assumed yield on other comparable investments made in the future not exceeding an amount determined in accordance with 11.15 to 11.17; and
 - (3) indices and all other factors which affect future income payments or capital repayment will remain unchanged after the *valuation date*.
- 11.12 For investments in *collective investment schemes* given a value as an asset in accordance with Friendly Society – Asset Valuation 13, the yield may be determined as the weighted average of the yields (as determined by this Chapter) on each of the investments held by the *collective investment scheme*.
- 11.13 In calculating the yield on an asset under this Chapter:
- (1) for an asset other than equity *shares* or land:
 - (a) a prudent adjustment must be made to exclude that part of the yield estimated to represent compensation for the risk that the income from the

asset might not be maintained or that capital repayments might not be received as they fall due; and

- (b) in making that adjustment, regard must be had wherever possible to the yields on risk-free investments of a similar term in the same currency;
 - (2) for equity *shares* or land, adjustments to yields must be made as appropriate to exclude that part, if any, of the yield from each category of assets of a similar nature, type and degree of risk that is needed to compensate for the risk that the aggregate income from such category of assets, taking one year with another, might not be maintained.
- 11.14 Notwithstanding 11.13(2), for equity *shares* within 11.6, adjustments to yields must be made as appropriate to exclude that part, if any, of the yield from each category of assets of a similar nature, type and degree of risk that is needed to compensate for the risk that the aggregate profits earned by a *undertaking* might not be maintained.
- 11.15 To the extent that it is necessary to make an assumption about the yields which will be obtained on sums to be invested in future, the yield must be determined in accordance with 11.16 and 11.17.
- 11.16 Where the liabilities are denominated in *UK* sterling, the yield assumed, before any adjustments to take account of the effect of taxation;
- (1) on any investment to be made more than three years after the *valuation date*, must not exceed the lowest of:
 - (a) the long-term gilt yield current on the *valuation date*,
 - (b) 3% per annum, increased by two-thirds of the excess, if any, of the long-term gilt yield current on the *valuation date* over 3% per annum, or
 - (c) 6.5% per annum, where "the long-term gilt yield" means the annualised equivalent of the 15 year yield for United Kingdom Government *fixed interest securities* jointly compiled by the Financial Times, the Institute of Actuaries and the Faculty of Actuaries; and
 - (2) on any investment to be made at any time not more than three years after the *valuation date* must not exceed the assumed yield determined under 11.2 adjusted linearly over the said three years to the yield determined in accordance with (1).
- 11.17 Where the liabilities are denominated in currencies other than *UK* sterling, the yield must be determined on assumptions that are as prudent as those made under 11.16.
- 11.18 (1) In no case must a rate of interest determined for the purposes of 11.1 exceed the adjusted overall yield on assets calculated as the weighted average of the reduced yields on the individual assets arrived at under 11.2.
- (2) In calculating the weighted averaged referred to in (1):
 - (a) the weight given to each investment must be its value as an asset determined in accordance with the Friendly Society – Asset Valuation, except where assets may be taken at lower book values for the purposes of any investigation to which IPRU(FSOC) 5.1 or 5.2 of the *PRA Handbook* as at 31 December 2015 applies pursuant to Non-Solvency II Firms – Transitional Measures 3; and

- (b) except in relation to the rate of interest used in valuing payments of *property linked benefits*, both the yield and the value of any *linked assets* must be omitted from the calculation.

12 RATES OF MORTALITY AND DISABILITY

- 12.1 A *firm* must determine the amount of the liability in respect of any category of contract, where relevant, on the basis of prudent rates of mortality and disability and any other decrement that take into account:
- (1) where the *policyholder* is an individual, the state in which he has his habitual residence; and
 - (2) where the *policyholder* is not an individual, the state in which the establishment of the *policyholder* to which the commitment covered by the contract relates is situated.

13 EXPENSES

- 13.1 In accordance with 13.2, a *firm's* provision for expenses, whether implicit or explicit, must not be less than the amount required, on prudent assumptions, to meet the total net cost (after taking account of the effect of taxation) that would be likely to be incurred in fulfilling contracts if the *firm* were to cease to transact new business twelve *months* after the *valuation date*.
- 13.2 The provision mentioned in 13.1 must have regard to the *firm's* actual expenses in the last twelve *months* before the *valuation date* and the effects of inflation on future expenses on prudent assumptions as to the future rates of increase in prices and earnings.

14 OPTIONS

- 14.1 A *firm* must make provision on prudent assumptions to cover any increase in liabilities caused by *policyholders* exercising *options* under their contracts.
- 14.2 Where a contract includes an *option* whereby the *policyholder* may secure a guaranteed cash payment within twelve *months* following the *valuation date*, the provision for that *option* must be such as to ensure that the value placed on the contract is not less than the amount required to provide for the payments that would have to be made if the *option* were exercised.
- 14.3 Where a contract includes an option whereby the *policyholder* may secure a cash payment but 14.2 does not apply, the provision for that option must be such as to ensure that, if the assumptions adopted for the valuation of the contract are fulfilled in practice:
- (1) the resulting value is not less than the amount required to provide for the payment which would have to be made if the option were exercised; and
 - (2) the payment when it falls due is covered from resources arising solely from the contract and from the assets covering the amount of the liability determined at the current valuation.
- 14.4 For the purposes of 14.3 the amount of a cash payment secured by the exercise of an option is assumed to be:
- (1) in the case of an *accumulating with-profits policy*, the lower of:
 - (a) the amount which would reasonably be expected to be paid if the option were exercised, having regard to the representations of the *firm*; and

- (b) the amount in (a), disregarding all discretionary adjustments; and
- (2) in the case of any other policy to which this Chapter applies, the amount which would reasonably be expected to be paid if the option were exercised, having regard to the representations of the *firm*, without taking into account any expectations regarding future distributions of profits or the granting of discretionary additions in respect of an *established surplus* or in anticipation of such additions.

15 CONTRACTS NOT TO BE TREATED AS ASSETS

- 15.1 A *firm* must not treat any *contract of long-term insurance* as an asset.

16 PROFITS FROM VOLUNTARY DISCONTINUANCE

- 16.1 A *firm* must not make allowance in the valuation for the voluntary discontinuance of any *contract of insurance* if the amount of the liability so determined would thereby be reduced.

Annex O

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

Part

NON-SOLVENCY II FIRMS – GOVERNANCE

Chapter content

1. APPLICATION AND DEFINITION
2. GENERAL GOVERNANCE FOR SMALL NON-DIRECTIVE INSURERS
3. GENERAL GOVERNANCE FOR LARGE NON-DIRECTIVE INSURERS
4. GOVERNANCE FOR NON-DIRECTIVE FRIENDLY SOCIETIES
5. OUTSOURCING
6. RECORDS
7. BUSINESS PLANNING AND RISK MANAGEMENT
8. INTERNAL CONTROL
9. INTERNAL AUDIT
10. ACTUARIAL FUNCTION

Links

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 apply to a *Swiss general insurer* and only in respect of the activities of the *firm* carried on from a *branch* in the *UK*.
- 1.3 In this Part, the following definition shall apply:

registered branch

means a branch of a *registered friendly society* which is separately registered within the meaning of the Friendly Societies Act 1974.

2 GENERAL GOVERNANCE FOR SMALL NON-DIRECTIVE INSURERS

- 2.1 This Chapter only applies to a *small non-directive insurer* and a *Swiss general insurer*.
- 2.2 A *firm* must take reasonable care to establish and maintain such systems and controls as are appropriate to its business.
- 2.3 A *firm* must take reasonable steps to establish and maintain adequate *internal controls*.
- 2.4 A *firm* must have in place an effective risk-management system.
- 2.5 A *firm's* risk-management system must ensure that the *firm's governing body* is furnished with the information it needs to contribute to identifying, measuring, managing and controlling risks which relate to the safety and soundness of *firms*.
- 2.6 A *firm* must establish and maintain appropriate systems and controls for managing *operational risk* that can arise from inadequacies or failures in its processes and systems (and, as appropriate, the systems and processes of third party suppliers, agents and others).
- 2.7 A *firm* must establish and maintain appropriate systems and controls for the management of its IT system risks.
- 2.8 A *firm* must establish and maintain appropriate systems and controls for the management of the risks involved in expected changes.
- 2.9 A *firm* must provide for an effective internal audit function.
- 2.10 The internal audit function must monitor the appropriateness and effectiveness of the *firm's* systems and controls.
- 2.11 The internal audit function must provide independent assurance to the *firm's governing body*, audit committee or an appropriate senior manager of the integrity and effectiveness of the *firm's* systems and controls.

3 GENERAL GOVERNANCE FOR LARGE NON-DIRECTIVE INSURERS

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

- 3.2 (1) A *firm* must have in place an effective system of governance which provides for sound and prudent management of its business.
- (2) The system of governance must include at least:
- (a) an adequate transparent organisational structure with a clear allocation and appropriate segregation of responsibilities; and
 - (b) an effective system for ensuring the transmission of information.
- (3) The system of governance must include compliance with the requirements laid down in:
- (a) 3.5
 - (b) 4 to 10 (as applicable);
 - (c) Large Non-Solvency II Firms – Fitness and Propriety 2.1 to 2.3, 4.1, 4.3 and 4.4; and
 - (d) Large Non-Solvency II Firms – Allocation of Responsibilities 4.
- (4) The system of governance must be subject to regular internal review.
- 3.3 A *firm's* system of governance must be proportionate to the nature, scale and complexity of its operations.
- 3.4 A *firm* must:
- (1) have written policies in relation to at least risk management, internal control, internal audit and, where relevant, *outsourcing*;
 - (2) make those policies subject to prior approval of its *governing body*;
 - (3) ensure those policies are implemented;
 - (4) review those policies at least annually; and
 - (5) adapt those policies in view of any significant change in the system or area concerned.
- 3.5 The written policy on risk management referred to in 3.4(1) must comprise at least the specific policies required by 7.2.
- 3.6 A *firm* must take reasonable steps to ensure continuity and regularity in the performance of its activities, including the development of contingency plans, to which end, the *firm* must employ appropriate and proportionate systems, resources and procedures.

4 GOVERNANCE FOR NON-DIRECTIVE FRIENDLY SOCIETIES

- 4.1 This Chapter only applies to a *non-directive insurer* that is also a *non-directive friendly society*.
- 4.2 A *firm* must take reasonable steps to ensure that it does not carry on activities beyond its powers.
- 4.3 A *firm* must take reasonable steps to ensure that it and its *registered branches* comply with:

- (1) any requirements of or under the Friendly Societies Act 1992 or *FSMA* which relate to the conduct of its *insurance business*; and
- (2) any requirement which is otherwise applicable to its insurance activities.

4.4 A *firm* must supervise the activities of any:

- (1) *subsidiary*;
- (2) *jointly controlled body*; and
- (3) *registered branch* of the *firm*;

with due care and diligence, having due regard to the interests of its *policyholders* and without detriment to the conduct of the *firm's* activities.

4.5 A *firm* must ensure that every *jointly controlled body* and *registered branch* complies with:

- (1) 2.2 or 3.2, whichever is applicable; and
- (2) any applicable requirements of *FSMA* and the Friendly Societies Act 1992.

4.6 A *firm* must and must procure that each *registered branch*:

- (1) keeps adequate accounting records; and
- (2) establishes and maintains adequate systems of control of its business and records and of inspection and reporting.

4.7 A *firm* must ensure that the systems of control and of inspection and reporting are adequate to enable the *governing body* to properly discharge:

- (1) the duties imposed on it by or under *FMSA*, the Friendly Societies Act 1992 or the Friendly Societies Act 1974; and
- (2) the functions of direction of the affairs of the *friendly society* or *registered branch*.

No such system of control will be treated as adequate unless there is kept available to the *governing body* a detailed statement in writing of the system as in operation for the time being.

4.8 A *firm* must ensure that the systems of control and of inspection and reporting ensure that its:

- (1) activities are conducted; and
- (2) records that are kept are:
 - (a) sufficiently accurate; and
 - (b) available when required,

to enable the *governing body* to discharge its duties and functions.

4.9 A *firm* must within the period of 6 months beginning with the end of each *financial year* make and send to the *PRA* a statement of their opinion whether the requirements of 4.6 to 4.8 have been complied with in respect of that year by the *firm* and the statement must be signed by the chairman on behalf of the *governing body* and by the chief executive.

5 OUTSOURCING

- 5.1 A *firm* must take reasonable care to supervise the discharge of *outsourced* functions by an *outsourced* provider.
- 5.2 A *firm* must take steps to obtain sufficient information from its *outsourced* provider to enable it to assess the impact of *outsourcing* on its systems and controls.
- 5.3 Before entering into, or significantly changing, an *outsourcing* arrangement, a *firm* must:
- (1) analyse how the arrangement will fit with its organisation and reporting structure, business strategy, overall risk profile and ability to meet its regulatory obligations;
 - (2) consider whether the agreements establishing the arrangement will allow it to monitor and control its operational risk exposure relating to the *outsourcing*;
 - (3) conduct appropriate due diligence of the service provider's financial stability and expertise; and
 - (4) consider how it will ensure a smooth transition of its operations from its current arrangements to a new or changed *outsourcing* arrangement, including what will happen on the termination of the contract or following a significant loss of services from the service provider.

6 RECORDS

- 6.1 A *firm* must take reasonable care to make and retain adequate records of matters and dealings (including accounting records) which are the subject of requirements and standards under the *regulatory system*.
- 6.2 The records required by 6.1 must be capable of being reproduced on paper and:
- (1) in English; or
 - (2) if a *firm's* records relate to business carried on from an establishment in a country or territory outside the *UK*, the official language of that country or territory.
- 6.3 A *firm* must make and regularly update accounting and other records that are sufficient to enable the *firm* to demonstrate to the *PRA*:
- (1) that the *firm* is financially sound and has appropriate systems and controls;
 - (2) the *firm's* financial position and exposure to risk (to a reasonable degree of accuracy); and
 - (3) the *firm's* compliance with applicable rules.
- 6.4 A *firm* must retain the records in 6.1 and 6.3 for the longer of either:
- (1) three years; or
 - (2) for as long as they are relevant for the purposes for which they were made.
- 6.5 A *firm* must be able to make available the records in 6.1 and 6.3 within a reasonable timeframe when requested to do so by the *PRA*.
- 6.6 A *firm* must keep the records required in 6.1 and 6.3 in the *UK*, except where:

- (1) they relate to business carried on from an establishment in a country or territory that is outside the *UK*; and
- (2) they are kept in that country or territory.

6.7 When a *firm* keeps the records required in 6.1 and 6.3 outside the *UK*, it must periodically send an adequate summary of those records to the *UK*.

7 BUSINESS PLANNING AND RISK MANAGEMENT

7.1 A *firm* must take reasonable steps to ensure the establishment and maintenance of:

- (1) a business plan; and
- (2) appropriate systems for the management of prudential risk.

7.2 A *firm's* business planning must involve the creation and maintenance of specific risk policies that outline a *firm's* strategy and objectives for the identification and management of at least its market, credit, liquidity, *reinsurance*, operational, insurance and group risks and the processes that it intends to adopt to achieve these objectives.

7.3 When establishing and maintaining its business plan and prudential risk management systems, a *firm* must document:

- (1) an explanation of its overall business strategy, including its business objectives;
- (2) a description of, as applicable, its policies towards market, credit (including provisioning), liquidity, operational, insurance and group risks (that is, its risk policies), including its appetite or tolerance for these risks and how it identifies, measures or assesses, monitors and controls these risks;
- (3) the systems and controls that it intends to use in order to ensure that its business plan and risk policies are implemented correctly;
- (4) a description of how the *firm* accounts for assets and liabilities, including the circumstances under which items are netted, included or excluded from the *firm's* balance sheet and the methods and assumptions for valuation;
- (5) appropriate financial projections and the results of its stress testing and scenario analysis;
- (6) details of, and the justification for, the methods and assumptions used in financial projections and stress testing and scenario analysis; and
- (7) its procedures to allow managers to monitor the application and effect of its *reinsurance* programme.

7.4 A *firm's* business plan and risk management systems must be effectively communicated so that all *employees* understand and adhere to the procedures related to their own responsibilities.

8 INTERNAL CONTROL

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

8.2 (1) A *firm* must have in place an effective internal control system.

- (2) That system must include administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels of the *firm* and a compliance *function*.

8.3 The compliance *function* referred to in 8.2(2) must include:

- (1) advising the *governing body* on compliance with applicable rules; and
- (2) an assessment of the possible impact of any changes in the legal environment on the operations of the *firm* concerned and the identification and assessment of compliance risk.

8.4 A *firm* must have internal processes and procedures in place to ensure the appropriateness, completeness and accuracy of the data used in the calculation of its *technical provisions*.

9 INTERNAL AUDIT

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

9.2 (1) A *firm* must provide for an effective internal audit *function*.

(2) The internal audit *function* must:

(a) include an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance; and

(b) be objective and independent from the operational *functions*.

(3) A *firm* must ensure that any findings and recommendations of the internal audit *function* are reported to the *firm's governing body* which must:

(a) determine what actions are to be taken with respect to each of the internal audit findings and recommendations; and

(b) ensure that those actions are carried out.

10 ACTUARIAL FUNCTION

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

10.2 A *firm* must provide for an effective actuarial *function* to:

(1) coordinate the calculation of *technical provisions*;

(2) ensure the appropriateness of the methodologies and underlying models used, as well as the assumptions made in the calculation of *technical provisions*;

(3) assess the sufficiency and quality of the data used in the calculation of *technical provisions*;

(4) inform the *governing body* of the reliability and adequacy of the calculation of *technical provisions*;

(5) express an opinion on the overall underwriting policy;

(6) express an opinion on the adequacy of *reinsurance* arrangements; and

(7) contribute to the effective implementation of the risk management system referred to in 7.1.

10.3 The actuarial *function* must be carried out by *persons* who have knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the *firm's* business, and who are able to demonstrate their relevant experience with applicable professional and other standards.

Annex P

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

Part

NON-SOLVENCY II FIRMS – WITH-PROFITS

Chapter content

1. APPLICATION
2. ASSETS IN THE WITH-PROFITS FUND
3. DISTRIBUTION STRATEGIES
4. SUPPORT ARRANGEMENTS

Links

1 APPLICATION

- 1.1 Subject to 1.2, this Part applies to a *non-directive insurer* carrying on *with-profits insurance business*.
- 1.2 This Part does not apply to *with-profits insurance business* that consists of *effecting contracts of insurance* or *carrying out contracts of insurance* that are *Holloway sickness policies*.

2 ASSETS IN THE WITH-PROFITS FUND

- 2.1 A *firm, other than a friendly society*, must ensure that it holds *admissible assets* in each of its *with-profits funds* of a value (calculated in accordance with Insurance Company – Overall Resources and Valuation) sufficient to cover the *with-profits policy liabilities* in respect of all of the business written in, or transferred into, that *with-profits fund*.
- 2.2 A *friendly society* must ensure that it holds assets in each of its *with-profits funds* of a value (calculated in accordance with Friendly Society – Asset Valuation) sufficient to cover the *with-profits policy liabilities* in respect of all of the business written in, or transferred into, that *with-profits fund*.

3 DISTRIBUTION STRATEGIES

- 3.1 A *firm* must ensure at all times that its strategy for distribution of discretionary benefits in respect of each of its *with-profits funds*:
- (1) is affordable and sustainable; and
 - (2) cannot reasonably be expected to have an adverse effect on the safety and soundness of the *firm* as a whole, or on the benefit security of all *policyholders* of the *firm*.

4 SUPPORT ARRANGEMENTS

- 4.1 If a *firm* is using, or intends to use, *support arrangements* to contribute to benefit security for the *policyholders* of a *with-profits fund*, it must ensure that:
- (1) all the terms and conditions governing those *support arrangements*, including the circumstances in which they take effect and the terms on which they are or may be repayable, are adequately documented in the *firm's* records; and
 - (2) the extent of any restrictions on the *firm's* use of those *support arrangements* is clearly identified.

Annex Q

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

Part

NON-SOLVENCY II FIRMS – ACTUARIAL REQUIREMENTS

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. APPOINTMENT OF ACTUARIES**
- 3. ACTUARIES' QUALIFICATIONS**
- 4. CONFLICTS OF INTEREST**
- 5. THE ACTUARIAL FUNCTION**
- 6. WITH-PROFITS ACTUARY FUNCTION**
- 7. APPROPRIATE ACTUARY**
- 8. DUTIES OF ACTUARIES**

Links

1 APPLICATION AND DEFINITIONS

- 1.1 Unless otherwise stated, this Part applies to a *non-directive insurer*.
- 1.2 Chapters 2 to 6 only apply to a *long-term insurer* other than:
- (1) a *registered friendly society*; and
 - (2) an *incorporated friendly society* that is a *flat rate benefits business friendly society*.
- 1.3 Chapter 7 only applies to:
- (1) a *registered friendly society*; and
 - (2) an *incorporated friendly society* that is a *flat rate benefits business friendly society*.
- 1.4 This Part applies to an *actuary* appointed under 2 or 7 or appointed under or as a result of a statutory provision other than in *FSMA*.
- 1.5 In this Part, the following definitions shall apply:

actuarial function

means the function of acting in the capacity of an *actuary* appointed by a firm under 2.1(1) to perform the duties set out in 5.

appropriate actuary

means an *actuary* appointed under 7.1

Chief Executive function

means the *PRA controlled function* CF3 in the table of *PRA controlled functions* in SUP 10B.4.3 R of the *PRA Handbook*, described more fully in SUP 10B.6.7 R of the *PRA Handbook*.

With-Profits Actuary function

means the function of acting in the capacity of an *actuary* appointed by a *firm* under 2.1(2) to perform the duties set out in 6.

2 APPOINTMENT OF ACTUARIES

- 2.1 A *firm* must appoint one or more *actuaries* to perform and be responsible for:
- (1) the *actuarial function* in respect of all classes of its *long-term insurance business*; and
 - (2) the *With-Profits Actuary function* in respect of all classes of its *with-profits insurance business* (if any).
- 2.2 A *firm* must:
- (1) when it becomes aware that a vacancy of an *actuary* required under 2.1 will arise or has arisen:
 - (a) notify the *PRA*; and

- (b) give reasons for the vacancy, without delay, using the form referred to in Notifications 10.3;
 - (2) appoint an *actuary* to fill any vacancy of an *actuary* required under 2.1;
 - (3) ensure that the replacement *actuary* can take up the vacant post at the time the vacancy arises or as soon as reasonably practicable after that; and
 - (4) when a new *actuary* is appointed:
 - (a) notify the *PRA* of that appointment; and
 - (b) advise the *PRA* of the name and business address of the *actuary* appointed and the date from which the appointment has effect, using the form referred to in Notifications 10.3.
- 2.3 Where a *firm* fails to appoint an *actuary* under 2.1 within 28 days of a vacancy arising the *PRA* may appoint an *actuary* to perform either of the functions in 2.1(1) or (2) for that *firm* on the following terms:
- (1) the *actuary* to be remunerated by the *firm* on the basis agreed between the *actuary* and *firm* or, in the absence of agreement, on a reasonable basis; and
 - (2) the *actuary* to perform the function required under 2.1 until he resigns or the *firm* appoints another *actuary*.
- 2.4 A *firm* must comply with and is bound by the terms on which an *actuary* has been appointed by the *PRA*.
- 2.5 Where the *PRA* appoints an *actuary* to perform either of the functions in 2.1(1) or (2) for a *firm*, the requirements under 2.1 to make appointments under that rule still apply to that *firm*.

3 ACTUARIES' QUALIFICATIONS

- 3.1 Before a *firm* appoints an *actuary* under 2.1, it must take reasonable steps to ensure that the *actuary* has the required skill and experience to perform his functions under the *regulatory system* commensurate with the nature, scale and complexity of the *firm's* business and the requirements and standards under the *regulatory system* to which it is subject.
- 3.2 A *firm* must not appoint as *actuary* a *person* who is disqualified under Part XXII of *FSMA* from acting as an *actuary* either for that *firm* or for a relevant class of *firm*.
- 3.3 A *firm* must take reasonable steps to ensure that an *actuary*, which it is planning to appoint or has appointed, provides information to the *PRA* about the *actuary's* qualifications, skills, experience and any other relevant matters in accordance with the reasonable requests of the *PRA*.

4 CONFLICTS OF INTEREST

- 4.1 A *firm* must take reasonable steps to ensure that an *actuary* that it appoints:
- (1) does not perform the *Chief Executive function*;
 - (2) does not, if he is to perform the *With-Profits Actuary function*, become a member of the *firm's governing body*; and

- (3) does not perform any other function on behalf of the *firm* which could give rise to a significant conflict of interest.

5 THE ACTUARIAL FUNCTION

5.1 An *actuary* appointed to perform the *actuarial function* must, in respect of those classes of the *firm's long-term insurance business* which are covered by his appointment:

- (1) advise the *firm's* management, at the level of seniority that is reasonably appropriate, on the risks the *firm* runs in so far as they may have a material impact on the *firm's* ability to meet *liabilities to policyholders* in respect of *contracts of long-term insurance* as they fall due and on the capital needed to support the business, including regulatory capital requirements;
- (2) monitor those risks and inform the *firm's* management, at the level of seniority that is reasonably appropriate, if he has any material concerns or good reason to believe that the *firm*:
 - (a) is not meeting *liabilities to policyholders* under *contracts of long-term insurance* as they fall due, or may not be doing so, or might not have done so, or might, in reasonably foreseeable circumstances, not do so;
 - (b) is, or may be, effecting new *contracts of long-term insurance* on terms under which the resulting income earned is insufficient, under reasonable actuarial methods and assumptions, and taking into account the other financial resources that are available for the purpose, to enable the *firm* to meet its *liabilities to policyholders* as they fall due (including amounts required to enable the *firm* to fulfil its regulatory duty to treat its customers fairly under any relevant provision in the *FCA Handbook*);
 - (c) does not, or may not, have sufficient financial resources to meet *liabilities to policyholders* as they fall due (including reasonable bonus expectations) and the capital needed to support the business, including regulatory capital requirements or, if the *firm* currently has sufficient resources, might, in reasonably foreseeable circumstances, not continue to have them;
- (3) advise the *firm's governing body* on the methods and assumptions to be used for the investigations required by IPRU(INS) rule 9.4 or IPRU(FSOC) rule 5.1, each of the *PRA Handbook* as at 31 December 2015;
- (4) perform those investigations and calculations in (3), in accordance with the methods and assumptions determined by the *firm's governing body*;
- (5) report to the *firm's governing body* on the results of the investigations and calculations in (3);
- (6) in the case of a *friendly society*, perform the functions of the appropriate actuary under section 87 (Actuary's report as to margin of solvency) of the Friendly Societies Act 1992; and
- (7) if applicable, be responsible for the *actuarial function* required by Governance 10.2.

6 WITH-PROFITS ACTUARY FUNCTION

6.1 An *actuary* appointed to perform the *With-Profits Actuary function* must:

- (1) advise the *firm's* management, at the level of seniority that is reasonably appropriate, on key aspects of the discretion to be exercised affecting those classes of the *with-profits insurance business* of the *firm* in respect of which he has been appointed;
- (2) at least once a year, report to the *firm's governing body* on key aspects (including those aspects of the *firm's* application of its *PPFM* on which the advice described in (1) has been given) of the discretion exercised in respect of the period covered by his report affecting those classes of *with-profits insurance business* of the *firm*;
- (3) request from the *firm* such information and explanations as he reasonably considers necessary to enable him properly to perform the duties in (1) and (2);
- (4) advise the *firm* as to the data and systems that he reasonably considers necessary to be kept and maintained to provide the duties in (3); and
- (5) in the case of a *friendly society*, perform the function of appropriate actuary under section 12 (Reinsurance) of the Friendly Societies Act 1992 or section 23A (Reinsurance) of the Friendly Societies Act 1974 as applicable, in respect of those classes of its *with-profits insurance business* covered by his appointment.

7 APPROPRIATE ACTUARY

7.1 A *firm* must:

- (1) appoint an *appropriate actuary* to carry out the triennial investigation and prepare an abstract of the report as required by IPRU(FSOC) rule 5.2(2) of the *PRA Handbook* as at 31 December 2015 and provide the interim certificate or statement as required by IPRU(FSOC) rule 5.2(3) of the *PRA Handbook* as at 31 December 2015; and
- (2) appoint a replacement for that *actuary* if he ceases to hold office before he has carried out the duty described in (1).

7.2 A *firm* must not appoint as *appropriate actuary* a *person* who is disqualified under Part XXII of *FSMA* (Auditors and Actuaries) from acting as an *actuary* either for that *firm* or for a relevant class of *firm*.

8 DUTIES OF ACTUARIES

8.1 An *actuary* appointed under this Part must be objective in performing his duties.

8.2 An *actuary* appointed under this Part must take reasonable steps to satisfy himself that he is free from bias, or from any conflict of interest from which bias may reasonably be inferred. He must take appropriate action where this is not the case.

8.3 When carrying out his duties, an *actuary* appointed under this Part must pay due regard to generally accepted actuarial practice.

8.4 An *appropriate actuary* must carry out the triennial investigation and prepare an abstract of the report as required by IPRU(FSOC) rule 5.2(2) of the *PRA Handbook* as at 31 December 2015 and provide the interim certificate or statement as required by IPRU(FSOC) rule 5.2(3) of the *PRA Handbook* as at 31 December 2015.

8.5 An *actuary* must notify the *PRA* without delay if the *actuary*:

- (1) is removed from office by a *firm*;

- (2) is formally notified of such removal from office;
- (3) resigns before the term of office expires;
- (4) is not re-appointed by a *firm*; or
- (5) is disqualified from being the *actuary* of:
 - (a) any *undertaking* or particular class of *undertaking*; or
 - (b) any *firm* or particular class of *firm*.

8.6 In the circumstances set out in 8.5, the *actuary* must notify the *PRA* without delay:

- (1) of any matter connected with the removal or ceasing of the office of *actuary* that the *actuary* thinks ought to be drawn to the *PRA*'s attention; or
- (2) that there is no such matter.

Annex R

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

Part

RUN-OFF OPERATIONS

Chapter content

1. APPLICATION AND DEFINITIONS
2. CEASING TO EFFECT CONTRACTS OF INSURANCE
3. MARGIN OF SOLVENCY BELOW REQUIRED MARGIN OF SOLVENCY
4. MARGIN OF SOLVENCY BELOW GUARANTEE FUND
5. CAPITAL RESOURCES BELOW CR REQUIREMENT
6. CONTENT OF SCHEME OF OPERATIONS
7. SUBMITTED SCHEMES OF OPERATION

Links

APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to a *non-directive insurer*.

1.2 In this Part, the following definitions shall apply:

close links

has the meaning given in section 4F(3) of Schedule 6 to *FSMA*.

material transaction

means a transaction (or a series of similar transactions in aggregate) in which:

- (1) the price actually paid or received for the transfer of assets or liabilities or the performance of services; or
- (2) the price which would have been paid or received had that transaction been negotiated at arm's length between unconnected parties;

exceeds:

- (a) in the case of a *firm* which carries on *long-term insurance business*, but not *general insurance business*, the sum of €20,000 and 5% of the *firm's* liabilities arising from its *long-term insurance business*, excluding *linked long-term liabilities* and net of *reinsurance ceded*; or
- (b) in the case of a *firm* which carries on *general insurance business*, but not *long-term insurance business*, the sum of €20,000 and 5% of the *firm's* liabilities arising from its *general insurance business*, net of *reinsurance ceded*; or
- (c) in the case of a *firm* which carries on both *long-term insurance business* and *general insurance business*:
 - (i) where the transaction is in connection with the *firm's long-term insurance business*, the sum of €20,000 and 5% of the *firm's* liabilities arising from its *long-term insurance business*, excluding *linked long-term liabilities* and net of *reinsurance ceded*; and
 - (ii) in all other cases, the sum of €20,000 and 5% of the *firm's* liabilities arising from its *general insurance business*, net of *reinsurance ceded*.

scheme of operations

means a scheme which:

- (1) describes the nature of the risks which the *firm* is underwriting, or intends to underwrite, and the guiding principles which it intends to follow in reinsuring or covering those risks; and
- (2) contains the information required under 6.

CEASING TO EFFECT CONTRACTS OF INSURANCE

- 2.1 If a *firm* decides to cease to effect new *contracts of insurance* in respect of the whole of its insurance business, it must, within 28 days of that decision, submit a run-off plan to the *PRA* including:
- (1) a *scheme of operations* in accordance with 6; and
 - (2) an explanation of how, or to what extent, all *liabilities to policyholders* will be met in full as they fall due.
- 2.2 For the purposes of 2.1, a new *contract of insurance* excludes contracts effected under a term in a subsisting *contract of insurance*.

MARGIN OF SOLVENCY BELOW REQUIRED MARGIN OF SOLVENCY

- 3.1 This Chapter only applies to a *non-directive friendly society* (other than a *flat rate benefits business friendly society*).
- 3.2 If a *firm's margin of solvency* no longer equals to or exceeds its *required margin of solvency*, it must, within 28 days of becoming aware of this event, submit to the *PRA* a plan for the restoration of a sound financial position, including:
- (1) a *scheme of operations*; and
 - (2) an explanation of how, if at all, and by when, it expects its *margin of solvency* to be adequately restored to the *required margin of solvency*.

MARGIN OF SOLVENCY BELOW GUARANTEE FUND

- 4.1 This Chapter only applies to an *incorporated friendly society*.
- 4.2 If a *firm's margin of solvency* falls below its *guarantee fund*, it must, within 28 days of the *firm* becoming aware of this event, submit to the *PRA*, a short-term financial plan, including:
- (1) a *scheme of operations*; and
 - (2) an explanation of how, if at all, and by when, it expects its *margin of solvency* to be adequately restored to the *guarantee fund*.

CAPITAL RESOURCES BELOW CR REQUIREMENT

- 5.1 This Chapter applies to a *non-directive insurer* (other than a *non-directive friendly society*).
- 5.2 If a *firm's capital resources* fall below its *CR Requirement*, it must, within 28 days of becoming aware of this event:
- (1) notify the *PRA*; and
 - (2) submit a plan for restoration, which:
 - (a) explains why the *firm's capital resources* have fallen below its *CR Requirement*; and
 - (b) demonstrates how, if at all, and by when, it expects its *capital resources* to be restored to its *CR Requirement*.

CONTENT OF SCHEME OF OPERATIONS

- 6.1 In accordance with 6.2, a *scheme of operations* must:

- (1) describe the *firm's* run-off strategy;
- (2) include a description of the business underwritten by the *firm*;
- (3) include the following financial projections (including appropriate scenarios and stress-tests) as applicable:
 - (a) a forecast summary profit and loss account in accordance with 6.3;
 - (b) a forecast summary balance sheet in accordance with 6.4;
 - (c) in the case of a *non-directive friendly society* only, a forecast statement of its *margin of solvency* and *required margin of solvency* at the end of each *financial year* or part *financial year*;
 - (d) in the case of an *incorporated friendly society* only, a forecast statement of its *margin of solvency* and *guarantee fund* at the end of each *financial year* or part *financial year*; and
 - (e) in the case of a *non-directive insurer* (other than a *non-directive friendly society*), a forecast statement of *capital resources* and *the CR Requirement* at the end of each *financial year* or part *financial year*;
- (4) as at the end of each *financial year* which falls (in whole or part) within the period to which the *scheme of operations* relates:
 - (a) describe the assumptions which underlie those forecasts and the reasons for adopting those assumptions; and
 - (b) identify any *material transactions* proposed to be entered into or carried out with, or in respect of, any associate or any other *person* with whom the *firm* has *close links*;
- (5) cover the run-off period until all *liabilities to policyholders* are met.

6.2 The information required by 6.1 must:

- (1) in the case of a *non-directive friendly society* (other than a *flat rate benefits business friendly society*), reflect the nature and content of the *rules* relating to the *margin of solvency* and the *required margin of solvency*;
- (2) in the case of an *incorporated friendly society*, reflect the nature and content of the *rules* relating to the *margin of solvency* and the *guarantee fund*;
- (3) in the case of a *non-directive insurer* (other than a *non-directive friendly society*), reflect the nature and content of the *rules* relating to *capital resources* applicable to a *firm*; and
- (4) where a *firm* carries on both *long-term insurance business* and *general insurance business*, be separated for *long-term insurance business* and *general insurance business*.

6.3 The forecast summary profit and loss account referred to in 6.1(3) (a) must contain the following information:

- (1) *premiums* and claims (gross and net of *reinsurance*) analysed by accounting *class* of *insurance business*;

- (2) investment return;
- (3) expenses;
- (4) other charges and income;
- (5) taxation; and
- (6) dividends paid and accrued.

6.4 The forecast summary balance sheet referred to in 6.1(3) (b) must contain the following information:

- (1) investments analysed by type;
- (2) assets held to cover *linked long-term liabilities*;
- (3) other assets and liabilities separately identifying cash at bank and in hand;
- (4) capital and reserves analysed into called up share capital or equivalent funds, share premium account, revaluation reserve, other reserves and profit and loss account;
- (5) subordinated liabilities;
- (6) the fund for future appropriations;
- (7) *technical provisions* gross and net of *reinsurance* analysed by accounting *class* of *insurance business* and separately identifying the provision for *linked long-term liabilities*, *unearned premiums*, *unexpired risks* and *equalisation*; and
- (8) other liabilities and credits.

SUBMITTED SCHEMES OF OPERATION

7.1 A firm which has previously submitted a *scheme of operations* to the PRA must, during the period covered by that *scheme of operations*:

- (1) notify the *PRA* at least 28 days before entering into or carrying out any *material transaction* with, or in respect of, an associate or any other *person* with whom the *firm* has *close links*, unless that transaction is in accordance with a *scheme of operations* which has been submitted to the *PRA*:
- (2) notify the *PRA* promptly of any matter which has happened or is likely to happen and which represents a significant departure from the *scheme of operations* and either:
 - (a) explain the nature of the departure and the reasons for it and provide revised forecast financial information in 6.1 (3) in the *scheme of operations* for its remaining term; or
 - (b) provide an amended *scheme of operations* and explain the amendments and the reasons for them.

Annex S

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

Part

NON-SOLVENCY II FIRMS - TRANSITIONAL MEASURES

Chapter content

1. APPLICATION AND DEFINITIONS
2. TRANSITIONAL APPLICATION OF RULES IN RELATION TO RUN-OFF FIRMS
3. REPORTING

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) a *run-off firm*;
- (2) a *non-directive insurer*; and
- (3) a *Swiss general insurer*.

1.2 In this Part, the following definitions shall apply:

application rules

means any application rule in any Part in the Non-Solvency II Firms Sector of the *PRA Rulebook*.

run-off firm

means a *firm* to which, but for the application of Transitional Measures 2.1 to 2.3 in the Solvency II Firms Sector, the *Solvency II rules* would apply.

Solvency II rules

means the *PRA* rules in the Valuation, Technical Provisions, Own Funds, Solvency Capital Requirement – General Provisions, Solvency Capital Requirement – Standard Formula, Solvency Capital Requirement – Internal Models, Minimum Capital Requirement, Undertakings in Difficulty, Investments, Composites, Conditions Governing Business, Insurance Special Purpose Vehicles, Group Supervision, Reporting, Surplus Funds, With-Profits, Insurance – Conduct Standards, Insurance – Senior Insurance Management Functions, Insurance – Allocation of Responsibilities and Insurance – Fitness and Propriety Parts of the Solvency II Firms Sector of the *PRA Rulebook*.

2 TRANSITIONAL APPLICATION OF RULES IN RELATION TO RUN-OFF FIRMS

2.1 Notwithstanding the *application rules*, each Part in the Non-Solvency II Firms Sector of the *PRA Rulebook* applies to a *run-off firm* for so long as it remains a *run-off firm* as if the *firm* was a *non-directive insurer* and not a *UK Solvency II firm*.

3 REPORTING

3.1 A *firm* must comply with the rules in:

- (1) IPRU(FSOC) Chapter 5; and
- (2) IPRU(INS) Chapters 9 and 12

of the *PRA Handbook* as at 31 December 2015, as they were applicable to the *firm* (including any *waiver*) at that date, in respect of *financial years* ending on or before 31 December 2015.

PRA RULEBOOK: CRR FIRMS: LEVERAGE RATIO 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: CRR Firms: Leverage Ratio Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Leverage Ratio Instrument 2015.

By order of the Board of the Prudential Regulation Authority

26 November 2015

Annex

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

Part

LEVERAGE RATIO

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. BASIS OF APPLICATION**
- 3. MINIMUM LEVERAGE RATIO**
- 4. COUNTERCYCLICAL LEVERAGE RATIO BUFFER**
- 5. NOTIFICATION**
- 6. CAPITAL PLAN**

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* that is a *UK bank* or a *building society* that, on the *firm's* last *accounting reference date*, had *retail deposits* equal to or greater than £50 billion either on:

- (1) an individual basis;
- (2) if the *firm* is a *parent institution in a Member State*, on the basis of its *consolidated situation*; or
- (3) if the *firm* is controlled by a *parent financial holding company in a Member State* or by a *parent mixed financial holding company in a Member State* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis* under Article 111 of the *CRD*, on the basis of the *consolidated situation* of that holding company.

1.2 In this Part, the following definitions shall apply:

capital plan

means the plan described in Chapter 6.

countercyclical capital buffer rate

means the *countercyclical buffer rate*, as defined in Capital Buffers 1.2.

countercyclical leverage ratio buffer

means the amount of *common equity tier 1 capital* a *firm* must calculate in accordance with 4.1 and 4.2.

deposit

has the meaning given in 30, Part 1, Annex V (Reporting on financial information) for the purposes of the European Banking Authority's Implementing Technical Standards amending the Commission's Implementing Regulation (EU) No 680/2014 on supervisory reporting under Regulation (EU) No 575/2013 of the European Parliament and of the Council.

FPC

means the Financial Policy Committee of the Bank of England.

leverage ratio

means a *firm's* *tier 1 capital* divided by its *total exposure measure*, with this ratio expressed as a percentage.

retail deposit

means *deposits* from “households” as defined in 35(f), Part 1, Annex V (Reporting on financial information) for the purposes of the European Banking Authority’s Implementing Technical Standards amending the Commission’s Implementing Regulation (EU) No 680/2014 on supervisory reporting under Regulation (EU) No 575/2013 of the European Parliament and of the Council.

tier 1 capital

has the meaning given by Article 25 of the *CRR* except that:

- (1) an *additional tier 1 capital* instrument can only be counted as *tier 1 capital* if it either:
 - (a) converts into *common equity tier 1 capital*; or
 - (b) writes down,

when the *common equity tier 1 capital ratio* of the *firm* falls below a level equal to either:

 - (a) 7%; or
 - (b) a level higher than 7%,

as specified in the provisions governing the instrument; and
- (2) instruments that qualify for grandfathering under Article 483 of the *CRR* can be counted as *tier 1 capital*.

total exposure measure

has the meaning given by Article 429(4) of the *CRR*, as amended by the Commission Delegated Regulation (EU) 2015/62.

- 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 BASIS OF APPLICATION

- 2.1 A *firm* that is not a member of a *consolidation group* in relation to which 2.2 or 2.3 applies must comply with this Part on an individual basis.
- 2.2 A *firm* that is a *parent institution in a Member State* must comply with this Part on the basis of its *consolidated situation*.
- 2.3 A *firm* that is controlled by a *parent financial holding company in a Member State* or a *parent mixed financial holding company in a Member State* for which the *PRA* is responsible for supervision on a *consolidated basis* under Article 111 of the *CRD* must comply with this Part on the basis of the *consolidated situation* of that holding company.

3 MINIMUM LEVERAGE RATIO

- 3.1 A *firm* must hold sufficient *tier 1 capital* to maintain, at all times, a minimum *leverage ratio* of 3%.
- 3.2 For the purposes of complying with 3.1, at least 75% of the *firm's tier 1 capital* must consist of *common equity tier 1 capital*.

4 COUNTERCYCLICAL LEVERAGE RATIO BUFFER

- 4.1 A *firm* must calculate a *countercyclical leverage ratio buffer* of *common equity tier 1 capital* equal to:
- (1) the *firm's countercyclical capital buffer rate* multiplied by 35% with the product expressed as a percentage rounded to the nearest tenth of a percentage; multiplied by
 - (2) the *firm's total exposure measure*.
- 4.2 A *firm* must not count *common equity tier 1 capital* that is maintained for the purposes of 3.1 towards the calculation in 4.1.

5 NOTIFICATION

- 5.1 A *firm* must notify the *PRA* immediately if, at any time, it does not hold, or is likely not to hold, an amount and quality of capital that is:
- (1) necessary to comply with 3.1; and
 - (2) equal to or greater than its *countercyclical leverage ratio buffer*.

6 CAPITAL PLAN

- 6.1 When a *firm* is required to make a notification to the *PRA* under rule 5.1(2), it must prepare a *capital plan* and submit it to the *PRA* no later than 5 *business days* after the *firm* identified that the notification was necessary.
- 6.2 The *capital plan* must include the following:
- (1) measures to secure that the amount of the *firm's common equity tier 1 capital* is equal to or greater than the *firm's countercyclical leverage ratio buffer*; and
 - (2) a plan and timeframe for the measures outlined for the purposes of rule 6.2(1).

Part

LEVERAGE RATIO

Externally defined glossary terms

Term	Definition source
<i>additional tier 1 capital</i>	Article 61 CRR
<i>common equity tier 1 capital</i>	Article 50 CRR
<i>common equity tier 1 capital ratio</i>	Article 92(2)(a) CRR
<i>consolidated basis</i>	Article 4(1)(48) CRR
<i>consolidated situation</i>	Article 4(1)(47) CRR
<i>EEA State</i>	s425 FSMA
<i>parent institution in a Member State</i>	Article 4(1)(28) CRR
<i>parent mixed financial holding company in a Member State</i>	Article 4(1)(32) CRR

PRA RULEBOOK: CRR FIRMS: REPORTING LEVERAGE RATIO 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: CRR Firms: Reporting Leverage Ratio Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Reporting Leverage Ratio Instrument 2015.

By order of the Board of the Prudential Regulation Authority

26 November 2015

Annex A

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

Part

REPORTING LEVERAGE RATIO

Chapter content

1. APPLICATION AND DEFINITIONS
2. BASIS OF APPLICATION
3. REPORTING
4. TRANSITIONAL
5. SUBMISSION

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* that is a *UK bank* or a *building society* that, on the *firm's* last *accounting reference date*, had *retail deposits* equal to or greater than £50 billion either on:

- (1) an individual basis;
- (2) if the *firm* is a *parent institution in a Member State*, on the basis of its *consolidated situation*; or
- (3) if the *firm* is controlled by a *parent financial holding company in a Member State* or by a *parent mixed financial holding company in a Member State* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis* under Article 111 of the *CRD*, on the basis of the *consolidated situation* of that holding company.

1.2 In this Part, the following definitions shall apply:

average leverage ratio

means the average *leverage ratio* calculated in accordance with 3.2 or 4.2, as applicable.

data element

means a discrete fact or individual piece of information relating to a particular field within a *data item*.

data item

means one or more related *data elements* that are grouped together into a prescribed format and required to be submitted by a *firm*.

leverage ratio

has the meaning given in Leverage Ratio 1.2.

quarterly reference date

means 31 March, 30 June, 30 September and 31 December.

remittance date

means 12 May, 11 August, 11 November or 11 February.

retail deposits

has the meaning given in Leverage Ratio 1.2.

tier 1 capital

has the meaning given in Leverage Ratio 1.2.

total exposure measure

has the meaning given in Leverage Ratio 1.2.

- 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 BASIS OF APPLICATION

- 2.1 A *firm* that is not a member of a *consolidation group* in relation to which 2.2 or 2.3 applies must comply with this Part on an individual basis.
- 2.2 A *firm* that is a *parent institution in a Member State* must comply with this Part on the basis of its *consolidated situation*.
- 2.3 A *firm* that is controlled by a *parent financial holding company in a Member State* or a *parent mixed financial holding company in a Member State* for which the *PRA* is responsible for supervision on a *consolidated basis* under Article 111 of the *CRD* must comply with this Part on the basis of the *consolidated situation* of that holding company.

3 REPORTING

- 3.1 Subject to 4.1, a *firm* must complete the *data item* FSA083 using the template for the *data item* set out [here](#).
- 3.2 When completing the *data item* in 3.1, the average *leverage ratio* for a quarter must be calculated by a *firm* as its capital measure divided by its exposure measure where the:
- (1) capital measure is the arithmetic mean of the *firm's tier 1 capital* on the last day of each month in the quarter ending on the relevant *quarterly reference date*; and
 - (2) exposure measure is the sum of:
 - (a) the arithmetic mean of the *firm's total exposure measure* in relation to on-balance sheet assets on each day in the quarter ending on the relevant *quarterly reference date*; and
 - (b) the arithmetic mean of the *firm's total exposure measure* excluding on-balance sheet assets on the last day of each month in the quarter ending on the relevant *quarterly reference date*.

4 TRANSITIONAL

- 4.1 For 12 months from the date that this Part comes into force a *firm* must, instead of completing the *data item* referred to in 3.1, complete the *data item* FSA084 using the template for the *data item* set out [here](#).
- 4.2 When completing the *data item* in 4.1, the *average leverage ratio* for a quarter must be calculated by a *firm* as its capital measure divided by its exposure measure where the:
- (1) capital measure is the arithmetic mean of the *firm's tier 1 capital* on the last day of each month in the quarter ending on the relevant *quarterly reference date*; and
 - (2) exposure measure is the arithmetic mean of the *firm's total exposure measure* on the last day of each month in the quarter ending on the relevant *quarterly reference date*.

5 SUBMISSION

- 5.1 A *firm* must submit the completed *data items* referred to in this Part to the *PRA* by close of business of the *remittance date* immediately following each *quarterly reference date*.
- 5.2 If a *remittance date* is a public holiday or a Saturday or Sunday, the *data item* must be submitted on the following business day.
- 5.3 *Data items* must be submitted to the *PRA* by electronic means.

Part

REPORTING LEVERAGE RATIO

Externally defined glossary terms

Term	Definition source
<i>consolidated basis</i>	Article 4(1)(48) CRR
<i>consolidated situation</i>	Article 4(1)(47) CRR
<i>EEA State</i>	s425 FSMA
<i>parent institution in a Member State</i>	Article 4(1)(28) CRR
<i>parent mixed financial holding company in a Member State</i>	Article 4(1)(32) CRR

PRA RULEBOOK: CRR FIRMS: PUBLIC DISCLOSURE (LEVERAGE RATIO AMENDMENT) 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: CRR Firms: Public Disclosure (Leverage Ratio Amendment) Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Public Disclosure (Leverage Ratio Amendment) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

26 November 2015

Annex A

In this Annex new text is underlined.

Part

PUBLIC DISCLOSURE

Chapter content

...

3. PUBLIC DISCLOSURE OF LEVERAGE RATIO

Links

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to every *firm* that is a *CRR firm*.

1.2 In this Part the following definitions shall apply:

...

average exposure measure

means the average exposure measure calculated in accordance with 3.7(1) or 3.8(1), as applicable.

average leverage ratio

means the average *leverage ratio* calculated in accordance with 3.7(2) or 3.8(2), as applicable.

countercyclical leverage ratio buffer

has the meaning given in Leverage Ratio 1.2.

CRR leverage ratio

means the leverage ratio disclosed by the *firm* in accordance with Article 451 of the *CRR*.

leverage ratio

has the meaning given in Leverage Ratio 1.2.

retail deposit

has the meaning given in Leverage Ratio 1.2.

tier 1 capital

has the meaning given in Leverage Ratio 1.2.

total exposure measure

has the meaning given in Leverage Ratio 1.2.

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

...

3 PUBLIC DISCLOSURE OF LEVERAGE RATIO

3.1 This Chapter applies to every *firm* that is a *UK bank* or a *building society* that, on the *firm's* last *accounting reference date*, had *retail deposits* equal to or greater than £50 billion either on:

(1) an individual basis;

- (2) if the firm is a parent institution in a Member State, on the basis of its consolidated situation; or
- (3) if the firm is controlled by a parent financial holding company in a Member State or by a parent mixed financial holding company in a Member State and the PRA is responsible for supervision of that holding company on a consolidated basis under Article 111 of the CRD, on the basis of the consolidated situation of that holding company.

Application on an individual or consolidated basis

3.2 A firm that is:

- (1) not a member of a consolidation group in relation to which (2) or (3) applies must comply with this Chapter on an individual basis;
- (2) a parent institution in a Member State must comply with this Chapter on the basis of its consolidated situation;
- (3) controlled by a parent financial holding company in a Member State or a parent mixed financial holding company in a Member State for which the PRA is responsible for supervision on a consolidated basis under Article 111 of the CRD must comply with this Chapter on the basis of the consolidated situation of that holding company.

Disclosure requirements

3.3 A firm must disclose each of the following quarterly as at the relevant quarterly end date:

- (1) leverage ratio;
- (2) average exposure measure;
- (3) average leverage ratio; and
- (4) countercyclical leverage ratio buffer.

3.4 A firm must disclose quarterly such information as is necessary to enable users to understand changes in the firm's total exposure measure and tier 1 capital over the quarter that have affected the firm's average leverage ratio.

3.5 Subject to 3.6, a firm must disclose the items specified in 3.3 and 3.4 in the medium or location that the firm considers appropriate.

3.6 When a firm discloses its CRR leverage ratio, the firm must disclose:

- (1) the items specified in 3.3 and 3.4 as at the same reference date as the firm's CRR leverage ratio disclosure; and
- (2) the reasons for any differences between the firm's leverage ratio and the firm's CRR leverage ratio as at that reference date.

in the same media or location as the *firm* discloses its *CRR leverage ratio*.

3.7 Subject to 3.8:

- (1) for the purposes of 3.3(2) a *firm* must calculate its *average exposure measure* for a quarter as the sum of:
 - (a) the arithmetic mean of the *firm's total exposure measure* in relation to on-balance sheet assets on each day in the quarter; and
 - (b) the arithmetic mean of the *firm's total exposure measure* excluding on-balance sheet assets on the last day of each month in the quarter; and
- (2) for the purposes of 3.3(3) and 3.4 a *firm* must calculate its *average leverage ratio* for a quarter as its capital measure divided by its exposure measure where the:
 - (a) capital measure is the arithmetic mean of the *firm's tier 1 capital* on the last day of each month in the quarter; and
 - (b) exposure measure is the sum of:
 - (i) the arithmetic mean of the *firm's total exposure measure* in relation to on-balance sheet assets on each day in the quarter; and
 - (ii) the arithmetic mean of the *firm's total exposure measure* excluding on-balance sheet assets on the last day of each month in the quarter.

Transitional

3.8 For 24 months from the date that this Chapter comes into force, a *firm* must:

- (1) for the purposes of 3.3(2), calculate its *average exposure measure* for a quarter as the arithmetic mean of the *firm's total exposure measure* on the last day of each month in the quarter; and
- (2) for the purposes of 3.3(3) and 3.4, calculate its *average leverage ratio* for a quarter as its capital measure divided by its exposure measure where the:
 - (a) capital measure is the arithmetic mean of the *firm's tier 1 capital* on the last day of each month in the quarter; and
 - (b) exposure measure is the arithmetic mean of the *firm's total exposure measure* on the last day of each month in the quarter.

Part**PUBLIC DISCLOSURE**

Externally defined glossary terms

<u>Term</u>	<u>Definition source</u>
<i><u>consolidated basis</u></i>	<i><u>Article 4(1)(48) CRR</u></i>
<i><u>consolidated situation</u></i>	<i><u>Article 4(1)(47) CRR</u></i>
<i><u>EEA State</u></i>	<i><u>s425 FSMA</u></i>
<i><u>parent institution in a Member State</u></i>	<i><u>Article 4(1)(28) CRR</u></i>
<i><u>parent mixed financial holding company in a Member State</u></i>	<i><u>Article 4(1)(32) CRR</u></i>

PRA RULEBOOK: FINANCIAL CONGLOMERATES 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: Financial Conglomerates Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Financial Conglomerates Instrument 2015.

By order of the Board of the Prudential Regulation Authority

10 December 2015

Annex A

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

Part

FINANCIAL CONGLOMERATES

Chapter content

- 1. APPLICATION AND DEFINITIONS**
 - 2. DEFINITION OF A FINANCIAL CONGLOMERATE**
 - 3. CAPITAL ADEQUACY**
 - 4. RISK CONCENTRATION AND INTRA-GROUP TRANSACTIONS**
 - 5. ASSET MANAGEMENT COMPANIES AND ALTERNATIVE INVESTMENT FUND MANAGERS**
 - 6. THIRD COUNTRY FINANCIAL CONGLOMERATES**
 - 7. RISK SYSTEMS**
 - 8. TRANSITIONALS**
- ANNEX 1 – FINANCIAL CONGLOMERATE DECISION TREE**
- ANNEX 2 – CAPITAL ADEQUACY CALCULATIONS FOR FINANCIAL CONGLOMERATES**
- ANNEX 3 – PRUDENTIAL RULES FOR THIRD COUNTRY FINANCIAL CONGLOMERATES**

Links

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* except:

- (1) an *incoming EEA firm*;
- (2) an *incoming Treaty firm*; and
- (3) an *insurer* that is not a *UK Solvency II firm*.

1.2 This Part does not apply to a *firm* with respect to a *financial conglomerate* of which it is a member if the interest of the *financial conglomerate* in that *firm* is no more than a *participation*.

1.3 The rules in 3.2, 4.2 and Chapter 7 do not apply with respect to a *third country financial conglomerate*.

1.4 In this Part, the following definitions shall apply:

alternative investment fund manager

means a manager of alternative investment funds within the meaning of Article 4(1)(b), (l) and (ab) of the *AIFMD* or an *undertaking* which is outside the *EEA* and which would require authorisation in accordance with the *AIFMD* if it had its registered office within the *EEA*.

ancillary insurance services undertaking

in relation to any *undertaking* in a *consolidation group*, an *undertaking* complying with the following conditions:

- (1) its principal activity consists of:
 - (a) owning or managing property;
 - (b) managing data-processing services;
 - (c) providing health and care services; or
 - (d) any other similar activity;
- (2) the activity in (1) is ancillary to the principal activity of one or more *insurance undertakings*; and
- (3) those *insurance undertakings* are also members of that *consolidation group*.

applicable sectoral consolidation rules

means in respect of a *financial sector* the PRA's *sectoral rules* about capital adequacy and solvency on a consolidated basis applicable to that *financial sector* under the table in paragraph 8 of Annex 2 of this Part (Application of sectoral consolidation rules).

applicable sectoral rules

means in respect of a *financial sector*, *applicable sectoral consolidation rules* for that *financial sector* and the PRA's *sectoral rules* about capital adequacy and solvency for:

(1) the *banking and investment services sector* as set out in paragraph 6.2 of Annex 2 to this Part; or

(2) the *insurance sector* as set out in paragraph 6.4 of Annex 2 to this Part;

which of those sets of rules apply for the purpose of a particular calculation depends on the nature of that calculation.

asset management company

means a management company within the meaning of Article 2(1)(b) of the *UCITS Directive*, as well as an *undertaking* the registered office of which is outside the *EEA* and which would require authorisation in accordance with Article 6(1) of the *UCITS Directive* if it had its registered office within the *EEA*.

authorised electronic money institution

means in accordance with regulation 2(1) of the *Electronic Money Regulations*:

(1) a *person* included by the *FCA* in the *Financial Services Register* as an *authorised electronic money institution* pursuant to regulation 4(1)(a) of the *Electronic Money Regulations*; or

(2) a *person* deemed to have been granted authorisation by virtue of regulation 74 of the *Electronic Money Regulations*.

banking and investment services sector

means the *investment services sector* and the *banking sector* taken together.

banking sector

means a sector composed of one or more of the following entities:

(1) a *credit institution*;

(2) a *financial institution*; and

(3) an *ancillary services undertaking* that is not an *ancillary insurance services undertaking*.

collective portfolio management investment firm

has the meaning given in the *PRA Handbook Glossary*.

competent authority

means any national authority of an *EEA State* which is empowered by law or regulation to supervise *regulated entities*, whether on an individual or group-wide basis.

conglomerate capital resources

in relation to a *financial conglomerate* with respect to which 3.3 applies capital resources as defined in whichever of paragraphs 1.1 of Part 1 or 2.1 of Part 2 of Annex 2 applies with respect to that *financial conglomerate*.

conglomerate capital resources requirement

in relation to a *financial conglomerate* with respect to which 3.3 applies the capital resources requirement defined in whichever of paragraphs 1.3 or 2.4 of Annex 2 applies with respect to that *financial conglomerate*.

consolidation group

means:

- (1) a *conventional group*; or
- (2) *undertakings* linked by an *Article 12(1) relationship* or an *Article 18(6) relationship*.

If a *parent undertaking* or *subsidiary undertaking* in a *conventional group* (the first person) has a *consolidation Article 12(1) relationship* or an *Article 18(6) relationship* with another *person* (the second person), the second person, and any *subsidiary undertaking* of the second person, is also a member of the same *consolidation group*.

conventional group

means a group of *undertakings* that consists of a *parent undertaking* and any *person* that is either:

- (1) a *subsidiary undertaking* of that *parent undertaking*; or
- (2) an *undertaking* in which that *parent undertaking* or a *subsidiary undertaking* of that *parent undertaking* holds a *participation*.

CRD full-scope firm

means an investment firm as defined in article 4(1)(2) of the *CRR* that is subject to the requirements imposed by *MiFID*, or which would be subject to that Directive if its head office were in an *EEA State*, and that is not a *limited activity firm* or a *limited licence firm*.

delegated acts

means Commission Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

EEA insurer

means an undertaking whose head office is in any *EEA State* except the *UK* and which has received authorisation in accordance with article 14 of the *Solvency II Directive*.

EEA prudential sectoral legislation

means, in relation to a *financial sector*, requirements applicable to *persons* in that *financial sector* in accordance with *EEA* legislation with respect to prudential supervision of *regulated entities* in that *financial sector*.

EEA regulated entity

means a *regulated entity* that is an *EEA firm* or a *UK firm*.

electronic money institution

means, in accordance with regulation 2(1) of the *Electronic Money Regulations*, an *authorised electronic money institution* or a *small electronic money institution*.

Electronic Money Regulations

means the Electronic Money Regulations 2011 (SI 2011/99).

financial conglomerate notification

means a notification issued in respect of a *financial conglomerate* that has been identified as a *financial conglomerate* as contemplated by Article 4(2) of the *Financial Groups Directive*.

Financial Conglomerates Regulations

means The Financial Conglomerates and Other Financial Groups Regulations 2004 (SI 2004/1862).

financial sector

means one of the *banking and investment services sector* or the *insurance sector*.

Financial Services Register

means a public record, as required by section 347 of *FSMA* (The public record), regulation 4 of the Payment Services Regulations (SI 2009/209) and, regulation 4 of the *Electronic Money Regulations*.

full-scope IFPRU investment firm

means a *CRD full-scope firm* that is an *IFPRU investment firm*.

IFPRU investment firm

means an *investment firm*, as defined in article 4(1)(2) of the *CRR*, including a *collective portfolio management investment firm*, that satisfies the following conditions:

- (1) it is a *FCA-authorised firm*;
- (2) its head office is in the *UK* and
- (3) it is not excluded under IFPRU 1.1.5 in the *FCA Handbook*.

IFPRU limited activity firm

means a *limited activity firm* that meets the following conditions:

- (1) it is an *FCA-authorised firm*;
- (2) its head office is in the *UK*; and
- (3) it is not excluded under IFPRU 1.1.5 in the *FCA Handbook*.

insurance conglomerate

means a *financial conglomerate* that is identified in paragraph 3.1 of Annex 2 as an insurance conglomerate.

insurance sector

means a sector composed of one or more of the following entities:

- (1) a Solvency II undertaking;
- (2) *third country insurance undertaking or a third country reinsurance undertaking*;
- (3) an *insurance holding company*; and
- (4) in the relevant circumstances described in 5, an *asset management company* or an *alternative investment fund manager*.

investment firm

has the meaning given by Article 2(3) of the *Financial Groups Directive*.

investment services sector

means a sector composed of one or more of the following entities:

- (1) an *investment firm*;
- (2) a *financial institution*; and
- (3) in the relevant circumstances described in 5, an *asset management company* or an *alternative investment fund manager*.

limited activity firm

has the meaning given by article 96(1) of the *CRR*.

limited licence firm

has the meaning given by article 95(1) of the *CRR*.

mixed financial holding company

has the meaning given in Article 2(15) of the *Financial Groups Directive*.

most important financial sector

means the *financial sector* with the largest average referred to in the box titled Threshold Test 2 in Annex 1; and so that the investment services sector and the banking sector are treated as one for the purpose of the definition of *financial conglomerate* and for the purposes of 1 to 5 of this Part.

overall financial sector

means a sector composed of one or more the following types of entities:

- (1) members of each of the *financial sectors*; and
- (2) except where 1 to 5 and Annex 2 to this Part provide otherwise, a *mixed financial holding company*.

own funds requirements

has the meaning given by Article 92 of the *CRR*.

parent undertaking

has the meaning in Article 2(9) of the *Financial Groups Directive*.

participation

has the meaning given in article Article 2(11) of the *Financial Groups Directive*.

PRA financial conglomerate notification

means a notification in respect of a *financial conglomerate* in accordance with Regulation 2 of the *Financial Conglomerates Regulations* issued by the *PRA* or by the UK Financial Services Authority and attributed to the *PRA* on 1 April 2013, identifying that *financial conglomerate* and its *coordinator*.

recognised third country investment firm

has the meaning given by the *PRA Handbook Glossary*.

regulated entity

means one of the following:

- (1) a *credit institution*;
- (2) a *Solvency II undertaking*, a *third country insurance undertaking*, a *third country reinsurance undertaking*;
- (3) an *investment firm*;
- (4) an *asset management company* for the purposes described in 5; or
- (5) an *alternative investment fund manager* for the purposes described in 5;

whether or not it is incorporated in, or has its head office in, an *EEA State*.

relevant competent authorities

in relation to a *financial conglomerate*, means those *competent authorities* which are, or which have been appointed as, relevant *competent authorities* in relation to that *financial conglomerate* under Article 2(17) of the *Financial Groups Directive*.

small electronic money institution

means, in accordance with regulation 2(1) of the *Electronic Money Regulations*, a *person* included by the *FCA* in the *Financial Services Register* pursuant to regulation 4(1)(b) of the *Electronic Money Regulations*.

smallest financial sector

means the *financial sector* with the smallest average referred to in the box titled Threshold Test 2 in Annex 1, the *investment services sector* and the *banking sector* being treated as one in the circumstances set out in 1 to 5 of this Part.

sectoral rules

means, in relation to a *financial sector*, the following rules and requirements relating to the prudential supervision of regulated entities within that *financial sector* :

(1) for the purposes of 2.8, *EEA prudential sectoral legislation* for that *financial sector* together with, as appropriate, the rules and requirements in (3);

(2) for the purpose of calculating *solo capital resources* and a *solo capital resources* requirement:

(a) to the extent provided for in paragraphs 6.4 to 6.6 of Annex 2, rules and requirements that are referred to in those paragraphs; and

(b) the rules and requirements in (3); or

(3) for all other purposes, rules and requirements of the *PRA*.

and so that:

(4) in relation to prudential rules about consolidated supervision for any *financial sector*, those requirements include ones relating to the form and extent of consolidation;

(5) in relation to any financial sector, those requirements include ones relating to the eligibility of different types of capital;

(6) in relation to any financial sector, those requirements include both ones applying on a solo basis and ones applying on a consolidated basis; and

(7) references to the *PRA's* sectoral rules are to sectoral rules in the form of rules.

solo capital resources

means capital resources that are or would be eligible as capital under the *sectoral rules* that apply for the purpose of calculating its *solo capital resources requirement*. Paragraph 7.1 of Annex 2 applies for the purpose of this definition in the same way as it does for the definition of *solo capital resources requirement*.

solo capital resources requirement

a capital resources requirement calculated on a solo basis as defined in paragraph 6.2 to 6.7 of Annex 2.

solvency deficit

in Annex 2 and in respect of a member of the *overall financial sector*, means the amount, if any, by which its *solo capital resources* fall short of its *solo capital resources requirement*.

subsidiary undertaking

has the meaning given in Article 2(10) of the *Financial Groups Directive*.

third country financial conglomerate

a *financial conglomerate* that is of a type that falls under Article 5(3) of the *Financial Groups Directive*.

third country insurance undertaking

means an *undertaking* that has its head office outside the *EEA* and that would require authorisation as an *insurance undertaking* in accordance with Article 14 of the *Solvency II Directive* if its head office was situated in the *EEA*.

third country reinsurance undertaking

means an *undertaking* that has its head office outside the *EEA* and that would require authorisation as a *reinsurance undertaking* in accordance with Article 14 of the *Solvency II Directive* if its head office were situated in the *EEA*.

UCITS management company

(1) except in relation to *MiFID business*, a *firm* which is either:

- (a) a *UCITS firm*; or
- (b) a *UCITS investment firm*.

(2) in relation to *MiFID business*, a *management company* as defined in the *UCITS Directive*.

[Note: article 4(1)(24) of MiFID]

UK-regulated EEA financial conglomerate

means a *financial conglomerate* other than a *third country financial conglomerate* that satisfies one of the following conditions:

- (1) 3.3 applies with respect to it; or
- (2) a *firm* that is a member of that *financial conglomerate* is subject to obligations imposed through its *Part 4A permission* or section 55M of *FSMA* to ensure that the *financial conglomerate* meets levels of capital adequacy based on or stated to be based on Annex I of the *Financial Groups Directive*.

- 1.5 Unless otherwise defined in this Part, any italicised expression used in this Part and in the *CRR* or the *Solvency II Directive* has the same meaning as in the *CRR* or the *Solvency II Directive*.

2 DEFINITION OF A FINANCIAL CONGLOMERATE

- 2.1 A financial conglomerate means a *consolidation group* that is a financial conglomerate when assessed against the decision tree in Annex 1.

[Note: Art 2(14) and Art 3(1) to 3(3) of the *Financial Groups Directive*]

- 2.2 A *consolidation group* is not prevented from being a *financial conglomerate* because it is part of a wider:

- (1) *consolidation group*; or
- (2) *financial conglomerate*; or

- (3) group of *persons* linked in some other way.

[Note: Art 2(12) and Art 2(14) of the *Financial Groups Directive*]

2.3 For the purpose of the definition of *financial conglomerate*, there are two *financial sectors* as follows:

- (1) the *banking sector* and the *investment services sector*, taken together; and
(2) the *insurance sector*.

[Note: Art 2(8) and second paragraph of Art 3(2) of the *Financial Groups Directive*]

2.4 For the purposes of Annex 1:

- (1) a *mixed financial holding company* is outside the *overall financial sector* for the purposes of the tests set out in the boxes entitled Threshold Test 1, Threshold Test 2 and Threshold Test 3 in Annex 1;
- (2) determining whether the tests set out in the boxes entitled Threshold Test 2 and Threshold Test 3 in Annex 1 are passed is based on a consideration of the consolidated and/or aggregated activities of the members of the *consolidation group* within the *insurance sector* and the consolidated and/or aggregated activities of the members of the *consolidation group* within the *banking sector* and the *investment services sector*; and
- (3) in determining the *investment services sector* for the purposes of the tests in the boxes entitled Threshold Test 1, Threshold Test 2 and Threshold Test 3, any *investment firm* that does not fall within the definition in Article 4(1)(2) of the *CRR* is excluded.

[Note: Art 2(4) of the *Financial Groups Directive*]

2.5 In respect of a *financial conglomerate* in relation to which a *financial conglomerate notification* has been issued, the figures in Annex 1 are altered as follows:

- (1) the figure of 40% in the box titled Threshold Test 1 is replaced by 35%;
- (2) the figure of 10% in the box title Threshold Test 2 is replaced by 8%; and
- (3) the figure of six billion Euro in the box titled Threshold Test 3 is replaced by five billion Euro.

[Note: Art 3(6) of the *Financial Groups Directive*]

2.6 The alteration in 2.5 applies to a *financial conglomerate* only during the period that:

- (1) begins when the *financial conglomerate* would otherwise have stopped being a *financial conglomerate* because it does not meet one of the unaltered thresholds referred to 2.5; and
- (2) covers the three years following that date.

[Note: Art 3(6) of the *Financial Groups Directive*]

2.7 The calculations referred to in Annex 1 regarding the balance sheet must be made on the basis of the aggregated balance sheet total of the members of the *consolidation group*,

according to their annual accounts. For the purposes of this calculation, *undertakings* in which a *participation* is held must be taken into account as regards the amount of their balance sheet total corresponding to the aggregated proportional share held by the *consolidation group*. However, where consolidated accounts are available, they must be used instead of aggregated accounts.

[Note: Art 3(7) of the *Financial Groups Directive*]

- 2.8 The solvency and capital adequacy requirements referred to in Annex 1 must be calculated in accordance with the provisions of the relevant *sectoral rules*.

[Note: Art 3(7) of the *Financial Groups Directive*]

3 CAPITAL ADEQUACY

- 3.1 In this Chapter,

- (1) 3.2 applies where a *financial conglomerate notification* has been issued in respect of a *financial conglomerate* of which a *firm* is a member; and
- (2) 3.3, 3.4 and 3.5 apply where a *PRA financial conglomerate notification* has been issued in respect of a *financial conglomerate* of which a *firm* is a member.

- 3.2 A *firm* must at all times have capital resources of such an amount and type that results in the capital resources of the *financial conglomerate* being adequate.

[Note: Art 6(2) of the *Financial Groups Directive*]

- 3.3 A *firm* must have capital resources of an amount and type that ensures that the *conglomerate capital resources* of that *financial conglomerate* at all times equal or exceed its *conglomerate capital resources requirement*.

[Note: Art 6(2) of the *Financial Groups Directive*]

- 3.4 (1) Subject to 3.5, the definitions of *conglomerate capital resources* and *conglomerate capital resources requirement* that apply for the purposes of 3.3 are the definitions from whichever of Part 1 or Part 2 of Annex 2 the *firm* has indicated to the *PRA* it will apply.

[Note: Art 6(4) of the *Financial Groups Directive*]

- (2) The *firm* must indicate to the *PRA* in advance which Part of Annex 2 it intends to apply.

- 3.5 If a *firm* is subject to a *requirement* that prescribes the capital adequacy calculation by reference to one or other of Parts 1 and 2 of Annex 2, the definitions of *conglomerate capital resources* and *conglomerate capital resources requirement* that apply for the purposes of 3.3 are the definitions from whichever of Part 1 or Part 2 of Annex 2 is specified in the *requirement*.

[Note: paragraph 3 of Annex I of the *Financial Groups Directive*]

4 RISK CONCENTRATION AND INTRA-GROUP TRANSACTIONS

- 4.1 This Chapter applies to a *firm* that is a member of a *financial conglomerate* in respect of which a *PRA financial conglomerate notification* has been issued.

[Note: Art 7(2) and Art 8(2) of the *Financial Groups Directive*]

- 4.2 A firm that is a member of a UK regulated EEA financial conglomerate headed by a mixed financial holding company must ensure compliance with the sectoral rules, identified for these purposes in the table at 4.3, regarding risk concentration and intra-group transactions of the most important financial sector in that financial conglomerate with respect to that financial sector as a whole, including the mixed financial holding company.

[Note: Art 7(4) and Art 8(4) of the *Financial Groups Directive*]

- 4.3 Table: application of sectoral rules

The most important financial sector	Applicable sectoral rules	
	Risk concentration	Intra-group transactions
Banking and investment services sector	CRR	Part Four of the CRR
Insurance sector	Group Supervision 16.1	Group Supervision 16.2
Note	Any waiver granted to a member of the financial conglomerate, on an individual or consolidated basis, shall not apply in respect of the financial conglomerate for the purposes of 4.2.	

[Note: Art 7(4) and Art 8(4) of the *Financial Groups Directive*]

5 ASSET MANAGEMENT COMPANIES AND ALTERNATIVE INVESTMENT FUNDS MANAGERS

- 5.1 A firm must treat an asset management company and an alternative investment fund manager that is a member of a financial conglomerate of which that firm is a member:

- (1) as included in the overall financial sector for the purposes of:

- (1) 3.3 to 4.3;
- (2) Annex 2 (Capital adequacy calculations for financial conglomerates) and Annex 3 (Prudential rules for third country financial conglomerates); and
- (3) any other provision of the PRA Rulebook relating to the supervision of financial conglomerates.

[Note: first paragraph of Art 30 and paragraph 1 of Art 30a of the *Financial Groups Directive*]

- (2) In the case of a financial conglomerate for which the PRA is the coordinator, a firm must allocate an asset management company and an alternative investment fund manager:

- (1) to the investment services sector where a decision to that effect has been made by the undertaking in the financial conglomerate that is the group member referred to in Article 4(2) of the *Financial Groups Directive*;
- (2) to the insurance sector where a decision to that effect has been made by the undertaking in the financial conglomerate that is the group member referred to in Article 4(2) of the *Financial Conglomerates Directive*; or

- (3) to the *smallest financial sector*.
- (3) The decision in (2):
 - (1) will apply to all *asset management companies* and all *alternative investment fund managers* that are members of the *financial conglomerate* from time to time;
 - (2) cannot be changed; and
 - (3) must be notified to the PRA without delay.
- (4) This rule applies even if a *UCITS management company* is an *IFPRU investment firm* or if an *asset management company* or *alternative investment fund manager* is an *investment firm*.

[Note: second paragraph of Art 30 and Art 30a(2) of the *Financial Groups Directive*]

6 THIRD COUNTRY FINANCIAL CONGLOMERATES

- 6.1 This Chapter applies to a *firm* that is a member of a *third country financial conglomerate* except:
 - (1) an *incoming EEA firm*; or
 - (2) an *incoming Treaty firm*; or
 - (3) an *insurer* that is not a *UK Solvency II firm*.
- 6.2 If a *firm* is subject to a *requirement* obliging it to comply with this rule with respect to a *third country financial conglomerate* of which it is a member, it must comply, with respect to that *third country financial conglomerate*, with the rules in Part 1 of Annex 3, as adjusted by Part 3 of that Annex.

[Note: Art 18 of the *Financial Groups Directive*]

7 RISK SYSTEMS

- 7.1 This Chapter applies to a *firm* that is a member of a *UK-regulated EEA financial conglomerate*.

[Note: Art 9(1) of the *Financial Groups Directive*]
- 7.2 A *firm* must comply with Group Risk Systems 2.1.
- 7.3 For the purposes of 7.2, the risk management processes referred to in Group Risk Systems 2.1 include:
 - (1) sound governance and management processes, which must include the approval and periodic review by the appropriate managing bodies within the *financial conglomerate* of the strategies and policies of the *financial conglomerate* in respect of all the risks assumed by the *financial conglomerate*, such review and approval being carried out at the level of the *financial conglomerate*;
 - (2) adequate capital adequacy policies at the level of the *financial conglomerate*, one of the purposes of which must be to anticipate the impact of the business strategy

of the *financial conglomerate* on its risk profile and on the capital adequacy requirements to which it and its members are subject;

- (3) adequate procedures for the purpose of ensuring that the risk monitoring systems of the *financial conglomerate* and its members are well integrated into their organisation;
- (4) adequate procedures for the purpose of ensuring that the systems and controls of the members of the *financial conglomerate* are consistent and that the risks can be measured, monitored and controlled at the level of the *financial conglomerate*; and
- (5) arrangements in place to contribute to and develop, if required, adequate recovery and resolution arrangements and plans, which a *firm* must update regularly.

[Note: Art 9(2) of the *Financial Groups Directive*]

7.4 For the purposes of 7.2, the internal control mechanisms referred to in Group Risk Systems 2.1 include:

- (1) mechanisms that are adequate to identify and measure all material risks incurred by members of the *financial conglomerate* and appropriately relate capital in the *financial conglomerate* to risks; and
- (2) sound reporting and accounting procedures for the purpose of identifying, measuring, monitoring and controlling *intra-group transactions* and *risk concentrations*.

[Note: Art 9(3) of the *Financial Groups Directive*]

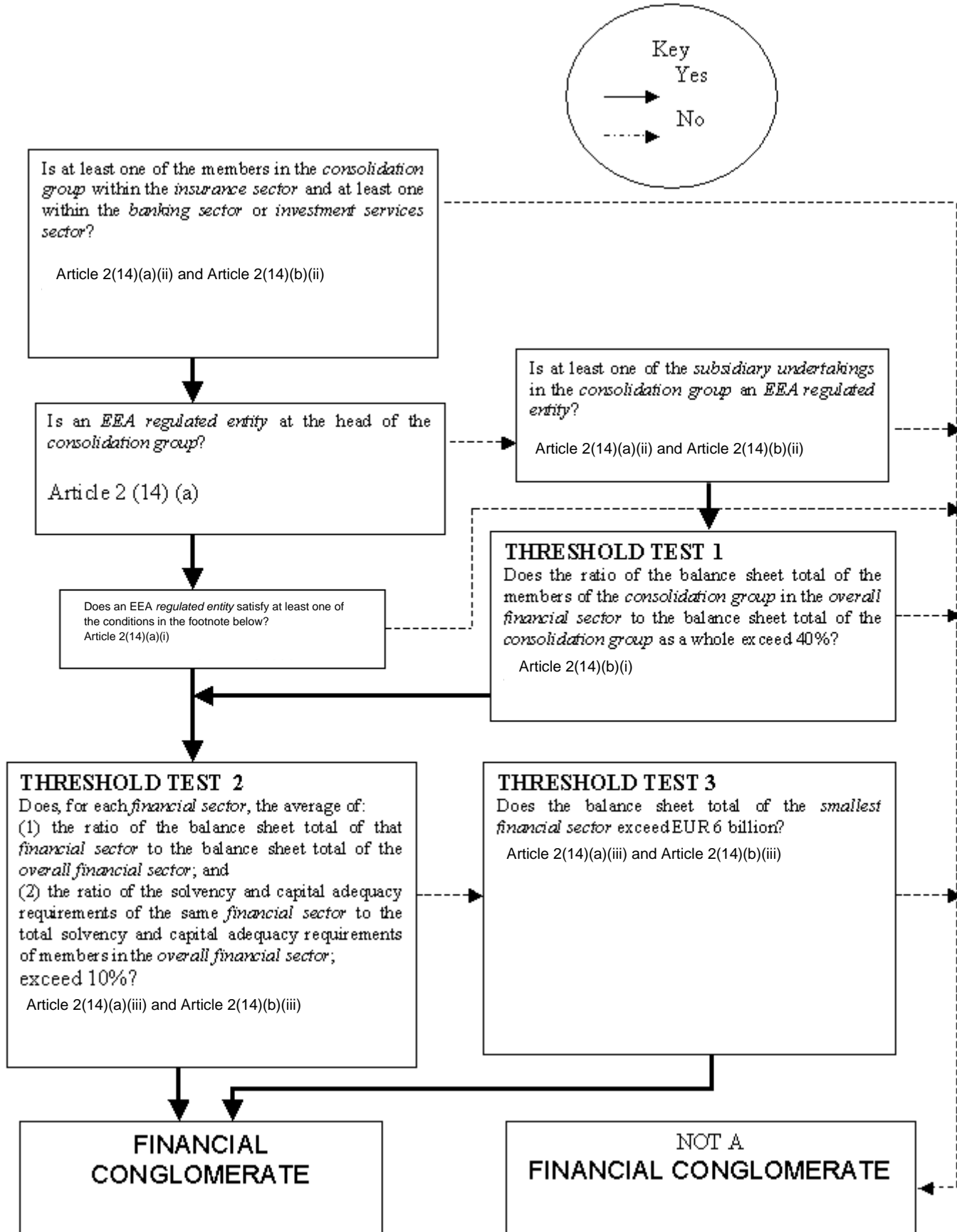
8 TRANSITIONALS

8.1 A *waiver* applied to a *firm* in relation to a rule specified in Column B of the table at 8.2 will apply to that *firm* as a waiver or modification, as appropriate, of the corresponding rule set out under Column C of that table.

8.2 Correlation table:

<u>COLUMN A</u>	<u>COLUMN B</u>	<u>COLUMN C</u>
Financial Conglomerates Directive	GENPRU 3 (PRA Handbook as at 31 December 2015)	Financial Conglomerates (PRA Rulebook)
Art 3.3 Art 3.3a	Rule 3.1.5 <i>waiver</i>	Rule 2.1 <i>waiver</i>
Art 3.5 Art 3.4(b)	Rule 3.1.11 <i>waiver</i>	Rule 2.7 <i>waiver</i>
Art 6(5)	Rule 3.1.29 <i>waiver</i>	Rule 3.3 <i>waiver</i>

Annex 1 - financial conglomerate decision tree



Footnote: The conditions are that the *EEA regulated entity* at the head of the *consolidation group*: (1) is a *parent undertaking* of a member of the *consolidation group* in the *overall financial sector*; (2) has a *participation* in a member of the *consolidation group* that is in the *overall financial sector*; or (3) has a *consolidation Article 12(1) relationship* with a member of the *consolidation group* that is in the *overall financial sector*.

Annex 2 - capital adequacy calculations for financial conglomerates (3.3)

1 Table: PART 1: Method of Annex I of the *Financial Groups Directive* (Accounting Consolidation Method)

Capital resources	1.1	The <i>conglomerate capital resources</i> of a <i>financial conglomerate</i> calculated in accordance with this Part are the capital of that <i>financial conglomerate</i> , calculated on an accounting consolidation basis, that qualifies under paragraph 1.2.
	1.2	The elements of capital that qualify for the purposes of paragraph 1.1 are those that qualify in accordance with the <i>applicable sectoral rules</i> , in accordance with the following: <ul style="list-style-type: none"> (1) the <i>conglomerate capital resources requirement</i> is divided up in accordance with the contribution of each <i>financial sector</i> to it; and (2) the portion of the <i>conglomerate capital resources requirement</i> attributable to a particular <i>financial sector</i> must be met by capital resources that are eligible in accordance with the <i>applicable sectoral rules</i> for that <i>financial sector</i>.
Capital resources requirement	1.3	The <i>conglomerate capital resources requirement</i> of a <i>financial conglomerate</i> calculated in accordance with this Part is equal to the sum of the capital adequacy and solvency requirements for each <i>financial sector</i> calculated in accordance with the <i>applicable sectoral rules</i> for that <i>financial sector</i> .
Consolidation	1.4	The information required for the purpose of establishing whether or not a <i>firm</i> is complying with 3.3 (insofar as the definitions in this Part are applied for the purpose of that rule) must be based on the consolidated accounts of the <i>financial conglomerate</i> , together with such other sources of information as appropriate.
	1.5	The <i>applicable sectoral rules</i> that are applied under this Part are the <i>applicable sectoral consolidation rules</i> . Other <i>applicable sectoral rules</i> must be applied if required.

2 Table: PART 2: Method 2 of Annex I of the *Financial Groups Directive* (Deduction and Aggregation Method)

Capital resources	2.1	The <i>conglomerate capital resources</i> of a <i>financial conglomerate</i> calculated in accordance with this Part are equal to the sum of the following amounts (insofar as they qualify under paragraph 2.3) for each member of the <i>overall financial sector</i> : <ul style="list-style-type: none"> (1) (for the <i>person</i> at the head of the <i>financial conglomerate</i>) its <i>solo capital resources</i>; (2) (for any other member): <ul style="list-style-type: none"> a. its <i>solo capital resources</i>; less b. the book value of the <i>financial conglomerate's</i> investment in that member, to the extent not already deducted in the calculation of the <i>solo capital resources</i> for: <ul style="list-style-type: none"> i. the <i>person</i> at the head of the <i>financial conglomerate</i>; or
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		ii. any other member.
	2.2	The deduction in paragraph 2.1(2) must be carried out separately for each type of capital represented by the <i>financial conglomerate's</i> investment in the member concerned.
	2.3	The elements of capital that qualify for the purposes of paragraph 2.1 are those that qualify in accordance with the <i>applicable sectoral rules</i> . In particular, the portion of the <i>conglomerate capital resources requirement</i> attributable to a particular member of a <i>financial sector</i> must be met by capital resources that would be eligible under the <i>sectoral rules</i> that apply to the calculation of its <i>solo capital resources</i> .
Capital resources requirement	2.4	The <i>conglomerate capital resources requirement</i> of a <i>financial conglomerate</i> calculated in accordance with this Part is equal to the sum of the <i>solo capital resources requirement</i> for each member of the <i>financial conglomerate</i> that is in the <i>overall financial sector</i> .
Partial inclusion	2.5	The capital resources and capital resources requirements of a member of the <i>financial conglomerate</i> in the <i>overall financial sector</i> must be included proportionally. If however the member is a <i>subsidiary undertaking</i> and it has a <i>solvency deficit</i> , it must be included in full.
Accounts	2.6	The information required for the purpose of establishing whether or not a <i>firm</i> is complying with 3.3 (insofar as the definitions in this Part are applied for the purpose of that rule) must be based on the individual accounts of members of the <i>financial conglomerate</i> , together with such other sources of information as appropriate.

3 Table

Types of financial conglomerate	3.1	<p>(1) This paragraph sets out how to determine the category of <i>financial conglomerate</i>.</p> <p>(2) If there is an <i>EEA regulated entity</i> at the head of the <i>financial conglomerate</i>, then:</p> <p>(a) if that entity is in the <i>banking sector</i> or the <i>investment services sector</i>, the <i>financial conglomerate</i> is a <i>banking and investment services conglomerate</i>; or</p> <p>(b) if that entity is in the <i>insurance sector</i>, the <i>financial conglomerate</i> is an <i>insurance conglomerate</i>.</p> <p>(3) If (2) does not apply and the <i>most important financial sector</i> is the <i>banking and investment services sector</i>, it is a <i>banking and investment services conglomerate</i>.</p> <p>(4) If (2) and (3) do not apply, it is an <i>insurance conglomerate</i>.</p>
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4 Table

A mixed financial holding company	4.1	<p>A <i>mixed financial holding company</i> must be treated in the same way as:</p> <p>(1) a <i>financial holding company</i>, if Part One, Title II, Chapter 2 of the <i>CRR</i> and Groups are applied; or</p> <p>(2) an <i>insurance holding company</i>, if the rules in Solvency II Firms: Group Supervision are applied).</p>
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5 Table: PART 3: Principles applicable to all methods

Transfer-ability of capital	5.1	Capital may not be included in a <i>firm's conglomerate capital resources</i> under 3.3 if the effectiveness of the transferability and availability of the capital across the different members of the <i>financial conglomerate</i> is insufficient, given the objectives of the capital adequacy rules for <i>financial conglomerates</i> .
Double counting	5.2	Capital must not be included in a <i>firm's conglomerate capital resources</i> under 3.3 if: (1) it would involve double counting or multiple use of the same capital; or (2) it results from any inappropriate intra-group creation of capital.
Cross sectoral capital	5.3	In accordance with the second sub-paragraph of paragraph 2(ii) of Section I of Annex I of the <i>Financial Groups Directive</i> (Other technical principles and insofar as not already required in Parts 1-2): (1) the solvency requirements for each different <i>financial sector</i> represented in a <i>financial conglomerate</i> required by 3.3 must be covered by own funds elements in accordance with the corresponding applicable <i>sectoral rules</i> ; and (2) if there is a deficit of own funds at the <i>financial conglomerate</i> level, only cross sectoral capital (as referred to in that sub-paragraph) shall qualify for verification of compliance with the additional solvency requirement required by 3.3.
Application of sectoral rules: general	5.4	The following adjustments apply to the <i>applicable sectoral rules</i> as they are applied by the rules in this Annex. (1) If any of those rules would otherwise not apply to a situation in which they are applied by this Annex, those rules nevertheless still apply (and in particular, any of those rules that would otherwise have the effect of disapplying consolidated supervision do not apply). (2) If it would not otherwise have been included, an <i>ancillary insurance services undertaking</i> is included in the <i>insurance sector</i> . (3) The scope of those rules is amended so as to remove restrictions relating to where members of the <i>financial conglomerate</i> are incorporated or have their head office, so that the scope covers every member of the <i>financial conglomerate</i> that would have been included in the scope of those rules if those members had their head offices in an <i>EEA State</i> . (4) For the purposes of Parts 1 to 2, those rules must be adjusted, if necessary, when calculating the capital resources, capital resources requirements or solvency requirements for a particular <i>financial sector</i> to exclude those for a member of another <i>financial sector</i> . (5) Any <i>waiver</i> granted to a member of the <i>financial conglomerate</i> under those rules does not apply for the purposes of this annex.
Application of sectoral rules: banking sector and investment services sector	5.5	In relation to a BIPRU firm (as defined in the FCA Handbook) that is a member of a <i>financial conglomerate</i> where there are no <i>credit institutions</i> or <i>investment firms</i> , the following adjustments apply to the <i>applicable sectoral rules</i> for the <i>banking sector</i> and the <i>investment services sector</i> as they are applied by the rules in this

		<p>Annex.</p> <ol style="list-style-type: none"> (1) References in those rules to non-EEA sub-groups (as defined in the FCA Handbook) do not apply. (2) Any investment firm consolidation waivers (as defined in the FCA Handbook) granted to members of the <i>financial conglomerate</i> do not apply. (3) For the purposes of Parts 1 and 2, without prejudice to the application of requirements in BIPRU 8 of the FCA Handbook preventing the use of an advanced prudential calculation approach (as defined in the FCA Handbook) on a consolidated basis, any advanced prudential calculation approach permission (as defined in the FCA Handbook) that applies for the purpose of BIPRU 8 of the FCA Handbook does not apply. (4) For the purposes of Parts 1 and 2, BIPRU 8.5.9R of the FCA Handbook and BIPRU 8.5.10R of the FCA Handbook do not apply. (5) For the purposes of Parts 1 and 2, the method in GENPRU 2 Annex 4 of the FCA Handbook must be used for calculating the capital resources and BIPRU 8.6.8R of the FCA Handbook does not apply. <p>Other than as above, the <i>CRD</i> and <i>CRR</i> apply for the <i>banking sector</i> and the <i>investment services sector</i>.</p>
No capital ties	5.6	<ol style="list-style-type: none"> (1) This rule deals with a <i>financial conglomerate</i> in which some of the members are not linked by capital ties at the time of the notification referred to in 3.1(2). (2) If 3.3 applies with respect to a <i>financial conglomerate</i> falling into (1), then: <ol style="list-style-type: none"> (a) the treatment of the links in (1) (including the treatment of any <i>solvency deficit</i>) is as provided for in whichever of Part 1 or Part 2 of this Annex 2 the <i>firm</i> has, under 3.4, indicated to the <i>PRA</i> it will apply or, if applicable, in the <i>requirement</i> referred to in 3.5; and (b) 3.3 applies even if the <i>applicable sectoral rules</i> do not deal with how <i>undertakings</i> not linked by capital ties are to be dealt with for the purposes of consolidated supervision.

6 Table: PART 4: Definitions used in this Annex

Defining the financial sectors	6.1	<p>For the purposes of Parts 1 and 2 of this Annex:</p> <ol style="list-style-type: none"> (1) an <i>asset management company</i> is allocated in accordance with 5.1; (2) an <i>alternative investment fund manager</i> is allocated in accordance with 5.1; and (3) a <i>mixed financial holding company</i> must be treated as being a member of the <i>most important financial sector</i>.
Solo capital resources requirement: banking sector and investment services sector	6.2	<ol style="list-style-type: none"> (1) The <i>solo capital resources requirement</i> of an <i>undertaking</i> in the <i>banking sector</i> or the <i>investment services sector</i> must be calculated in accordance with this rule, subject to paragraphs 6.5 and 6.6. (2) The <i>solo capital resources requirement</i> of a <i>building society</i> is its <i>own funds requirements</i>. (3) The <i>solo capital resources requirement</i> of an <i>electronic money</i>

		<p><i>institution</i> is the capital resources requirement that applies to it under the <i>Electronic Money Regulations</i>.</p> <p>(4) If there is a <i>credit institution</i> in the <i>financial conglomerate</i>, the <i>solo capital resources requirement</i> for any <i>undertaking</i> in the <i>banking sector</i> or the <i>investment services sector</i> is, subject to (2) and (3), calculated in accordance with the <i>CRR</i> for calculating the <i>own funds requirements of a bank</i>.</p> <p>(5) If:</p> <p>(a) the <i>financial conglomerate</i> does not include a <i>credit institution</i>;</p> <p>(b) there is at least one <i>investment firm</i> in the <i>financial conglomerate</i>; and</p> <p>(c) all the <i>investment firms</i> in the <i>financial conglomerate</i> are firms within the meaning of Article 95(1) of the <i>CRR</i> or 96(1) of the <i>CRR</i>,</p> <p>the <i>solo capital resources requirement</i> for any <i>undertaking</i> in the <i>banking sector</i> or the <i>investment services sector</i> is calculated in accordance with the <i>CRR</i> for calculating the <i>own funds requirements of</i>:</p> <p>(i) if there is a firm within the scope of Article 96(1) of the <i>CRR</i> in the <i>financial conglomerate</i>, an IFPRU limited activity firm as defined in the FCA Handbook; or</p> <p>(ii) in any other case, an IFPRU limited licence firm.</p> <p>(6) If:</p> <p>(a) the <i>financial conglomerate</i> does not include a <i>credit institution</i>; and</p> <p>(b) (5) does not apply, the <i>solo capital resources requirement</i> for any <i>undertaking</i> in the <i>banking sector</i> or the <i>investment services sector</i> is calculated in accordance with the <i>CRR</i> for calculating the <i>own funds requirements of a full-scope IFPRU investment firm</i> as defined in the FCA Handbook.</p> <p>(7) In relation to a BIPRU firm as defined in the FCA Handbook that is a member of a <i>financial conglomerate</i> in which there are no <i>credit institutions</i> or <i>investment firms</i>, any <i>capital resources requirements</i> calculated under a BIPRU TP in the FCA Handbook may be used for the purposes of the <i>solo capital resources requirement</i> in this rule in the same way that the <i>capital resources requirements</i> can be used under BIPRU 8 of the FCA Handbook.</p>
Solo capital resources requirement: application of rules	6.3	Any exemption that would otherwise apply under any rules applied by paragraph 6.2 does not apply for the purposes of this Annex.
Solo capital resources requirement: insurance sector	6.4	<p>(1) The <i>solo capital resources requirement</i> of an <i>undertaking</i> in the <i>insurance sector</i> is:</p> <p>(a) in respect of a <i>UK Solvency II firm</i>, the <i>SCR</i>;</p> <p>(b) in respect of a <i>Solvency II undertaking</i> other than a <i>UK Solvency II firm</i>, the equivalent of the <i>SCR</i> as calculated in accordance with the <i>Solvency II EEA implementing measures</i> in the <i>EEA State</i> in which it has received authorisation in accordance with article 14 of the <i>Solvency II Directive</i>.;</p> <p>(c) in respect of a <i>third country insurance undertaking</i> or <i>third country reinsurance undertaking</i> to which Group Supervision, 10.4(2) applies, the equivalent</p>

		<p>(d) of the <i>SCR</i> as calculated in accordance with the applicable requirements in that <i>third country</i>; in respect of any <i>undertaking</i> which is not within (a) to (c), the capital resources requirement calculated according to the rules for the calculation of the solo capital resources requirement applicable to that <i>undertaking</i> for the purposes of the calculation referred to in Group Supervision and Chapter I of Title II of the <i>delegated acts</i> or, if no rules are applicable for that calculation under Group Supervision and Chapter I of Title II of the <i>delegated acts</i>, in accordance with the <i>SCR Rules</i>.</p>
Solo capital resources requirement: EEA firms in the banking sector or investment services sector	6.5	<p>The <i>solo capital resources requirement</i> for an <i>EEA regulated entity</i> (other than a <i>bank</i>, <i>building society</i>, <i>designated investment firm</i>, <i>IFPRU investment firm</i> as defined in the <i>FCA Handbook</i>, <i>BIPRU firm</i> as defined in the <i>FCA Handbook</i>, an <i>insurer</i> or an <i>EEA insurer</i>) that is subject to the solo capital adequacy <i>sectoral rules</i> for its <i>financial sector</i> of the <i>competent authority</i> that authorised it is equal to the amount of capital it is obliged to hold under those <i>sectoral rules</i> provided that the following conditions are satisfied:</p> <ol style="list-style-type: none"> (1) for the purposes of the <i>banking sector</i> and the <i>investment services sector</i>, those <i>sectoral rules</i> must correspond to the <i>PRA sectoral rules</i> identified in paragraph 6.2 as applying to that <i>financial sector</i>; (2) the entity must be subject to those <i>sectoral rules</i> in (1); and (3) paragraph 6.3 applies to the entity and those <i>sectoral rules</i>.
Solo capital resources requirement: non-EEA firms subject to equivalent regimes in the banking sector or investment services sector	6.6	<p>The <i>solo capital resources requirement</i> for a <i>recognised third country credit institution</i> or a <i>recognised third country investment firm</i> is the amount of capital resources that it is obliged to hold under the <i>sectoral rules</i> for its <i>financial sector</i> that apply to it in the state or territory in which it has its head office provided that:</p> <ol style="list-style-type: none"> (1) there is no reason for the <i>firm</i> applying the rules in this Annex to believe that the use of those <i>sectoral rules</i> would produce a lower figure than would be produced under paragraph 6.2; and (2) paragraph 6.3 applies to the entity and those <i>sectoral rules</i>.
Solo capital resources requirement: mixed financial holding company	6.7	<p>The <i>solo capital resources requirement</i> of a <i>mixed financial holding company</i> is a notional capital requirement. It is the capital adequacy requirement that applies to <i>regulated entities</i> in the <i>most important financial sector</i> under the table in paragraph 8.</p>

7 Table

Solo capital resources requirement: the insurance sector	7.1	References to capital requirements in the provisions of this Annex defining <i>solo capital resources requirement</i> must be interpreted in accordance with paragraph 5.4.

8 Table: Application of sectoral consolidation rules

<i>Banking sector</i>	8	Part One, Title II, Chapter 2 of the <i>CRR</i> and the Groups Part.
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<i>Insurance sector</i>		Group Supervision
<i>Investment services sector</i>		in relation to a <i>designated investment firm</i> or an <i>IFPRU investment firm</i> which is a member of a <i>financial conglomerate</i> for which the PRA is the <i>coordinator</i> , Part One, Title II, Chapter 2 of the <i>CRR</i> and the <i>PRA Rulebook</i> .

9 Table

Part 4	9	This Part 4 is subject to Part 3 of this Annex.
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Annex 3 - prudential rules for third country financial conglomerates (6.2)1 Table: PART 1: Third country financial conglomerates

1.1	This Part of this Annex sets out the rules with which a <i>firm</i> must comply under 6.2 with respect to a <i>financial conglomerate</i> of which it is a member.
1.2	A <i>firm</i> must comply, with respect to the <i>financial conglomerate</i> referred to in paragraph 1.1, with 3.3.
1.3	For the purposes of paragraph 1.2: (1) the definitions of <i>conglomerate capital resources</i> and <i>conglomerate capital resources requirement</i> that apply for the purposes of that rule are the ones from whichever of Part 1 or Part 2 of Annex 2 is specified in the <i>requirement</i> referred to in 6.2; and (2) the rules so applied (including those in Annex 2) are adjusted in accordance with paragraph 2.1.
1.4	If the condition in Articles 7(4) and 8(4) of the <i>Financial Groups Directive</i> is satisfied (the <i>financial conglomerate</i> is headed by a <i>mixed financial holding company</i>) with respect to the <i>financial conglomerate</i> referred to in paragraph 1.1 the <i>firm</i> must also comply with 4.2 (as adjusted in accordance with paragraph 2.1) with respect to that <i>financial conglomerate</i> .
1.5	A <i>firm</i> must comply with the following with respect to the <i>financial conglomerate</i> referred to in paragraph 1.1: (1) Chapter 7 as adjusted under paragraph 2.1; and (2) 3.2.

2 Table: PART 2: Adjustment of scope

2.1	The adjustments that must be carried out under this paragraph are that the scope of the rules referred to in Part 1 of this Annex, are amended: (1) to remove any provisions disapplying those rules for <i>third country financial conglomerates</i> ; (2) to remove all limitations relating to where a member of the <i>third country financial conglomerate</i> is incorporated or has its head office; and (3) so that the scope covers every member of the <i>third country financial conglomerate</i> that would have been included in the scope of those rules if those members had their head offices in, and were incorporated in, and an <i>EEA State</i> .
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Externally defined glossary terms

Term	Definition source
EEA State	s425 FSMA
FCA	s417 FSMA
financial institution	Article 4(26) CRR
institution	Article 4(3) CRR
person	Schedule 1 of the Interpretation Act 1978

Annex B

Amendments to the Groups Part

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

1.2 In this Part the following definitions shall apply:

~~Article 18(6) relationship~~

means a relationship of one of the following kinds:

- (1) ~~where an *institution* exercises a significant influence over one or more *institutions* or *financial institutions*, but without holding a *participation* or other capital ties in these *institutions*; or~~
- (2) ~~where two or more *institutions* or *financial institutions* are placed under single management other than pursuant to a contract or clauses of their memoranda or articles of association.~~

third country banking and investment group

means a group that meets the following conditions:

- (1) it is headed by a *third country undertaking* that would be:
 - a) an *institution*;
 - b) a *financial holding company*, or
 - c) a *mixed financial holding company*,
if its head office was in the *EEA*; and
- (2) it is not part of a wider *consolidation group*.

3 THIRD COUNTRY BANKING AND INVESTMENT GROUPS

3.1 This Chapter applies where a *firm* is subject to a *requirement* obliging it to comply with 3.2 to 3.4 with respect to a *third country banking and investment group* of which it is a member.

[Note: Art 127 of the CRD]

3.2 A *firm* must comply with:

- (1) those requirements of the *CRR* that apply to the *firm* on a *consolidated basis*; and
- (2) rules that apply to the *firm* on a *consolidated basis*.

on the basis of the consolidated situation of the *third country banking and investment group*.

3.3 A *firm* must comply with Group Risk Systems in respect of the *third country banking and investment group*.

3.4 The scope of the *CRR* requirements and rules referenced in 3.2 and 3.3 is adjusted:

- (1) to remove any provisions disapplying those rules for *third country banking and investment groups*;
- (2) to remove all limitations relating to where a member of the *third country banking and investment group* is incorporated or has its head office; and
- (3) so that the scope covers every member of the *third country banking and investment group* that would have been included in the scope of those rules if those members had their head offices, and were incorporated, in an *EEA State*.

Annex C

Amendments to the Glossary

In the Glossary to the PRA Rulebook, deleted text is struck through and new text is underlined.

Article 18(6) relationship

means a relationship of one of the following kinds:

- (1) where an *institution* exercises a significant influence over one or more *institutions* or *financial institutions*, but without holding a *participation* or other capital ties in these *institutions*; or
- (2) where two or more *institutions* or *financial institutions* are placed under single management other than pursuant to a contract or clauses of their memoranda or articles of association.

CRR permission

means a permission given to a *firm* by the *PRA* under powers conferred on the *PRA* by the *CRR*.

financial conglomerate

has the meaning given in point (14) of Article 2 of the *Financial Groups Directive* ~~Financial Conglomerates 2.1.~~

intra-group transaction

has the meaning given in point (18) of Article 2 of the *Financial Groups Directive*.

requirement

means a requirement included in a *firm's Part 4A permission* under section 55L *FSMA* (Imposition of requirements by the FCA), section 55M *FSMA* (Imposition of Requirements by the PRA) or section 55O *FSMA* (Imposition of requirements on acquisition of control).

risk concentration

has the meaning given in point (19) of Article 2 of the *Financial Groups Directive*.

Annex D

Amendments to the Regulatory Reporting Part

In this annex, struck through text indicates deletions.

1 Application and Definitions

...

1.2 In this Part, the following definitions shall apply:

~~CRR permission~~

~~means a permission given to a firm by the PRA under powers conferred on the PRA by the CRR.~~

...

~~intra-group transactions~~

~~has the meaning given in point (18) of Article 2 of the Financial Groups Directive.~~

...

~~requirement~~

~~means a requirement included in a firm's Part 4A permission under section 55L FSMA (Imposition of requirements by the FCA), section 55M FSMA (Imposition of Requirements by the PRA) or section 55O FSMA (Imposition of requirements on acquisition of control).~~

~~risk concentration~~

~~has the meaning given in point (19) of Article 2 of the Financial Groups Directive.~~

Annex E

Amendments to the Notifications Part

In this annex, struck through text indicates deletions and new text is underlined.

1 Application and Definitions

...

1.2 In this Part, the following definitions shall apply:

~~competent authority~~

~~has the meaning given in point (16) of Article 2 of the *Financial Groups Directive*.~~

...

9.1 A firm that is a *regulated entity* must notify the PRA immediately it becomes aware, such notification to include a detailed explanation in support of the firm's assessment, that any *consolidation group* of which it is a member:

(1) is a *financial conglomerate*; or

(2) has ceased to be a *financial conglomerate*.

PRA RULEBOOK: CRR FIRMS: GROUP RISK SYSTEMS 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: CRR Firms: Group Risk Systems Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Group Risk Systems Instrument 2015.

By order of the Board of the Prudential Regulation Authority

10 December 2015

Annex A

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

Part

GROUP RISK SYSTEMS

Chapter content

- 1. APPLICATION AND DEFINITIONS**
- 2. GROUP SYSTEMS AND CONTROLS**

Links

1 APPLICATION AND DEFINITIONS

- 1.1 This Part applies to a *CRR firm* that is a member of a *group*.
- 1.2 This Part does not apply to a *firm* in relation to the *regulated activity* of bidding in emissions auctions (article 24A of the *Regulated Activities Order*) where it is carried on by way of business by a *MiFID investment firm* (other than a UCITS investment firm, as defined in the *FCA Handbook*) in relation to a *financial instrument*.
- 1.3 In this Part, the following definitions shall apply:
- group*
- means, in relation to a *person* ("A"), A and any *person*:
- (1) within the scope of section 421 of the *Act*;
 - (2) who has an *Article 12(1) relationship* with A;
 - (3) who has an *Article 12(1) relationship* with any *person* in (1);
 - (4) who is a *subsidiary undertaking* of a *person* in (2) or (3); or
 - (5) whose omission from an assessment of the risks to A of A's connection to any *person* coming within (1) to (4) or an assessment of the financial resources available to such *persons* would be misleading.
- 1.4 Unless otherwise defined in this Part, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

2 GROUP SYSTEMS AND CONTROLS

- 2.1 A *firm* must:
- (1) have adequate, sound and appropriate risk management processes and internal control mechanisms for the purpose of assessing and managing its own exposure to *group risk*, including sound administrative and accounting procedures; and
 - (2) ensure that its *group* has adequate, sound and appropriate risk management processes and internal control mechanisms at the level of the *group*, including sound administrative and accounting procedures.
- 2.2 The internal control mechanisms referred to in 2.1 must include:
- (1) mechanisms that are adequate for the purpose of producing any data and information which would be relevant for the purpose of monitoring compliance with any prudential requirements (including any reporting requirements and any requirements relating to capital adequacy, solvency, systems and controls and large exposures):
 - (a) to which the *firm* is subject with respect to its membership of a *group*; or
 - (b) that apply to or with respect to that *group* or part of it; and
 - (2) mechanisms that are adequate to monitor funding within the *group*.

- 2.3 A *firm* must comply with 2.1(2) in relation to any *UK consolidation group* or *non-EEA sub-group* of which it is a member, as well as in relation to its *group*.

[Note: Art 109(2) of the CRD]

- 2.4 A *CRR firm* that is a *subsidiary of a mixed-activity holding company* must ensure that the risk management processes and internal control mechanisms referred to in 2.1 include sound reporting and accounting procedures and other mechanisms that are adequate to identify, measure, monitor and control transactions between the *firm's parent undertaking mixed-activity holding company* and any of the *subsidiary of the mixed-activity holding company*.

[Note: Art 123 of the CRD]

Externally defined glossary terms

Term	Definition source
mixed-activity holding company	Article 4(1)(22) CRR
parent undertaking	Article 4(1)(15) CRR
person	Schedule 1 Interpretation Act 1978
regulated activity	section 22 FSMA
subsidiary	Article 4(1)(16) CRR

Annex B

Amendments to the General Organisational Requirements Part

In this Annex new text is underlined.

...

7 **GROUP ARRANGEMENTS**

- 7.1 Where a *firm* is a member of a *consolidation group*, the *firm* must ensure that the risk management processes and internal control mechanisms at the level of the *consolidation group* of which it is a member comply with the obligations set out in 2.1, 2.6, Chapter 5 and Chapter 6 of this Part on a *consolidated basis*.
- 7.2 Compliance with the obligations referred to in 7.1 must enable the *consolidation group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: Art 109(2) of the CRD]

Annex C

Amendments to the Skills, Knowledge and Expertise Part

In this Annex new text is underlined.

...

6 **GROUP ARRANGEMENTS**

6.1 Where a *firm* is a member of a *consolidation group*, the *firm* must ensure that the risk management processes and internal control mechanisms at the level of the *consolidation group* of which it is a member comply with the obligations set out in 3.2 on a *consolidated basis*.

6.2 Compliance with the obligations referred to in 6.1 must enable the *consolidation group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: Art 109(2) of the CRD]

Annex D

Amendments to the Risk Control Part

In this Annex new text is underlined.

...

4 **GROUP ARRANGEMENTS**

4.1 Where a *firm* is a member of a *consolidation group*, the *firm* must ensure that the risk management processes and internal control mechanisms at the level of the *consolidation group* of which it is a member comply with the obligations set out in 2.3, 2.7 and Chapter 3 on a *consolidated basis*.

4.2 Compliance with the obligations referred to in 4.1 must enable the *consolidation group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: Art 109(2) of the CRD]

**PRA RULEBOOK: REGULATORY REPORTING (AMENDMENT No.1) 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: Regulatory Reporting Instrument 2015

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

Commencement

- E. This instrument comes into force on 1 January 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Regulatory Reporting (Amendment No.1) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

10 December 2015

Annex

Amendments to the Regulatory Reporting Part

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

...

Part

REGULATORY REPORTING

Chapter content

...

16. DATA ITEMS AND OTHER FORMS

17. COMPLIANCE REPORTS

18. NOTIFICATIONS REGARDING CHANGE OF ACCOUNTING REFERENCE DATE

19. NOTIFICATIONS REGARDING FINANCIAL INFORMATION REPORTING UNDER THE CRR

...

1 APPLICATION AND DEFINITIONS

...

1.2 ...

data items

means one or more *data elements* that are grouped together in a prescribed format (unless specified in this Part as “no standard format”) and required to be submitted by a *firm*.

...

2 REPORTING REQUIREMENTS – DATA ITEMS

...

2.7 A bank must also submit *data items* as required by Chapter 17.

3 REPORTING REQUIREMENTS – FREQUENCY AND PERIOD

3.1 Where a firm is required to submit *data items* in accordance with Chapter 2 2.1 to 2.3, it must...

4 REPORTING REQUIREMENTS – SUBMISSION DATES

4.1 Where a firm is required to submit *data items* in accordance with Chapter 2 2.1 to 2.3, it must...

4.2 If the due date for submission of a *data item* required by this Part falls on a day which is not a *business day*, the *data item* must be submitted so as to be received by the PRA no later than the first *business day* after the due date.

4.3 Unless otherwise stated, if the reporting frequency for submission of a *data item* required by this Part is expressed as half yearly, quarterly or monthly and the due date for submission is expressed as a set period of time:

- (1) the first due date for submission after the *firm's accounting reference date* is to be calculated as the last day of that set period from the *accounting reference date*; and
- (2) thereafter, until the *firm's next accounting reference date*, the due dates for submission are to be calculated as the last day of that set period from:
 - (a) the date falling six months after the *firm's accounting reference date*, in the case of half yearly reporting frequency;
 - (b) the dates falling every three months after the *firm's accounting reference date*, in the case of quarterly reporting frequency; and
 - (c) the dates falling every month after the *firm's accounting reference date*, in the case of monthly reporting frequency.

5 REPORTING REQUIREMENTS – SUBMISSION METHOD

...

5.3 ~~SUP 16.3.6 R to SUP 16.3.10 G in the supervision manual in the *PRA Handbook* apply to *data items* specified as “No standard format.” Unless otherwise stated, *firms* must submit *data items* specified as “No standard format” via electronic mail to regulatoryreporting@bankofengland.co.uk or via post or hand delivery to Regulatory Data Group, Statistics and Regulatory Data Division (HO5 A-B), Bank of England, Threadneedle Street, London EC2R 8AH; or via fax to the Regulatory Data Group of the Bank of England (020 7601 3334).~~

5.4 A *data item* must:

- (1) give the firm reference number (or all the firm reference numbers in those cases where a *data item* is submitted on behalf of a number of *firms*); and
- (2) if submitted in paper form, be submitted with the cover sheet specified in 16.25 duly completed.

...

16 DATA ITEMS AND OTHER FORMS

...

16.25 Cover sheet can be found [here](#).

17 COMPLIANCE REPORTS

17.1 This Chapter applies only to *banks*.

17.2 A *firm* must submit to the PRA the duly completed *data items* described in and in accordance with the following table, which sets out:

- (1) the applicable *data items*;
- (2) the applicable reporting frequencies for submission of *data items*; and
- (3) the applicable due dates for submission. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period.

<u>Description of <i>data item</i></u>	<u><i>Data item</i></u>	<u>Frequency</u>	<u>Due date</u>
List of all <i>overseas regulators</i> for each legal entity in the <i>firm's group</i>	No standard format	Annually	6 months after the <i>firm's accounting reference date</i>
Organogram showing each <i>authorised person</i> in the <i>firm's group</i>	No standard format	Annually	6 months after the <i>firm's accounting reference date</i>

18 NOTIFICATIONS REGARDING CHANGE OF ACCOUNTING REFERENCE DATE

- 18.1 A firm must notify the PRA if it changes its accounting reference date by submitting the form referred to in Notifications 10.2 (Standing Data Form).
- 18.2 When a firm extends its accounting period, it must make the notification in 18.1 before the previous accounting reference date.
- 18.3 When a firm shortens its accounting period, it must make the notification in 18.1 before the new accounting reference date.
- 18.4 The Notifications Part, including Notifications 5.3A and 5.5 (Core Information Requirements), applies to any notification made under 18.1.

19 NOTIFICATIONS REGARDING FINANCIAL INFORMATION REPORTING UNDER THE CRR

- 19.1 A firm must notify the PRA if it is required to report financial information in accordance with Article 99(2) of the CRR.
- 19.2 A firm must notify the PRA when it ceases to report financial information in accordance with Article 99(2) of the CRR.
- 19.3 A firm must notify the PRA if it adjusts its reporting reference dates for financial information under Article 99 of the CRR from the calendar year to its accounting year-end.
- 19.4 The Notifications Part, including Notifications 7.4 (Form and Method of Communication), applies to any notification made under this Chapter.

...

HANDBOOK (RULEBOOK CONSEQUENTIALS) 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 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 the proposed rules and had regard to representations made.

Amendments to the Handbook

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

(1)	(2)
Credit Unions sourcebook (CREDS)	A
Senior Management Arrangements, Systems and Controls (SYSC)	B

Deletion

- E. The modules and sections of the PRA’s Handbook in Annex C to Part 1 are deleted.
- F. The modules and sections of the PRA’s Handbook in the Annex to Part 2 are deleted.

Commencement

- G. Part 1 of this instrument comes into force on 1 January 2016.
- H. Part 2 of this instrument comes into force on 7 March 2016.

Citation

- I. This instrument may be cited as the Handbook (Rulebook Consequentials) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

10 December 2015

Part 1

Annex A

Amendments to the Credit Unions sourcebook (CREDS)

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

8.1	Application and purpose
-----	--------------------------------

...

8.1.2A	G	The purpose of this section is to provide additional <i>rules</i> and <i>guidance</i> relating to reporting requirements that are specific to <i>credit unions</i> . <i>Credit unions</i> also need to comply with the relevant provisions of <i>SUP</i> relating to reporting, including <i>SUP 16.3</i> <u>the Regulatory Reporting Part of the <i>PRA</i> Rulebook.</u>
--------	---	---

Annex B

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

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

4.3A	CRR firms
	Management body

...

4.3A.6B	<p>The limits on directorships set out in SYSC 4.3A.6 R also apply to members of the management body of the UK consolidation group or non-EEA sub group in accordance with SYSC 12.1.13 R. Individuals in any of the entities belonging to the UK consolidation group or non-EEA sub group are capable of forming part of this management body. For example, members of the management body of a non-CRR firm that is a parent financial holding company in a Member State and is a member of a UK consolidation group could be caught by the limits in SYSC 4.3A.6 R (SYSC 12.1.14 R). In particular, a person who requires approval under SUP 10B.6.2 R or SUP 10B.6.4 R because of the influence they exercise over the CRR firm is a member of the management body of the UK consolidation group or non-EEA sub group and therefore subject to the limit on directorships in SYSC 4.3A.6 R. [deleted]</p> <p>[Note: article 91(3) and article 109(2) of the CRD]</p>
---------	---

...

Annex C

Deletion

Each of the following modules and sections of the PRA's Handbook is deleted:

GENPRU 3
SYSC 12

Part 2

Annex

Deletion

Each of the following modules and sections of the PRA's Handbook is deleted:

Glossary
GEN 2
GEN TP 1
GEN TP 2
GEN Sch 1
GEN Sch 2
GEN Sch 3
GEN Sch 6
SYSC TP 2
SYSC Sch 1
SYSC Sch 2
SYSC Sch 3
SYSC Sch 6
SUP 16.1
SUP 16.2
SUP 16.3
SUP 16.6
SUP TP1.1
SUP TP1.2
SUP Sch 1
SUP Sch 6

PRA RULEBOOK: INTERPRETATION (AMENDMENT) 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: Interpretation (Amendment) Instrument 2015

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

Commencement

- E. This instrument comes into force on 6 March 2016.

Citation

- F. This instrument may be cited as the PRA Rulebook: Interpretation (Amendment) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

10 December 2015

Annex

Amendments to the Interpretation Part of the PRA Rulebook

In this Annex, new text is underlined.

2 INTERPRETATIVE PROVISIONS

...

Use of defined expressions

...

2.2A In the *PRA Rulebook*, an expression in italics that has no meaning given for the purposes of any of the following: the Part in which that expression appears, the *PRA Rulebook Glossary*, *FSMA* or the Interpretation Act 1978, but that was defined in the *PRA Handbook* as at 6 March 2016 has that meaning.

...

**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 1 January 2016.

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

10 December 2015

Annex A

Part

LLOYD'S: ACTUARIES, AUDITORS AND FSCS

This Part is deleted in its entirety.

Annex B

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

Part

LLOYD'S

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

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 Lloyds*.

underwriting agent

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

2 SPECIAL PROVISIONS FOR LLOYD'S

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

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

- 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

- 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

- 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

- 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

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

9 FORMER UNDERWRITING MEMBERS

- 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

- 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

- 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

- 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

- 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*.

**PRA RULEBOOK: CRR FIRMS, NON CRR FIRMS: INDIVIDUAL ACCOUNTABILITY
INSTRUMENT (No. 4) 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 59 (Approval for particular arrangements);
- (2) section 60 (Applications for approval);
- (3) section 60A (Vetting of candidates by relevant authorised persons);
- (4) section 61 (Determination of applications);
- (5) section 63E (certificates) ;
- (6) section 63F (Issuing of certificates);
- (7) section 64A (Rules of conduct);
- (8) section 64C (requirement for relevant authorised persons to notify regulator of disciplinary action);
- (9) section 137G (The PRA’s general rules); and
- (10) section 137T (General supplementary powers).

The PRA makes this instrument in the exercise of the following powers and related provisions in the Financial Services (Banking Reform) Act 2013 (Transitional and Savings Provisions) Order 2015:

- (1) Article 2 (Requirement to give notice in relation to an approved person)
- (2) Article 5 (Regulators’ power to impose requirements for an Article 2 notice);
- (3) Article 6 (Revision of an article 2 notice)
- (4) Article 7 (Application of section 63ZA to a continuing approval)
- (5) Article 8 (Application of section 62A to a statement provided under article 2(3)(c))
- (6) Article 13 (Regulators’ power to impose requirements for an Article 11 notice);
- (7) Article 15 (Application of section 62A to a statement provided under article 11(d);
- (8) Article 17 (Power for the regulators to specify equivalent functions);
- (9) Article 19 (Power to impose penalties); and
- (10) Article 20 (Rules and requirements imposed by a regulator under this Order).

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: Individual Accountability Instrument (No. 4) 2015

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

Commencement

- E. Annexes A, B, C and D to this instrument come into force on 7 March 2016.
- G. Annex E comes into force on 16 December 2015.

Citation

This instrument may be cited as the PRA Rulebook: CRR Firms, Non-CRR Firms: Individual Accountability Instrument (No. 4) 2015.

By order of the Board of the Prudential Regulation Authority

10 December 2015

Annex A

Amendments to the Certification Part

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

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* that is:

- (1) a *CRR firm*; or
- (2) a credit union; or
- (3) a *third country CRR firm* in relation to the activities of its establishment in the *UK*.

1.2 In this Part, the following definitions shall apply:

...

significant risk taker

means

- (1) any *employee* of a *CRR firm* who meets any of the criteria set out in Articles 3 to 5 of the *Material Risk Takers Regulation*; ~~or~~
- (2) any *employee* of a *credit union* who:
 - ...
 - (c) is responsible and accountable to the *management body* for the activities of the independent risk management function, compliance function or internal audit function; ~~or~~
 - (d) heads a function responsible for legal affairs, finance including taxation and budgeting, human resources, remuneration policy, information technology or economic analysis; or
- (3) subject to Remuneration 3.2 to 3.3, any *employee* of a *third country CRR firm* who would have met any of the criteria set out in Articles 3 to 5 of the *Material Risk Takers Regulation* as if it applied to him or her.

...

Annex B

Amendments to the Notifications Part

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

...

11 CONDUCT RULES: NOTIFICATIONS

11.1 This Chapter applies to every *firm* that is:

- (a) a *CRR firm*; ~~or~~
- (b) a *credit union*; or
- (c) a *third country CRR firm* in relation to the activities of its establishment in the UK. ~~[not yet in force]~~

...

Annex C

Senior Managers Regime – Applications and Notifications Part

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

2.7...

(2) ~~Except in the case of an application made by a *third country CRR firm*, a A statement of responsibilities must be in the form set out ~~here~~:~~

(a) _____ for a *third country CRR firm*, in the form set out [here](#); and

(b) _____ for all other *firms*, in the form set out [here](#).

...

8 FORMS

8.1 (1) Form A (long form) may be found [here](#).

(2) Form A (shortened form) may be found [here](#).

...

Annex D

Amendments to Form E

Amend Form E as follows. Underlining indicates new text and striking through indicates deleted text.

Form E: Internal transfer of an approved person (for firms and individuals subject to the senior management regime)

...

The *FCA* and *PRA* have produced notes which will assist both the applicant and the candidate in answering the questions in this form. Please read these notes, which are available on the *FCA* and *PRA*'s website at <http://fshandbook.info/FS/html/FCA/SUP/10A/C/Annex3D8>

...

FCA Handbook Reference: SUP 10C Annex 34D

...

Financial Conduct Authority
 25 The North Colonnade
 Canary Wharf
 London E14 5HS
 United Kingdom
 Telephone ~~+44 (0) 845 606 9966~~ +44 (0) 300 500 0597
~~Facsimile +44 (0) 207066 0017~~
 E-mail iva@fca.org.uk
 Website <http://www.fca.org.uk>
 Registered as a Limited Company in England and Wales No 1920623. Registered Office as above

Prudential Regulation Authority
 20 Moorgate
 London
 EC2R 6DA
 United Kingdom
 Telephone +44 (0) 203 461 7000
 Email ~~PRA.firmenquiries~~
ApprovedPersons@bankofengland.co.uk
 Website www.bankofengland.co.uk/PRA
 Registered as a Limited Company in England and Wales No 07854923. Registered Office: 8 Lothbury Road, London, EC2R 7HH

...
4.02

...

Function	Description of a Senior <u>management</u> function	Tick applicable) (if applicable)	Effective Date
...	...		
<u>SMF19</u>	<u>Head of Overseas Branch</u>		
<u>SMF 21</u>	<u>EEA Branch Senior Manager function</u>		
<u>SMF22</u>	<u>Other local responsibility function</u>		

...

5.00

...

- Provide a copy of the candidate's:-
 - ~~statement of responsibilities~~ Statement of Responsibilities with this form
 - Roles description
 - Curriculum Vitae (C.V)
 - Organisational chart
- Provide a copy of the firm's management responsibilities map (SYSC 4.5 and SYSC 4.6, where applicable, and Allocation of Responsibilities in the PRA Rulebook)
- A firm UK and Third Country Relevant Authorised Persons should include a summary of any handover certificate and a reasonable summary of any other handover material (as referred to in SYSC 4.9.4R to SYSC 4.9.9G and SUP10C.10.13G and Senior Management Functions Chapter 2 in the PRA Rulebook.

...

Declaration of *Candidate*

Knowingly or recklessly giving the *FCA* and/or *PRA* information which is false or misleading in a material particular may be a criminal offence (section 398 of the Financial Services and Markets Act 2000). It should not be assumed that information is known to the *FCA* and/or *PRA* merely because it is in the public domain or has previously been disclosed to the *FCA* and/or *PRA* or another regulatory body. ~~If there is any doubt about the relevance of information, it should be included.~~

In addition to other regulatory responsibilities, firms, senior managers and other approved persons have a responsibility to disclose to the *FCA* and/or *PRA* matters of which it would reasonably expect to be notified. Failure to notify the *FCA* and/or *PRA* of such information may lead to the *FCA* and/or *PRA* taking disciplinary or other action against the firm and/or individuals.

The *candidate* confirms that the attached Statement of Responsibilities accurately reflects the aspects of the affairs of the firm which it is intended that the *candidate* will be responsible for managing. The *candidate* confirms that they have accepted all the responsibilities set out in this Statement of Responsibilities.

For the purposes of complying with the Data Protection Act 1998, the personal information provided in this Form will be used by the *FCA* and/or *PRA* to discharge ~~the~~ their 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 applicant *candidate*.

With reference to the above, the *FCA* and/or *PRA* may seek to verify the information given in this Form including answers pertaining to fitness and propriety. This may include a credit reference check. In signing the form below:

a) I authorise the *FCA* and/or *PRA* to make such enquiries and seek such further information as it thinks appropriate in the course of verifying the information given in this Form. *Candidates* may be required to apply for a criminal records search to be made as to whether any criminal records are held in relation to them 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.

b) 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.

c) I confirm that I understand the regulatory responsibilities of my proposed role as set out in the rules of conduct in the *FCA*'s Conduct Rules (COCON) and/or *PRA* Conduct Rules (as applicable).

d) I confirm that the Statement of Responsibilities submitted with this form accurately reflects the aspects of the affairs of the *firm* which it is intended that I will be responsible for managing. I confirm that I have accepted all the responsibilities set out in this Statement of Responsibilities.

Tick here to confirm you have read and understood this declaration:

6.01 Candidate's full name†

6.02 Signature



Date



Declaration of *Firm*

Annex E

Amendments to the Senior Managers Regime - Transitional Provisions Part

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

APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to every *firm* that is:

- (1) a *CRR firm*; ~~or~~
- (2) a *credit union*; or
- (3) a third country CRR firm in relation to the activities of its establishment in the UK.

...

6 TABLE OF EQUIVALENT FUNCTIONS FOR GRANDFATHERING

6.1 The *PRA senior management functions* set out in column 2 of the table are specified as *equivalent functions*, in each case in relation to the *pre-implementation controlled functions* set out in the corresponding row of column 1 of the table below.

6.2 The *FCA functions* set out in column 3 of the table are specified as *equivalent functions*, in each case, in relation to the *pre-implementation controlled functions* set out in the corresponding row of column 1 of the table below.

Column 1	Column 2	Column 3
Pre-implementation PRA or FCA Controlled Function	PRA Senior Management Function	FCA-designated Senior Management Function
All firms apart from credit unions <u>and UK branches of third country CRR firms</u>		
Director (CF1) Partner (CF4) Director of unincorporated association (CF5)...	Chief Finance function (SMF2) Chief Risk function (SMF4) Head of Internal Audit (SMF5) Head of Key Business Area (SMF6) Group Entity Senior Manager (SMF7)	Executive Director (SMF3)
Non-executive director (CF2)	Group Entity Senior Manager (SMF7) Chairman (SMF9) Chair of the Risk Committee (SMF10) Chair of the Audit Committee (SMF11) Chair of the Remuneration Committee (SMF12) Senior independent director	Chair of the Nominations Committee (SMF13)

Column 1	Column 2	Column 3
	(SMF14)	
Chief executive (CF3)	Chief executive (SMF1)	
Systems and Controls (CF28)	Chief Finance function (SMF2) Chief Risk function (SMF4) Head of Internal Audit (SMF5) <u>Group Entity Senior Manager (SMF7)</u>	
Significant management (CF29)	Head of Key Business Area (SMF6) Group Entity Senior Manager (SMF7)	<u>Other overall responsibility function (SMF18)</u>
Credit unions		
PRA or FCA Controlled Function	PRA Senior Management Function	FCA-designated Senior Management Function
Director (CF1)	Credit Union Senior Manager (SMF8)	Executive Director (SMF3)
Non-executive director (CF2)	Credit Union Senior Manager (SMF8)	Chair of the Nominations Committee (SMF13)
Chief executive (CF3)	Credit Union Senior Manager (SMF8)	
<u>UK Branches of Third country CRR firms</u>		
<u>PRA or FCA Controlled Function</u>	<u>PRA Senior Management Function</u>	<u>FCA Function</u>
<u>Director (CF1)</u>	<u>Chief Finance function (SMF2)</u> <u>Chief Risk function (SMF4)</u> <u>Head of Internal Audit (SMF5)</u> <u>Group Entity Senior Manager (SMF7)</u> <u>Head of Overseas Branch (SMF19)</u>	<u>Executive Director function (SMF 3)</u>
<u>Non-executive director (CF2)</u>	<u>Group Entity Senior Manager (SMF7)</u>	

<u>Chief executive (CF3)</u>	<u>Head of Overseas Branch (SMF19)</u>	
<u>Systems and Controls (CF28)</u>	<u>Chief Finance function (SMF2)</u> <u>Chief Risk function (SMF4)</u> <u>Head of Internal Audit (SMF5)</u> <u>Group Entity Senior Manager (SMF7)</u>	<u>Other local responsibility function (SMF22)</u>
<u>Significant management (CF29)</u>	<u>Group Entity Senior Manager (SMF7)</u> <u>Head of Overseas Branch (SMF19)</u>	<u>Other local responsibility function (SMF22)</u>

6.3 The PRA directs that a *firm* must not specify in the *grandfathering notification* that any person shall perform any combination of *PRA senior management functions* which is prohibited by any other provision of the *PRA Rulebook* or the *FCA Handbook*.

...

7 APPLICATIONS TO TAKE EFFECT FROM THE COMMENCEMENT DATE

....

7.2 The PRA directs that any application to perform a *PRA senior management function* which is made between 1 January 2016 and the day before the *commencement date* must:

- (a) be made on the correct form as directed by Senior Managers Regime – Applications and Notifications 2 (as if those provisions were in force); and
- (b) be submitted as directed by Senior Managers Regime – Applications and Notifications 7 (as if those provisions were in force).

....

8 FORMS

8.1 The forms referred to in 7.2 (a) are:

- (a) Form A (long form) which may be found [here](#);
- (b) Form A (shortened form) which may be found [here](#); and
- (c) Form E which may be found [here](#).

8.24 Form K may be found [here](#).

8.32 A form of *statement of responsibilities* :

- (a) for a *third country CRR firm*, may be found [here](#); and

(b) _____ for all other firms, may be found [here](#).

PRA RULEBOOK: CRR FIRMS: NON CRR FIRMS: SOLVENCY II FIRMS: NON SOLVENCY II FIRMS: NOTIFICATION FORMS (AMENDMENT) 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: CRR Firms: Non CRR Firms: Solvency II Firms: Non Solvency II Firms: Notification Forms (Amendment) Instrument 2015

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

Commencement

- E. Annexes A and C to this instrument come into force on 7 March 2016. Annex B to this instrument comes into force on 16 December 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Non CRR Firms: Solvency II Firms: Non Solvency II Firms: Notification Forms (Amendment) Instrument 2015

By order of the Board of the Prudential Regulation Authority

10 December 2015

Annex A

This Annex contains the form in Notifications 11.12(2) in the CRR Firms and Non-CRR Firms sector of the PRA Rulebook and SIMR – Applications and Notifications 7.1(4) Solvency II Firms sector of the PRA Rulebook. In this Annex, all of the text is new and is not underlined.

Form D: Notification of changes to personal information/application details and conduct breaches/disciplinary action related to conduct

[Note: This form is set out in Part 2 of the FCA's Supervision Manual (Notification Forms) (Amendment) Instrument 2015 (FCA 2015/63) above, and is therefore not reproduced here.]

Annex B

This Annex contains amendments to the form in Notifications 10.1 in the CRR Firms, Non-CRR Firms, Solvency II Firms and Non-Solvency II Firms sectors of the PRA Rulebook. In this Annex, new text is underlined and deleted text is struck through.

Form F: Changes in notified persons

[Note: This form is set out in Part 1 of the FCA's Supervision Manual (Notification Forms) (Amendment) Instrument 2015 (FCA 2015/63) above, and is therefore not reproduced here.]

Annex C

This Annex contains amendment to the form in Fitness and Propriety 4.2 in the CRR Firms and Non-CRR Firms sectors of the PRA Rulebook, and in Key Function Holders – Notifications 4.1 in the Solvency II Firms sector of the PRA Rulebook. In this Annex, new text is underlined and deleted text is struck through.

Form M: Notification of non SMF/SIMF Appointment



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 4.2 (CRR Firms) 4.2 and Fitness and Propriety 4.1 (SII Firms) 4.1 and Large Non-Solvency II Firms – Fitness and Propriety 4.1 (Large NDFs)

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
Website 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)~~ key function(s) for which the ~~individual appointee~~ 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~~ group for which the role will be exercised¹

3.06 FRN(s) (if applicable)

3.07 Please note how many other appointments the ~~individual appointee~~ currently holds (~~Executive & Non-Executive 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 appointee~~ deemed to be in a position where they are effectively running the *firm* or ~~group~~ group ?

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

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



I have supplied further
information related to this section

YES

NO

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

Disclosure Note:

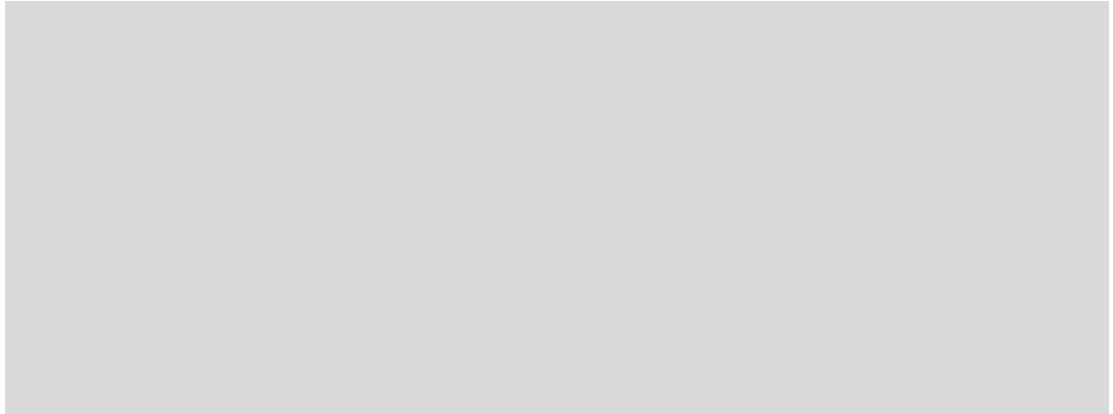
~~We require firms to disclose all relevant information relating to an appointees fitness and propriety. If there is any doubt about the relevance of the information, the information should be disclosed. The PRA takes non-disclosure very seriously and may consider it to be evidence of dishonesty and/or 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 subject to Criminal proceedings or been asked (excluding spent convictions and 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?

4.02 Civil Proceedings – Is the appointee currently subject or has the appointee **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?

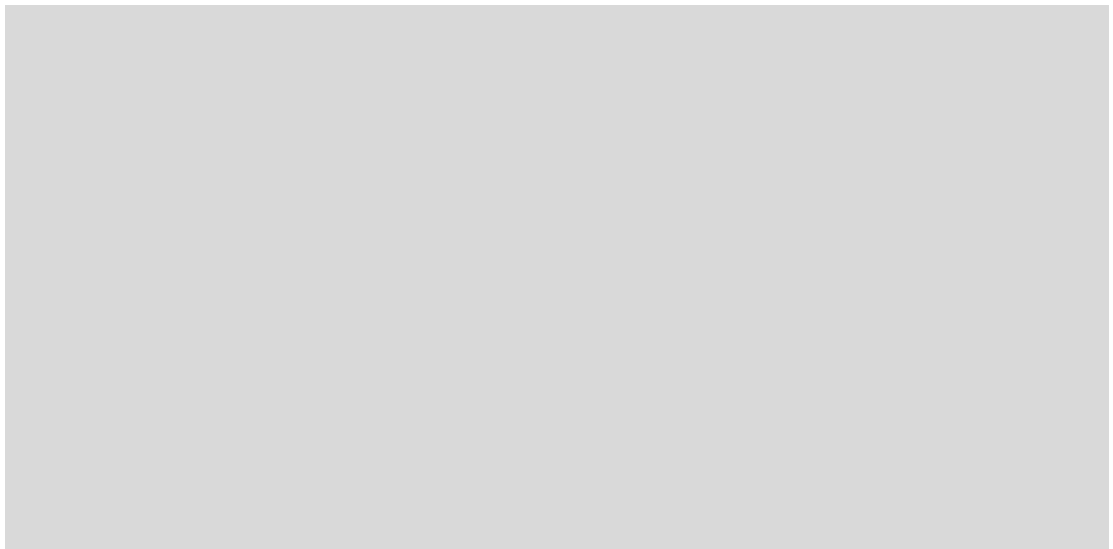
4.03

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



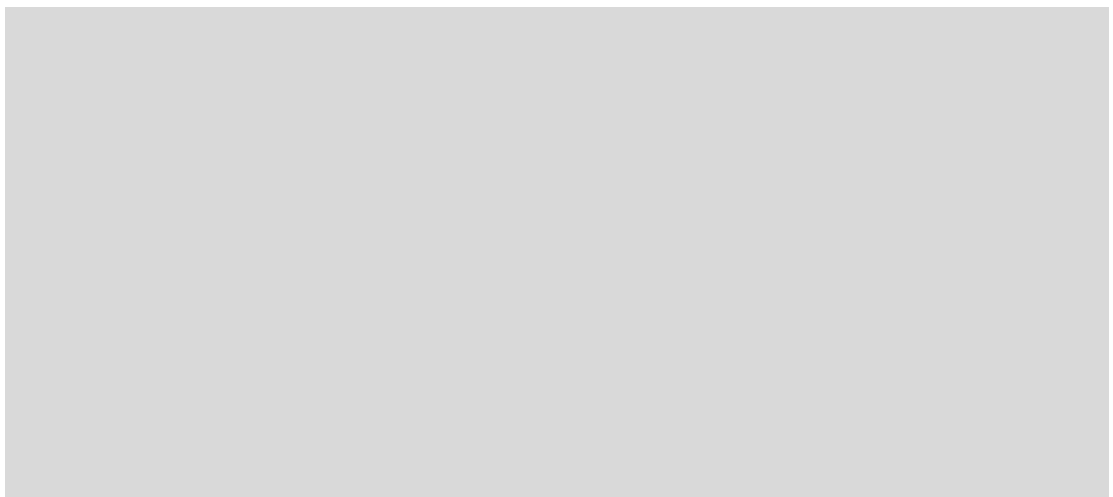
4.04

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



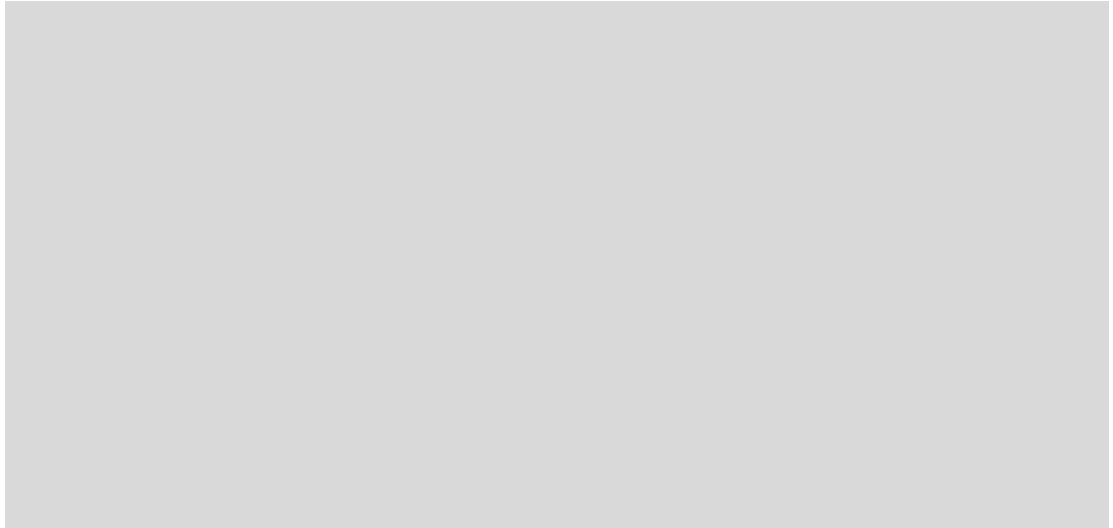
4.05

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~~ firm has provided the below documentation, in support of this notification:

5.01.1 the appointee's full CV including relevant employment history; YES NO

5.01.2 its assessment of whether the appointee has the personal characteristics required to perform the role effectively; YES NO

5.01.3 its assessment of whether the appointee possesses the level of competence, knowledge and experience required to perform the role effectively; YES NO

5.01.4 its assessment of whether the appointee has the qualifications required to perform the role effectively; and YES NO

5.01.5 its assessment of whether the appointee has undergone or is undergoing all training required to perform the role effectively. YES NO

5.01.6 Has / Have a reference or references been obtained from current and previous employer(s) in accordance with the requirements of the PRA.
If No, please provide details why the reference or references has/have not been obtained.

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 see Insurance - Fitness and Propriety 2.5, and Large Non-Solvency II Firms – Fitness and Propriety 2.5 in the PRA Rulebook).

YES NO

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

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 and Large Non-Solvency II Firms – Conduct Standards 2.2 in the *PRA Non-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://fshandbook.info/FS/html/PRA/)

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

The appointee confirms that he or she understands the regulatory responsibilities of the proposed role as set out in the ~~*PRA Insurance*~~ following Parts of the *PRA* Rulebook: Conduct Rules, Insurance - Conduct Standards or Large Non-Solvency II Firms – Conduct Standards Instrument (as applicable).

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~~ form is ultimately the responsibility of those who sign the notification.

6.04 Name

6.05 Signature of appointee

Date / /

HANDBOOK NOTIFICATION FORMS (AMENDMENT) 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.

Amendments to the Handbook

- D. The Supervision Manual (SUP) module of the PRA’s Handbook of rules and guidance is amended in accordance with the Annex to this instrument.

Commencement

- E. This instrument comes into force on 16 December 2015.

Citation

- F. This instrument may be cited as the Handbook Notification Forms (Amendment) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

10 December 2015

Annex

Amendments to the Supervision Manual (SUP)

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

SUP 10B Annex 7R Form D: Notification of changes in personal information or application details

[Note: This form is set out in Part 1 of the FCA's Supervision Manual (Notification Forms) (Amendment) Instrument 2015 (FCA 2015/63) above, and is therefore not reproduced here.]

PRA RULEBOOK: NON-SOLVENCY II FIRMS: FORMS 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 60 (applications for approval);
 - (2) section 137G (the PRA’s general rules); and
 - (3) 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: Forms Instrument 2015

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

Commencement

- E. The Annexes come into force on 7 March 2016.

Citation

This instrument may be cited as the PRA Rulebook: Non-Solvency II Firms: Forms Instrument 2015.

By order of the Board of the Prudential Regulation Authority
10 December 2015.

Annex A

This Annex inserts hyperlinks to the applicable forms into the following rules, which were published in the PRA's Policy Statement PS26/15 'The prudential regime, and implementation of the Senior Insurance Managers Regime, for non-Solvency II firms'.

Part

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

...

7 FORMS

- 7.1 (1) Form A (long form) may be found ~~here~~ [here](#).
- (2) Form A (shortened form) may be found ~~here~~ [here](#).
- ...
- (6) Form E may be found ~~here~~ [here](#).
- (7) The *scope of responsibilities form* may be found ~~here~~ [here](#).

Annex B

This Annex inserts hyperlinks to the applicable forms into the following rules, which were published in the PRA's Policy Statement PS26/15 'The prudential regime, and implementation of the Senior Insurance Managers Regime, for non-Solvency II firms'.

Part

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

...

7 **FORMS**

...

7.2 The *scope of responsibilities* form may be found ~~here~~ [here](#).

Annex C

This Annex inserts hyperlinks to the applicable forms into the following rules, which were published in the PRA's Policy Statement PS26/15 'The prudential regime, and implementation of the Senior Insurance Managers Regime, for non-Solvency II firms'.

Part

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

...

7 FORMS

- 7.1 (1) Form A (long form) may be found ~~here~~ [here](#).
- (2) Form A (shortened form) may be found ~~here~~ [here](#).
- ...
- (5) Form E may be found ~~here~~ [here](#).
- (6) The *scope of responsibilities form* may be found ~~here~~ [here](#).

Annex D

This Annex inserts hyperlinks to the applicable forms into the following rules, which were published in the PRA's Policy Statement PS26/15 'The prudential regime, and implementation of the Senior Insurance Managers Regime, for non-Solvency II firms'.

Part

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

...

4 FORMS

4.1 The *key function holder notification form*, Form M, may be found ~~here~~ [here](#).

...