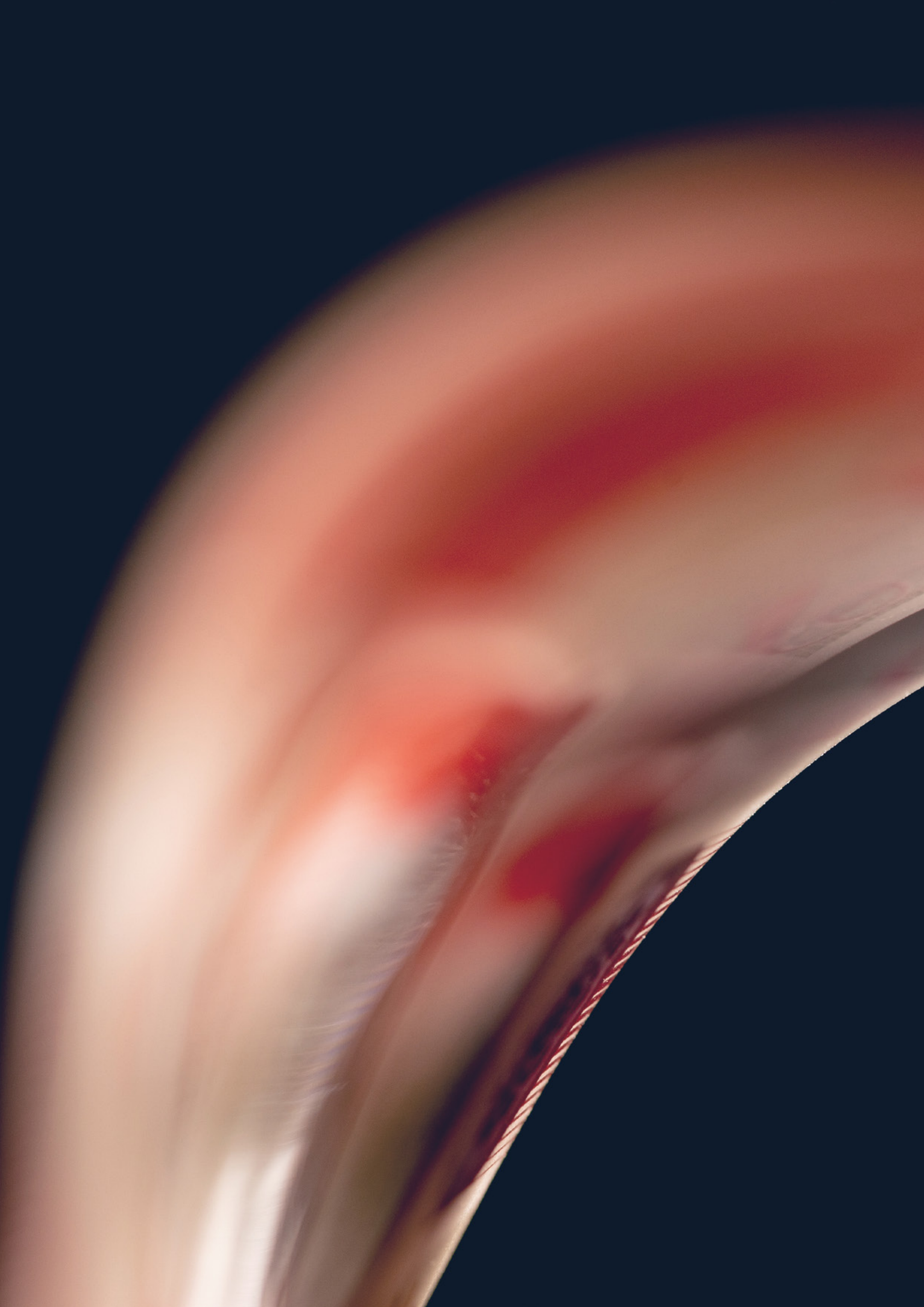
Bank of England PRA

Prudential Regulation Authority Annual Report

1 March 2023–29 February 2024



Prudential Regulation Authority

Annual Report 2023/24

1 March 2023 to 29 February 2024

Presented to Parliament pursuant to paragraph 19(4) of schedule 1ZB of the Financial Services and Markets Act 2000 as amended by the Financial Services Act 2012 and the Bank of England and Financial Services Act 2016. The Annual Report also includes the Annual Competition Report and the Annual Report of the Prudential Regulation Committee to the Chancellor of the Exchequer on the adequacy of the PRA resource and the independence of the PRA functions.

ISSN 2517-1607

Presented to Parliament pursuant to paragraph 19(4) of schedule 1ZB of the Financial Services and Markets Act 2000 (FSMA 2000).

The Annual Report also includes a summary of the Prudential Regulation Authority's (PRA) Secondary Competition Objective (SCO), and the Secondary Competitiveness and Growth Objective (SCGO), as introduced by the Financial Services and Markets Act 2023 (FSMA 2023),[1] and the Annual Report of the Prudential Regulation Committee to the Chancellor of the Exchequer on the adequacy of the PRA resource and the independence of the PRA functions.

This Report is made by the PRA under FSMA 2000 and FSMA 2023. It is made to the Chancellor of the Exchequer and covers the year ended 29 February 2024.

The report covers the requirements of paragraph 19 of schedule 1ZB of FSMA 2000.

The Bank of England Annual Report and Accounts for the year ending 29 February 2024 are available on the Bank of England's (the Bank) website. The PRA's audited accounts for the reporting year ending 29 February 2024 are set out in the 'Financial review of 2023/24' section of the Bank of England Annual Report and Accounts. HM Treasury (HMT) has issued an accounts direction; disclosures relating to this can be found in the 'PRA income statement for the period ended 29 February 2024' section of the Bank's Annual Report and Accounts.

Additional material can be found on the PRA section of the Bank's website.[2]

1. **https://www.legislation.gov.uk/ukpga/2023/29/contents/enacted**.
2. **https://www.bankofengland.co.uk/prudential-regulation**.

Consultation

Members of the public are invited to make representations to the PRA on:

- the PRA Annual Report;
- the way in which the PRA has discharged its functions during the period to which the report relates; and
- the extent to which, in their opinion, the PRA's objectives have been advanced (including its secondary objectives under section 2H FSMA), and the PRA has considered the regulatory principles to which it must have regard when carrying out certain of its functions (contained in section 3B of FSMA). Further information on how the PRA's secondary objectives have been advanced is set out in the competitiveness and growth: embedding the PRA's new secondary objective report (hereafter, the SCGO Report).

Please address any comments or enquiries to **praannualreport@bankofengland.co.uk**, or by post to:

PRA Communications Team
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

The closing date for comments is Tuesday, 29 October 2024.

Privacy and limitation of confidentiality notice

By providing representation to the PRA on this Annual Report, you provide personal data to the Bank of England (hereafter 'the Bank'). This may include your name, contact details (including, if provided, details of the organisation you work for), and opinions or details offered in the representations.

The representations will be assessed to inform the PRA's further work as a regulator. The PRA may use your details to contact you to clarify any aspects of your response.

Your personal data will be retained in accordance with the Bank's records management schedule. To find out more about how we deal with your personal data, your rights, or to get in touch please visit the PRA's privacy web page.[3]

Information provided in response to this report, including personal information, may be subject to publication or disclosure to other parties in accordance with access to information regimes, including under the Freedom of Information Act 2000 or data protection legislation, or as otherwise required by law or in discharge of the Bank's functions.

Please indicate if you regard all, or some of, the information you provide as confidential. If the Bank receives a request for disclosure of this information, it will take your indication(s) into account, but the Bank cannot provide assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system on emails will not, of itself, be regarded as binding on the Bank of England.

3. https://www.bankofengland.co.uk/privacy.

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Foreword by the Chair

Andrew Bailey
Governor,
Chair of the Prudential Regulation Committee

This year, as we move into the second decade of the Prudential Regulation Authority's (PRA's) existence, we have once again seen the importance of strong standards and robust supervision; the need to continue taking timely action to ensure the financial and regulatory system can appropriately manage new and evolving risks; and the possibilities laid open to us from innovation and new technologies.

The PRA has ensured that UK banks, building societies, and insurers remain resilient, with strong capital and liquidity positions as well as robust governance and risk management. This was illustrated in the results of the 2022/23 annual cyclical stress test, which tested major UK banks' resilience to a severe global and domestic downturn and interest rate shock, as well as in the 2022 cyber stress test and the 2022 insurance stress test.

In terms of the regulations underpinning such resilience, 2023/24 saw progress in a number of key areas. We have set out policy on the new UK insurance regime (Solvency UK), which will come into effect over 2024. And the final package of post-crisis capital reforms for banks (Basel 3.1), as well as a regime that is simpler but robust for smaller banks (Strong and Simple), made big strides forward.

However, high-profile cases like the failures of Credit Suisse and Silicon Valley Bank – and the effective resolution of Silicon Valley Bank UK – in March 2023 serve as a reminder that we cannot be complacent. The PRA, alongside the Bank of England in its role as resolution authority, has engaged in domestic and international efforts to learn lessons from those episodes, including by supporting plans for targeted additions to the Bank's resolution toolkit to manage the failure of smaller banks.

Elsewhere, FSMA 2023 marked a milestone in UK financial regulation, granting the PRA wider rule-making responsibilities to design and implement regulation that is robust and better suited to the UK's financial sector, as well as new powers to oversee critical third-party service providers to the financial system (alongside the Bank and the Financial Conduct Authority). And we continue to make progress following our consultation on the PRA's approach to policymaking, including by establishing a Cost Benefit Analysis Panel made up of external experts.

The PRA was also given a new secondary objective to support the medium- to long-term growth and international competitiveness of the UK, subject to that aligning with relevant international standards. To support its new objective, the PRA hosted a major international conference on the role of financial regulation in competitiveness and growth, ensuring we could hear directly from industry participants, academics, and regulators. I am pleased to see the Bank's Independent Evaluation Office is reviewing the new secondary objective, and their findings will usefully inform our future activity.

As ever, I am hugely grateful to my colleagues on the Prudential Regulation Committee for the valuable insights and expertise they bring to our decision-making, and to all PRA staff for their hard work and dedication in achieving these outcomes over a busy and challenging year.

Andrew Bailey

29 July 2024

Foreword by the Chief Executive

Sam Woods
Deputy Governor, Prudential Regulation
Chief Executive of the PRA

Last year marked the 10-year anniversary of the Prudential Regulation Authority (PRA), and this was accompanied by a major update to our powers and objectives through the Financial Services and Markets Act 2023 (FSMA 2023).

Among other changes, FSMA 2023 gave us a new secondary objective to support the competitiveness and growth of the UK economy. This new objective now sits alongside our primary objectives for safety and soundness and insurance policyholder protection, and our secondary competition objective. Accordingly, we have begun a major programme of work to support this objective – which is summarised in detail in a separate report.[4]

FSMA 2023 also represents a significant expansion of the PRA's policymaking responsibilities, reflecting Parliament's decision to delegate these powers to us as part of the post-Brexit framework for financial regulation in the UK. Reflecting this, 2023/24 saw us make significant progress on a range of important policies:

- We published the first set of near-final 'Basel 3.1' rules. These go towards completing the post-financial-crisis reform of capital standards for banks.
- We continued to push forward on reforms to insurance rules ('Solvency UK'), including by publishing a policy statement on reporting and disclosure. This reform package will reduce bureaucracy in the regime and support insurers to invest in a wider set of productive assets.
- We published the eligibility criteria for our 'strong and simple' prudential framework for smaller banks. This will improve proportionality and promote competition while maintaining robust standards.
- Jointly with the Financial Conduct Authority (FCA) and Bank, we consulted on our new powers to oversee third parties that provide vital services to the financial system.
- We published an updated approach to enforcement, including new proposals to streamline cases.

4. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/july/pra-secondary-competitiveness-and-growth-objectives-report.

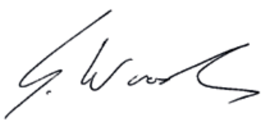
- We finalised our rules and expectations on solvent exit planning for non-systemic banks and building societies, which has been an important strategic priority for the PRA.

2023/24 was also notable for turmoil in the international banking sector – most obviously the failures of Credit Suisse and Silicon Valley Bank, both of which had material UK operations. I'm very grateful to PRA staff (and staff across the wider Bank) for their work in navigating those stresses with minimal impact on UK financial stability. These incidents serve as a reminder of the importance of safe and sound banking and insurance sectors as an essential foundation of the economy. Alongside policymaking, robust supervision is crucial for delivering this outcome and this activity continued to comprise much of the PRA's work throughout 2023/24. Stress testing is another vital element of our approach, and in July 2023 we published the results of our latest 'annual cyclical scenario' stress test for the major UK banks, which found that the sector would be resilient to a very severe domestic and international recession.

We are always striving to be a better regulator, and to make the best possible use of new technology and data capabilities to be more effective and proportionate. This will be a major focus of the banking data review which launched in the past year. Relatedly, I am encouraged by the progress made in 2023/24 to improve our regulatory processes, including the timeliness of authorisations.

We are operating in an environment of rapid technological change, which is affecting both the financial services industry and wider society. The PRA is committed to supporting innovation while ensuring that any new risks are carefully managed. Among other things, over the past year we have published a joint feedback statement (with the FCA and Bank) on artificial intelligence and machine learning; continued to work with HM Treasury on the future regulatory regime for cryptoassets; published a letter setting out our expectations on risks relating to digital money and money-like instruments; and continued to monitor closely the impact of digitalisation on PRA-regulated firms.

The PRA's 11th year of operation has been one of its most intense periods for many staff and I am very grateful to all my PRA colleagues for their fantastic work in delivering our objectives for the British public.



29 July 2024

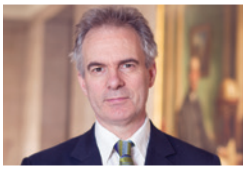
Prudential Regulation Committee (PRC)

Members as at 29 July 2024[5] [6] [7]

Andrew Bailey
Governor,
Chair of the PRC

Julia Black
External member
Term: 30 November 2018
– 29 November 2024

Sarah Breeden
Deputy Governor,
Financial Stability
Term: 1 November 2023
– 31 October 2028



Ben Broadbent
Deputy Governor,
Monetary Policy
Term: 1 March 2017
– 30 June 2024

Tanya Castell
External member
Term: 1 September 2021
– 31 August 2027

Antony Jenkins
External member
Term: 5 April 2021
– 4 April 2027

Jill May
External member
Term: 23 July 2018
– 22 July 2024

Marjorie Ngwenya
External member
Term: 5 September 2022
– 4 September 2025

Sir Dave Ramsden
Deputy Governor,
Markets, Banking,
Payments and Resolution
Term: 4 September 2017
– 3 September 2027

Nikhil Rathi
Chief Executive
of the FCA
Term: 1 October 2020
– 30 September 2025

John Taylor
External member
Term: 14 January 2021
– 13 January 2027

Sam Woods
Deputy Governor,
Prudential Regulation, and
Chief Executive of the PRA
Term: 1 July 2016
– 30 June 2026

5. On 1 August 2023, Sarah Breeden was announced as Deputy Governor for Financial Stability, effective from 1 November 2023. Sir Jon Cunliffe completed his term on 31 October 2023. Ben Broadbent will complete his term as Deputy Governor for Monetary Policy on 30 June 2024. Antony Jenkins was reappointed as an external member of the PRC on 11 January 2024. Antony will serve a further three-year term, from 5 April 2024 to 4 April 2027. John Taylor was reappointed as an external member of the PRC on 11 January 2024. John will serve a further three-year term, from 14 January 2024 to 13 January 2027. Tanya Castell was reappointed as an external member of the PRC on 11 January 2024. Tanya will serve a further three-year term from 1 September 2024 to 31 August 2027.
6. **https://www.gov.uk/government/news/three-members-reappointed-to-the-prudential-regulation-committee**.
7. ibid. **https://www.gov.uk/government/news/three-members-reappointed-to-the-prudential-regulation-committee**.

The PRC is the body within the Bank responsible for exercising the Bank's functions as the Prudential Regulation Authority (PRA), as set out in the Bank of England Act 1998 and Financial Services and Markets Act 2000 (FSMA). The PRC is on the same statutory footing as the Monetary Policy Committee and the Financial Policy Committee.

The PRC's terms of reference provide for 12 members. Five members are Bank of England staff: the Governor and four Deputy Governors (the Deputy Governors for Financial Stability; Markets, Banking, Payments & Resolution; Monetary Policy; and Prudential Regulation), and a member appointed by the Governor with the approval of the Chancellor. The Committee also includes the Chief Executive of the Financial Conduct Authority (FCA), and at least six members appointed by the Chancellor of the Exchequer.

- The PRC is independent in all its decision-making functions, including making rules and the PRA's most important supervisory and policy decisions.
- The PRA's functions are exercised by the Bank and are funded by PRA fees, with the PRC responsible for consulting on and setting the level of those fees.
- The PRC is required to report annually to the Chancellor of the Exchequer on the adequacy of resources allocated to the Bank's functions as the PRA and the extent to which the exercise of those functions is independent of the exercise of the Bank's other functions.[8]
- Since February 2016, the Bank has indemnified members of the PRC against personal civil liability on the same terms as the members of the Court.[9]
- The PRA's statutory objectives for the year 2023/24 underpin its approach to supervision, which is forward-looking, judgement-based, and focused on segmented and holistic key risks. These objectives are:
- a general objective to promote the safety and soundness of the firms it regulates;
- specifically for insurers, to contribute to the securing of an appropriate degree of protection for those who are or may become insurance policyholders;

8. See the 'Annual Report of the PRC to the Chancellor of the Exchequer' section of this Report.
9. See the 'Court and the Bank's policy committees' section of the Bank of England Annual Report and Accounts 2023/24.

- a secondary objective[10] to, so far as is reasonably possible, act in a way that facilitates effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities; and

- a further secondary objective to, so far as is reasonably possible, act in a way that facilitates, subject to aligning with relevant international standards: (a) the international competitiveness of the UK economy (including, in particular, the financial services sector through the contribution of PRA-authorised persons); and (b) its growth in the medium to long term.

On 8 December 2022, HMT issued 'Recommendations for the Prudential Regulation Committee'.[11] This sets out aspects of the Government's economic policy to which the PRC should have regard when considering how to advance the PRA's objectives, and when considering the application of the regulatory principles in FSMA.

FSMA also requires the PRA to review and, if necessary, revise and publish annually its strategy in relation to how it will deliver its statutory objectives. The strategy is set by the PRC, in consultation with the Bank's Court. The PRA's strategy was set out in the PRA Business Plan 2024/25[12] which was published in April 2024.

10. The secondary objectives are engaged when the PRA is discharging its general functions in a way that advances its general objective (and, where appropriate, its insurance objective).
11. The **recommendations** (www.gov.uk/government/publications/recommendations-for-the-prudential-regulation-committee-december-2022) are available on the Government's website and the PRC's **response** (www.bankofengland.co.uk/-/media/boe/files/letter/2023/prc-remit-letter-to-chancellor.pdf) is available on the Bank's website.
12. **https://www.bankofengland.co.uk/prudential-regulation/publication/2024/april/pra-business-plan-2024-25**.

Annual Report of the PRC to the Chancellor of the Exchequer

The adequacy of resources allocated to the performance of Prudential Regulation Authority (PRA) functions and the extent to which the exercise of PRA functions is independent of other Bank functions.

This is the Annual Report by the Prudential Regulation Committee (PRC) to the Chancellor of the Exchequer under paragraph 19 of schedule 6A to the Bank of England Act 1998 (as amended). It relates to the period of 1 March 2023 to 29 February 2024. The PRA publishes this report as part of its commitment to transparency.

Background

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

The performance of the PRA functions

The PRA has published two approach documents setting out how it advances its statutory objectives: one is the PRA's approach to banking supervision; the other is its approach to insurance supervision.[13] A key principle underlying the PRA's approach to supervision is that it does not seek to operate a zero-failure regime.

Each year, the PRC sets the PRA strategy and business plan, and adopts the PRA's budget. These are based on the PRA's approach to supervision, the PRA's operating model, and its risk tolerance, all of which are agreed by the PRC.

13. https://www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors.

In 2023, the PRA published its consultation paper (CP) CP27/23 – The Prudential Regulation Authority's approach to policy,[14] which sets out its approach to policymaking with regard to its expanded role and the regulatory obligations under the regulatory framework as amended by FSMA 2023. CP27/23 builds on discussion paper DP4/22 – The Prudential Regulation Authority's future approach to policy.

The adequacy of resources

The PRA is fully funded by fees paid by regulated firms. The PRA consults each year on the allocation of fees among firms and has the ability, after consultation, to raise additional funds during the year for material changes. The PRA received three responses to its fees consultation proposals in 2023/24, which did not result in changes to the proposals set out in CP7/23 – Regulated fees and levies: Rates proposals 2023/24.[15]

The PRC seeks to ensure that the PRA's financial and non-financial resources are appropriately allocated to the work that best advances its objectives. In making judgements on the allocation of resources, the PRC takes into account a wide range of relevant considerations. These include the wider legislative and policy framework under which the PRA operates, including the duty to have regard to certain factors under FSMA (such as factors introduced by the Financial Services Act 2021 and FSMA 2023) and the Legislative and Regulatory Reform Act 2006. The PRC also takes into account HM Treasury's recommendation letter,[16] which was updated on 8 December 2022 (more information is available on the PRC page[17]), and contains aspects of the Government's economic policy to which the PRC should have regard when considering how to advance the PRA's objectives, and the application of the regulatory principles set out in section 3B FSMA.

The PRC oversees the allocation of the PRA's resources to a combination of assurance work on individual firms and sectors, sectoral stress testing, policymaking, and investment in multi-year programmes that respond to changes in the external environment and risk profile of regulated firms. Work on multi-year programmes can span a range of areas, such as:

14. https://www.bankofengland.co.uk/prudential-regulation/publication/2022/september/pra-approach-to-policy.
15. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/april/regulated-fees-and-levies-rates-proposals-2023-24.
16. https://www.gov.uk/government/publications/recommendations-for-the-prudential-regulation-committee-december-2022.
17. https://www.bankofengland.co.uk/about/people/prudential-regulation-committee.

- implementing the outcomes of the Future Regulatory Framework (including embedding the new competitiveness and growth objective), and the Government's aim to deliver a Smart Regulatory[18] reform (supporting growth);

- delivering a package of measures to reform the UK regulatory regime for insurers;

- implementing Basel 3.1 standards and the Strong and Simple framework; and

- strengthening operational resilience and mitigating the risk of disruption, including through cyber stress tests.

The PRC also receives and reviews regular updates on the PRA's performance and on how the PRA's financial and non-financial resources are allocated and monitored, as well as how any resource risks are being mitigated through performance and assurance reporting, discussions of papers prepared by staff, and PRC members' regular interaction with the PRA, including meetings with senior management and other staff. In addition, PRC members have the benefit of their own engagement with industry through meetings and events across the year. Regular reporting to PRC covers:

- progress against strategic aims; budget and headcount position; staff turnover; technology availability; and

- the PRA's risk profile.

The reports and other evidence provided to the PRC during the year indicate whether the PRA has used its financial and non-financial resources to deliver its functions, in line with its business plan.

The Bank's second and third lines of defence are also applied within the PRA. These include the Bank's risk management framework, compliance function, internal audit function, and the Audit and Risk Committee of Court.

The PRA made substantial progress against its strategic priorities in its 2023/24 Business Plan.[19] The PRA's budget is set within the wider context of the Bank's overall budget policy. As set out in this report, the PRA increased the resources that are allocated to its increased responsibilities related to rule-making and investment in data and technology. To support this, the PRA made reprioritisation decisions to restrain further cost growth for 2023/24.

18. https://www.gov.uk/government/collections/smarter-regulation.
19. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/may/pra-business-plan-2023-24.

The PRA continues to invest in technology to maintain and improve its operational effectiveness. The PRA's technology improvement programme is prioritised in the context of the Bank's wider technology estate, where there is a programme of work underway to address obsolescence by implementing more widely adopted industry-standard solutions to replace older bespoke applications. This is limiting the speed with which the PRA is able to deliver some of its strategic ambitions to improve its operational effectiveness.

In 2023/24, the PRA final outturn was £4 million below budget. This is because costs that are directly within PRA's control, as well as pensions and depreciation, were all lower than budgeted. At the same time, support costs allocated to the PRA for services provided by the Bank's central functions were higher than anticipated. The PRA received additional income of £2 million in the form of Retained Financial Penalties. As a result, there is a surplus of £6 million. This is explained further in CP4/24 – Regulated fees and levies: Rates proposals for 2024/25.[20]

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

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

The PRC is independent in all its decision-making functions, which include making rules and the PRA's most important supervisory and policy decisions. The PRC also maintains its independence by ensuring that actual and potential conflicts of interest across its members are identified and managed on a continual basis, and by having its own internal infrastructure and processes that supplement Bank-wide arrangements. PRC members' remuneration is determined by the Bank's Remuneration Committee (see the 'Report of the Remuneration Committee' section of the Bank of England Annual Report and Accounts).

The PRA is part of the Bank's legal entity and contributes to effective policymaking on financial stability. The roles and responsibilities of the Bank and the PRA are distinct, and their functions are discharged in line with the Basel Core Principles. For example, the Bank has legislation-driven arrangements in place to ensure that its functions as the UK's resolution authority, and its supervisory functions (which are exercised in its capacity as the

20. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/april/regulated-fees-and-levies-rates-proposals-2024-25-consultation-paper.

PRA) are operationally independent from one another, and has issued a statement[21] setting out these arrangements.

The PRC is structurally separated from the FPC and MPC by having different external memberships. The PRC and FPC hold all meetings separately, except those to discuss matters of mutual interest for example, when conducting the annual concurrent stress test and co-ordinating system-wide exploratory scenarios.[22] The FPC has specific powers of direction over prescribed macroprudential measures and can make recommendations to anyone with the purpose of reducing risks to financial stability, including the PRA. This can sometimes mean that the FPC takes decisions that constrain the actions determined by the PRC.

The fee income generated from regulated firms can only be used for the functions covered by the statutory framework that the PRA operates within. The PRA's budget covers its direct costs and also supports costs charged by the Bank, including those for central functions such as technology, finance, and human resources. The Bank's external auditors review the allocation of support costs charged by the Bank and provide external assurance that costs have been allocated appropriately (see the 'Financial statements: Report of the Independent Auditor' section of the Bank of England Annual Report and Accounts).

21. **https://www.bankofengland.co.uk/-/media/boe/files/about/legislation/statement-structural-separation**.
22. **https://www.bankofengland.co.uk/financial-stability/boe-system-wide-exploratory-scenario-exercise**.

Senior leadership team

The senior leadership team at the Prudential Regulation Authority is below as at 29 July 2024.[23] [24] [25] [26]

David Bailey
Executive Director,
Prudential Policy

Phil Evans
Director,
Prudential Policy

Charlotte Gerken
Executive Director,
UK Deposit Takers
Supervision

Rebecca Jacksonn
Executive Director,
Authorisations, RegTech and
International Supervision

Shoib Khan
Director, Insurance
Supervision

Ben Martin
Director, PRA Strategy,
Risk and Operations

Duncan Mackinnon
Executive Director,
Supervisory Risk
Specialists

Alison Scott
Director, Authorisations,
RegTech and International
Supervision

Gareth Truran
Executive Director,
Insurance Supervision

Laura Wallis
Director, UK Deposit
Takers Supervision

Sam Woods
Deputy Governor,
Prudential Regulation and
Chief Executive of the PRA

23. Laura Wallis was appointed as Director in June 2023.
24. Victoria Saporta held the post of Executive Director for Prudential Policy until February 2024.
25. Gareth Truran was appointed as Executive Director in May 2024.
26. Alison Scott was appointed as Director, Authorisations, RegTech and International Supervision in March 2024.

Summary: Review of 2023/24

The Prudential Regulation Authority's (PRA) activities in 2023/24 were directed by the PRA's statutory objectives and the PRA Business Plan 2023/24

The PRA sets strategic goals and a business plan to direct its work towards achieving its statutory primary and secondary objectives. This section outlines the work completed by the PRA in pursuit of its strategic goals in 2023/24, as set out in the PRA Business Plan 2023/24,[27] which are designed to deliver the PRA statutory objectives.

As in previous years, the PRA has contributed to the Bank's financial stability objective, while at the same time pursuing its own statutory objectives by maintaining prudential standards and actively limiting risks to the PRA's objectives, including the insurance-specific objective of policyholder protection.

The work completed in 2023/24, as set out in this report, advanced the PRA's statutory objective of promoting the safety and soundness of the firms it regulates, focusing on the adverse effects they can have on the stability of the UK financial system and the operating environment of PRA-regulated firms. The PRA also focused on the two secondary objectives of facilitating, so far as reasonably possible, effective competition in the markets for services provided by PRA-authorised persons, and facilitating the UK economy's international competitiveness and its growth over the medium to long term, subject to aligning with relevant international standards. The additional secondary objective, which is focused on international competitiveness and growth, was introduced under FSMA 2023 – see Box A and the SCGO Report.[28]

The PRA has advanced its statutory objectives by implementing timely and necessary prudential reforms to maintain trust in the UK financial system. For example, the Basel 3.1 reforms will implement internationally agreed capital standards for banks operating in the UK. Similarly, the Solvency UK reforms for insurers will allow the life insurance sector to play a bigger role in the productive investment in the UK economy, while continuing to offer policyholders the level of security determined by legislation. The PRA has also consulted on

27. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/may/pra-business-plan-2023-24.
28. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/july/pra-secondary-competitiveness-and-growth-objectives-report-2023-24.

life insurers' use of funded reinsurance transactions,[29] a growing trend in the UK life insurance market which has the potential to undermine trust in the UK prudential framework.

Partly in response to industry feedback (see 'Firm feedback' section in this report), the PRA has continued to improve its regulatory processes, including firm authorisations, the Senior Managers and Certification Regime, and internal model approvals. The PRA's policy, as set out in PS3/24 – Review of Solvency II: Reporting and disclosure phase 2 near-final,[30] will improve the quality of firm information received by the PRA by removing elements of historical Solvency II reporting. This will result in lower regulatory costs for firms, improve the ease of doing business in the UK, and therefore also competitiveness and growth in the UK, in the medium to long term.

The PRA commenced work on its Banking Data Review,[31] which is part of the broader Transforming Data Collection programme,[32] with the goal of reviewing the regulatory banking data landscape and ensuring that the PRA collects data it needs to fulfil its mission at the lowest possible cost to industry and with increased internal efficiency. And enhancements made to the PRA Rulebook will make it easier for regulated firms to navigate its rules and other policy materials.

The repeal of assimilated law by FSMA 2023 constitutes a step change in the PRA's rule-making responsibilities, enabling it to replace assimilated law (once its repeal is commenced by HM Treasury (HMT)) with PRA rules in the PRA Rulebook and other policy materials, in line with the Government's Smarter Regulatory Framework programme.[33] Assimilated law is in the process of being replaced with a model of regulation under which rules are set by the independent financial services regulators, operating within a framework set by Government and Parliament. These measures will enable the PRA to continue to deliver policies that are better suited to the UK's financial sector.

The PRA also took steps to establish a Cost Benefit Analysis (CBA) Panel enhancing its scrutiny and accountability mechanisms, as set out in the PRA's statement of policy (SoP) – Statement by the PRA and the Bank of England.[34] The CBA Panel will support increased transparency of the PRA's policymaking, providing regular, independent input to the PRA's

29. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/november/funded-reinsurance-consultation-paper.
30. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/february/review-of-solvency-ii-reporting-disclosure-phase-2-near-final-policy-statement.
31. https://www.bankofengland.co.uk/prudential-regulation/banking-data-review.
32. https://www.bankofengland.co.uk/prudential-regulation/transforming-data-collection.
33. https://www.gov.uk/government/collections/smarter-regulation.
34. https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/approach/panel-appointments-sop.pdf.

CBAs relating to PRA rules and the PRA's SoP in relation to CBAs. The CBA Panel will review how the PRA is performing more generally in carrying out its duties with regard to CBAs and may provide recommendations to the PRA.

Other areas of work that advanced the PRA's statutory objectives include issuing consultations and final policy on remuneration reforms, including adjustment to the rules on the structure of bankers' remuneration by removing the bonus cap,[35] and the creation of a simpler but equally resilient prudential framework for smaller and domestically focused banks and building societies by publishing the eligibility criteria for the Strong and Simple framework[36] for banks and building societies.

The PRA also facilitated the competitiveness and growth of the UK economy by responding faster to emerging risks and opportunities, such as those arising from innovation. On 6 November 2023, the PRA published a 'Dear CEO' letter on innovations in digital money and money-like instruments[37] to support innovation safely. The letter clarified how the PRA expects deposit-takers to address the risks arising from these innovations, while supporting it.

The PRA also set out its expectations on general insurance firms' approach to addressing recent claims inflation within their reserves via a 'Dear Chief Actuary' letter,[38] and on a new regulatory framework for designating critical third parties to the UK financial sector. The PRA has also worked with deposit-takers and their auditors to improve accounting and disclosure standards for credit losses.

Several other work streams contributed to the advancement of the PRA's statutory secondary objectives, including consultation on the proposed rule and policy updates in respect of the establishment and maintenance of third-country branches and subsidiaries. The PRA continued to be actively involved in international standard-setting bodies and supports HMT in its international negotiations on trade and market access. This included actions through which the PRA:

- raised the size thresholds at which certain remuneration requirements apply to ease the burden on smaller firms. This can help smaller firms and/or new entrants with limited access to external financing options;

35. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/october/remuneration-ratio-between-fixed-and-variable-components-of-total-remuneration.
36. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/strong-and-simple-framework-policy-statement.
37. https://www.bankofengland.co.uk/prudential-regulation/letter/2023/innovations-in-the-use-of-deposits-emoney-and-regulated-stablecoins.
38. https://www.bankofengland.co.uk/prudential-regulation/letter/2023/june/insights-from-thematic-review.

- published rules and expectations on Solvent exit planning for non-systemic banks and building societies[39] for non-systemic banks and building societies in the UK to prepare, as part of their business-as-usual activities, for an orderly 'solvent exit', thereby reducing the potential for disruption to the wider market and to firms' customers;

- published rules on non-performing exposures capital deduction[40] that removed the Common Equity Tier 1 capital deduction requirement and associated reporting requirements in the PRA Rulebook regarding non-performing exposures that are treated as insufficiently covered by firms' accounting provisions;

- published a joint feedback statement[41] on artificial intelligence (AI) and machine learning with the Bank and Financial Conduct Authority (FCA), which summarises the responses to the discussion paper on this topic[42] to ensure a proportionate approach is considered to enable the safe and responsible adoption of AI and other technologies across UK financial services; and

- provided technical assistance to HMT on the financial services elements of the Free Trade Agreements the UK is pursuing, as set out in the Prudential Regulation Committee's (PRC's) recommendation letter response to the Chancellor[43] from the PRA together with the Bank. The PRA has also worked to support potential market entrants through its New Bank and Insurer Start-up Units.

Attracting foreign capital and businesses to the UK will help to maintain its status as a global financial centre. And increased openness should also benefit the financial services sector and the wider UK economy.

Since the PRA's new secondary objective of facilitating international competitiveness and growth came into force, the PRA has updated its policymaking approach and framework and taken forward a range of reforms to simplify aspects of its regime and make them more proportionate and more efficient for firms. These activities are described in the SCGO

39. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/march/solvent-exit-planning-for-non-systemic-banks-and-building-societies-policy-statement.
40. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/november/the-non-performing-exposures-capital-deduction-policy-statement.
41. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/october/artificial-intelligence-and-machine-learning.
42. https://www.bankofengland.co.uk/prudential-regulation/publication/2022/october/artificial-intelligence.
43. https://www.bankofengland.co.uk/-/media/boe/files/letter/2024/prc-remit-letter-to-chancellor-jan-2024.pdf.

Report,[44] which also provides quantitative and qualitative metrics to help stakeholders understand how the PRA has performed against this new objective.

During the year, the PRA decided to reprioritise some supervision activities to help provide capacity. Readers may also find it helpful to refer to the PRA statutory objectives, SCGO Report and PRA Business Plan 2024/25,[45] which together set out the PRA's strategy and workplan for the coming year, as well as the PRA's approach to supervision documents.[46]

44. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/july/pra-secondary-competitiveness-and-growth-report-2023-24.
45. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/april/pra-business-plan-2024-25.
46. https://www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors.

Box A: The PRA's secondary competitiveness and growth objective

Having received Royal Assent in June 2023, FSMA 2023[47] introduced a new secondary objective for the PRA and FCA to, so far as reasonably possible, facilitate the international competitiveness of the UK's economy (in particular, the financial services sector through the contribution of PRA-authorised persons) and its growth over the medium to long term, subject to aligning with relevant international standards. This secondary competitiveness and growth objective is in addition to the existing secondary objective, which was introduced in 2014 and requires the PRA to facilitate, so far as reasonably possible, effective competition in the markets for services provided by PRA-authorised persons. Both secondary objectives have equal legal standing.

As required by section 26 of FSMA 2023, the PRA has published the SCGO report[48] to explain to HMT the actions taken to embed the SCGO[49] in its operations, processes, and decision-making, and how any PRA rules and guidance advance the SCGO. This separate report also discusses the policy initiatives and work streams that the PRA worked on during 2023/24 to facilitate the SCGO. The report also provides quantitative and qualitative metrics that have been agreed with HMT with the aim of helping stakeholders understand how the PRA has advanced its SCGO.

In addition, the PRA's implementation of the SCGO has been reviewed by the Bank's Independent Evaluation Office (IEO) – see Box F. The findings of the IEO's review will inform the PRA's future activity in this area.

The PRA's approach to pursuing its primary objectives is grounded in the role that a safe and sound financial sector plays in maintaining a strong and dynamic UK economy. Effective competition, by supporting the efficient delivery of vital services, is an important part of this. Additionally, a resilient and dynamic financial services sector can reinforce medium-term growth and contribute towards a competitive UK economy.

The SCGO is underpinned by three regulatory foundations, which represent the main areas of action for the PRA to facilitate competitiveness and growth. As explained in

47. https://www.legislation.gov.uk/ukpga/2023/29/contents/enacted.
48. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/july/pra-secondary-competitiveness-and-growth-objectives-report.
49. https://www.bankofengland.co.uk/prudential-regulation/secondary-competition-objective.

CP27/23 – The PRA's approach to policy,[50] under FSMA 2023 these three foundations are:

- **Foundation 1** – Maintaining trust among domestic and foreign firms in the PRA and UK prudential framework. Trust is one of the most important elements for the competitiveness of the financial sector and underpins economic growth in the medium to long term. The PRA maintains trust by providing strong prudential standards which help to underpin the success of the UK as an international financial centre. Strong standards also increase the likelihood of continuity in the financial sector's provision of important services to the real economy in times of stress. Trust is also maintained through the appropriate design and calibration of standards and the appropriate implementation of international standards, enabling firms to compete on a level playing field.

- **Foundation 2** – Adopting effective regulatory processes and engagement. The operational costs of doing business in a jurisdiction affect the competitiveness of an economy. Many of these costs are not within the PRA's control, but some are. For example, by providing for the efficient handling of regulatory processes, including authorisations, the PRA can increase the efficiency and reduce operating costs of firms, including the data and information it requests as a regulator. The PRA seeks to reduce these costs for regulated firms, ensuring that data is collected efficiently and proportionately, and that its Rulebook is accessible and clear.

- **Foundation 3** – Taking a responsive and responsibly open approach to UK risks and opportunities. As assimilated law is replaced by PRA rules, technical standards, supervisory statements, and statements of policy, the PRA is able to tailor rules to UK circumstances and respond faster to emerging risks and opportunities in the UK financial sector. The PRA aims to keep innovations and changing risks under active review to ensure they are covered by the regulatory regime, thereby supporting confidence and growth in areas of innovation. The PRA is also open to hosting cross-border businesses in the UK, provided that they are resilient, appropriately controlled and governed, and that the PRA has sufficient visibility of and influence over the necessary supervisory outcomes. Adopting a responsibly open approach attracts foreign capital to the UK and enhances the UK's status as a global financial centre.

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50. **https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/pra-approach-to-policy-consultation-paper**. The agreed metrics take into account the stakeholder feedback received through HMT's Financial Services Regulation: Measuring Success – Call for Proposals, (**https://www.gov.uk/government/consultations/financial-services-regulation-measuring-success-call-for-proposals**) which was focused exclusively on the newly established SCGO.

How the PRA delivered its 2023/24 strategic goals

1. Maintain and build on the safety and soundness of the banking and insurance sectors and ensure continuing resilience

- Published the first of two near-final policy statements on Basel 3.1 standards, covering the parts of Basel III that remain to be implemented in the UK.

- Working closely with the Bank and international counterparts, the PRA effectively responded to events in March 2023, including the failure of Credit Suisse and Silicon Valley Bank. It also contributed to the Basel Committee on Banking Supervision's (BCBS) Report on the 2023 banking turmoil,[51] which was published in October 2023 to assess the causes of the bank failures and to identify initial lessons learnt.

- Updated its approach to Enforcement to set out the revised approach to enforcement across the Bank's full remit (including when acting as the PRA).

- Enforcement action included fines for regulatory and governance failings in Wyelands Bank Plc and HSBC, with the PRA imposing its largest-ever fine in the case of Credit Suisse.

- Published a joint consultation proposing how the powers to oversee critical third parties (CTPs) could be used to assess and strengthen the resilience of services provided by CTPs to firms and Financial Market Infrastructures, thereby reducing the risk of systemic disruption.

2. Be at the forefront of identifying new and emerging risks, and developing international policy

- Continued work with HMT on the future financial services' regulatory regime for cryptoassets and published a letter on the PRA's expectations of how deposit-takers should address risks arising from the issuance of multiple forms of digital money and money-like instruments to retail customers.

- Maintained its risk-based supervision of the management of climate-related financial risks over the course of 2023/24 and continued to assess firms' practices against the expectations set out in SS3/19 – Enhancing banks' and insurers' approaches to managing the financial risks from climate change.[52]

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51. https://www.bis.org/bcbs/publ/d555.pdf.
52. https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319.

- Continued to monitor developments relating to digitalisation, the impact of digitalisation on business models with a focus on banking as a service and firms' other technology-led business model developments, including deposit aggregators.

- Continued to promote high-quality and consistent accounting for climate change, by maintaining strong risk-based supervision of the management of climate-related financial risks.

- Continued to engage on key operational risks with standard-setting bodies such as the Financial Stability Board, the BCBS, the International Association of Insurance Supervisors, and through forums at the G7, in Europe, as well as bilaterally.

- Identified rapid growth of funded reinsurance as a source of prudential and systemic risk, and consulted on risk management measures to mitigate these risks.

3. Support competitive and dynamic markets, alongside facilitating international competitiveness and growth, in the sectors that we regulate

- Updated its policy framework to take account of the new secondary objective introduced by FSMA 2023 and consulted on its proposed policy approach, building on DP4/22 – The Prudential Regulation Authority's future approach to policy.[53]

- Issued near-final policy statements on the implementation of significant reforms to the Solvency UK (formerly Solvency II) insurance regime, designed to streamline the regime, improve flexibility, and encourage new entrants. The PRA also consulted on reforms to improve investment flexibility within the matching adjustment regime, to support insurers' ability to invest in the UK economy.

- Continued its work with HMT and the FCA on the sequencing of the replacement of assimilated law (previously known as retained EU law) relating to financial services.

- Published a SoP on its approach to appointing members to the PRA's statutory panels, as required by FSMA 2023.

- Further developed the Strong and Simple framework by publishing final policy for firms that are subject to the simpler regime, which are called Small Domestic Deposit Takers.[54]

53. https://www.bankofengland.co.uk/prudential-regulation/publication/2022/september/pra-approach-to-policy.
54. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/strong-and-simple-framework-policy-statement.

- Continued to maintain a high level of regulatory operational effectiveness in authorisations and introduced quarterly reporting of performance metrics for a range of regulatory transactions in 2023, including on the time taken to determine cases.

- Commenced a review of regulatory policies to assess whether the policy framework for trading book risk management, controls and culture is adequate, robust, and accessible.

4. Run an inclusive, efficient, and modern regulator within the central bank

- Improved operational efficiency by enhancing data-related capabilities through phased investments in innovative technologies, skills, and processes to support the PRA's supervision activities. Examples include tools such as data visualisation, speech-to-text technology, and the development of dashboards to gauge firms' risk exposures and track Senior Manager approvals, among other functionalities. The PRA will continue to examine ways in which it could enhance its efficiency and productivity.

- Continued to work with firms as they progress their model approvals and to review submissions in line with the PRA's requirements and expectations.

- Continued to co-ordinate and interact effectively with the FCA across a wide range of policy and supervisory matters, including the enactment of FSMA 2023 and the embedding of policies relating to operational resilience.

- Progressed further with the implementation of the recommendations made in the Bank's Independent Court Review[55] on diversity, equity, and inclusion in 2021 and the subsequent action plan that was published in January 2022.

55. https://www.bankofengland.co.uk/report/2021/court-review-of-ethnic-diversity-and-inclusion.

Review of 2023/24

1. Maintain and build on the safety and soundness of the banking and insurance sectors and ensure continuing resilience

During 2023/24, the Prudential Regulation Authority (PRA) has advanced its statutory primary objective by continuing to progress work to promote the safety, soundness, and operational resilience of regulated firms in the banking and insurance sectors. This has included moving closer to implementing Basel 3.1 and Solvency UK standards and building on earlier work to strengthen operational resilience within the financial sector, including proposals for the oversight of critical third parties. The PRA also worked with the Bank to execute the orderly resolution of Silicon Valley Bank UK, following the failure of its US parent, and the transfer of its shares to HSBC for a nominal consideration, and also responded to the failure of Credit Suisse. The PRA has also undertaken enforcement actions to tackle threats and ensure accountability among PRA-authorised firms.

The PRA's regulatory framework encourages PRA-regulated firms to take a holistic approach to managing risks by identifying, monitoring, and taking action to remove or reduce systemic risks.

Financial resilience – banks

Implementation of Basel 3.1 standards

In December 2023, the PRA took a significant step towards implementing the remaining Basel III standards in the UK by publishing the first of two near-final policy statements (PS) PS17/23 – Implementation of the Basel 3.1 standards near-final part 1,[56] which takes account of 126 responses received to consultation paper (CP) CP16/22[57] as well as feedback gathered during more than 70 meetings with stakeholders. The near-final rules aim to promote the safety and soundness of PRA-regulated firms and support their international competitiveness by making capital ratios more consistent, comparable, and aligned with international standards.

The PRA intends to publish its second near-final PS in due course on the remaining aspects of the Basel 3.1 package, which include credit risk, the output floor, reporting and disclosure requirements.

56. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/implementation-of-the-basel-3-1-standards-near-final-policy-statement-part-1.
57. https://www.bankofengland.co.uk/prudential-regulation/publication/2022/november/implementation-of-the-basel-3-1-standards.

In order to support firms in their planning processes, the PRA announced in September 2023 that it intends to implement the Basel 3.1 standards over a 4.5-year transitional period, beginning on 1 July 2025 (instead of 1 January 2025) and ending on 1 January 2030, in line with the proposals set out in CP16/22.[58] Among other things, the PRA will also continue to support international efforts to monitor and promote implementation of Basel 3.1.

Bank stress testing

For the banking sector, the PRA supported the Bank's 2022/23 annual cyclical scenario (ACS) stress test, the results of which were published on 12 July 2023 in Stress testing the UK banking system: 2022/23 Annual Cyclical Scenario results.[59] The test indicated that the major UK banks would be resilient to a severe stress scenario that incorporated persistently higher advanced-economy inflation, increasing global interest rates, deep and simultaneous recessions in the UK and global economies with materially higher unemployment, and sharp falls in asset prices. Additionally, for the first time, the test assessed the ring-fenced subgroups (RFBs) of selected participating banks on a standalone basis, where these differed materially from the group. All four participating RFBs also remained above their Common Equity Tier 1 (CET1) and Tier 1 leverage ratio hurdle rates in the test.

In June 2023, the Bank also launched a system-wide exploratory scenario,[60] which aims to improve understanding of the behaviours of banks and non-bank financial institutions in stressed financial market conditions. The firms participating in this exercise are representative of markets that are core to UK financial stability. The initial scenario was published in 2023 Q4, with final results expected to be published in the second half of 2024.

Model risk management (MRM), internal ratings-based (IRB) approach/hybrid models and regulatory reporting

Given the central role that models play in supporting firms' risk assessment and management, and in identifying weaknesses with implementation of new policy, MRM remains a supervisory priority. The PRA reached a milestone in its progress towards building standards for MRM with the publication of PS6/23 – Model risk management principles for banks[61] and the similarly titled SS1/23 in May 2023.[62]

58. https://www.bankofengland.co.uk/prudential-regulation/publication/2022/november/implementation-of-the-basel-3-1-standards.
59. https://www.bankofengland.co.uk/stress-testing/2023/bank-of-england-stress-testing-acs-results-2022-23.
60. https://www.bankofengland.co.uk/financial-stability/boe-system-wide-exploratory-scenario-exercise.
61. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/may/model-risk-management-principles-for-banks.
62. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/may/model-risk-management-principles-for-banks-ss.

In addition, the PRA's work on internal models during 2023/24 also included:

- the ongoing implementation of new PRA requirements and expectations for IRB models (IRB hybrid mortgage models and the IRB Repair Programme for non-mortgage portfolios); and

- continued engagement with firms seeking to adopt IRB approaches.

Due to the overall scale and complexity of the changes and weaknesses in MRM identified across the industry, firms' implementation of the new IRB requirements and expectations, which came into force on 1 January 2022, has been challenging. During 2023, the PRA continued to actively engage with in-scope firms on their model development and implementation plans, and instances of non-compliance have been addressed using post-model adjustments. Adoption of the revised standards will remain a key priority for the PRA in the coming year. The PRA will continue to review its own approach to assessing IRB models and engage with firms that have IRB approval and those seeking it to make sure the PRA's expectations for IRB models are clear.

The PRA also continued to engage with firms on market risk and counterparty credit risk model performance, including detailed assessments of firms' model back-testing approaches and outcomes, and follow-up work on model remediation activities. Significant progress has been made on preparations for the implementation of the Fundamental Review of the Trading Book,[63] with key aspects of the new rules reviewed on an industry-wide basis and feedback provided to firms. The PRA has also continued to review the use of Standard Initial Margin Models.

Securitisation

Following the enactment of FSMA 2023, the PRA published consultation paper CP15/23 – Securitisation: General requirements[64] to collect market feedback on the PRA's proposed rules to replace requirements in the Securitisation Regulation 2017 (and related technical standards) on PRA-authorised persons for which the PRA has supervisory responsibility. (The FCA had published a parallel paper CP23/17 – Rules relating to Securitisation[65] on their rules back in 2017). According to the paper, the proposed PRA rules would largely preserve the current requirements. Targeted policy adjustments were also proposed to enhance the clarity of these requirements, add further specifications and, where appropriate, provide for more proportionate regulatory treatment. Following the commencement of the

63. **https://www.bis.org/publ/bcbs265.pdf**. This is a comprehensive suite of capital rules developed by the BCBS as part of Basel III, and is intended to be applied to banks' wholesale trading activities.
64. **https://www.bankofengland.co.uk/prudential-regulation/publication/2023/july/securitisation**.
65. **https://www.fca.org.uk/publications/policy-statements/ps24-4-rules-relating-securitisation**.

Securitisation Regulation 2024, the PRA rules were published on 30 April, with a six-month adaptation period for industry before the rules come into force on 1 November 2024.

The PRA also published DP3/23 – Securitisation: Capital requirements[66] to seek views and evidence to inform the PRA's policy thinking ahead of consulting on draft PRA rules to replace relevant requirements in Part Three, Title II, Chapter 5 (the 'Securitisation Chapter') of the Capital Requirements Regulation (CRR).[67] The DP considered a set of issues relating to capital requirements for PRA-authorised CRR firms' securitisation exposures. These included (among others) the calibration of the Pillar 1 framework for determining capital requirements for securitisation exposures and their interaction with the Basel 3.1 output floor. The PRA also participated in relevant international workstreams such as the Financial Stability Board's (FSB) evaluation of securitisation reforms.[68]

HM Treasury (HMT) has prioritised Securitisation Regulation[69] as one of the initial areas of focus in the process of transferring assimilated law into regulatory rules and legislation, following the enactment of FSMA 2023. The PRA will publish its final policy (simultaneously with the FCA) on final rules to replace or modify the relevant firm-facing provisions in the Securitisation Regulation and related Technical Standards in 2024.

Financial resilience – insurers

Solvency UK

The PRA has continued to work closely with HMT on the review of Solvency II,[70] which will result in the new Solvency UK regime.[71] HMT set out its decisions on the package of reforms,[72] including both regulatory reform and supervisory measures, in November 2022. In 2023, as part of the implementation of these reforms, the PRA published two key consultation papers setting out its proposed rule changes.

66. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/october/securitisation-capital-requirements.
67. https://www.legislation.gov.uk/uksi/2013/3115/pdfs/uksiem_20133115_en.pdf.
68. https://www.fsb.org/2023/08/evaluation-on-effects-of-g20-reforms-on-securitisation-summary-terms-of-reference/.
69. https://www.gov.uk/government/publications/securitisation-regulations-2023-draft-si-and-policy-note.
70. https://assets.publishing.service.gov.uk/media/6375529fe90e072852140498/Consultation_Response_-_Review_of_Solvency_II_.pdf.
71. Solvency UK refers to the reform package that will be delivered in response to the Government's review of the EU's Solvency II regulatory requirements for insurance firms and groups.
72. https://assets.publishing.service.gov.uk/media/6375529fe90e072852140498/Consultation_Response_-_Review_of_Solvency_II_.pdf.

- In CP12/23 – Review of Solvency II: Adapting to the UK insurance market,[73] published in June 2023, the PRA proposed a significant number of reforms to its Solvency II prudential regime for insurers. The proposals simplify capital calculations and increase flexibility in the use of internal models. They aim to encourage new entrants to the market by introducing a new 'mobilisation' regime, raising the threshold at which smaller insurers are required to comply with the Solvency II regime in order to gain entry into the UK, and removing certain requirements for branches of international insurers operating in the UK. These reforms will be effective from 31 December 2024.

- In CP19/23 – Review of Solvency II: Reform of the Matching Adjustment,[74] published in September 2023, the PRA set out its proposed reforms to the matching adjustment (MA) rules and expectations. These reforms are designed to facilitate broader and quicker investment by insurers, while improving responsiveness to risk and enhancing firms' responsibility for risk management. They are designed to work within HMT's corresponding legislation[75] on the MA, and come into effect on 30 June 2024 (other than MA reporting reforms, which will be delayed until 31 December 2024).

- Reporting reform proposals were also set out in CP12/23 – Review of Solvency II: Adapting to the UK insurance market.[76] These were in addition to those presented in CP14/22 – Review of Solvency II: Reporting phase 2,[77] published in November 2022. The combined proposed changes seek to improve the efficiency of reporting for firms and the relevance of reported data in advancing the PRA's objectives.

In February 2024, the PRA published near-final PS2/24 and PS3/24 on all these reforms, other than CP19/23 (for which final policy follows separately). The reforms set out in PS2/24 and PS3/24 will come into effect on 31 December 2024.

In response to consultation feedback, the PRA brought forward the implementation of certain reforms to Solvency II reporting and the transitional measure on technical provisions to end-2023.

73. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/june/review-of-solvency-ii-adapting-to-the-uk-insurance-market.
74. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/september/review-of-solvency-ii-reform-of-the-matching-adjustment.
75. https://www.legislation.gov.uk/uksi/2023/1347/pdfs/uksi_20231347_en.pdf.
76. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/june/review-of-solvency-ii-adapting-to-the-uk-insurance-market.
77. https://www.bankofengland.co.uk/prudential-regulation/publication/2022/november/review-solvency-ii-reporting-phase-2.

Insurer Resolution Regime

The PRA actively supported HMT in the development of proposals for an insurer resolution regime, which culminated in HMT's publication of its consultation response, entitled Introducing an Insurer Resolution Regime,[78] in August 2023. This sets out that the Government plans to legislate when parliamentary time allows and will set out further information on plans in due course. The Government has said that, once any legislation is passed, it intends to make the stabilisation options, tools, and ancillary powers available to the Bank as resolution authority as soon as practicable. The regime is intended to enhance UK financial stability, protect the wider economy, and minimise disruption to policyholders in the event an insurer's failure would have adverse systemic impacts.

Insurance stress testing

The PRA uses regular, concurrent insurance stress testing to assess sector resilience, help the PRA assess the adequacy of firms' risk management, and guide supervisory activity. Stress testing continues to be a valuable tool for the PRA in pursuing a forward-looking, proportionate, and judgement-based approach to supervising the insurance sector.

The PRA has announced that the next insurance stress test exercises for the life and general insurance sectors will take place in 2025,[79] and it is currently engaging with firms and other relevant stakeholders to support design, operational and communication aspects ahead of launch.

Impact of claims inflation in general insurance

Claims inflation continues to be a significant risk for general insurers. Following a thematic review, the PRA published a Dear Chief Actuary letter[80] in June 2023 setting out the PRA's findings that, while reserves have increased, there remains material uncertainty and the potential for excessive optimism to impact reserving, pricing, and capital and reinsurance planning. It is expected that there will continue to be a lag in the emergence of claims inflation in the data, which insurers should be alert to.

Operational risk and resilience

Supervision of operational resilience

A key priority for the Bank, PRA, and FCA continues to be building a stronger supervisory framework to improve the operational resilience of firms and financial market infrastructures

78. https://assets.publishing.service.gov.uk/media/64c7de16d8b1a7000db05e23/Government_s_response_to_the_consultation_on_introducing_an_Insurer_Resolution_Regime.pdf.
79. https://www.bankofengland.co.uk/prudential-regulation/letter/2024/insurance-supervision-2024-priorities.
80. https://www.bankofengland.co.uk/prudential-regulation/letter/2023/june/insights-from-thematic-review.

(FMIs), as set out in CP26/23 – Operational resilience: Critical third parties to the UK financial sector,[81] published in December 2023. The purpose of this work is to enable firms and FMIs to prevent, adapt to, respond to, recover from, and learn from operational disruptions. Given firms' increased reliance on technology and third-party providers and the greater complexity of their operations, it is vital that they are able to respond to and recover from disruptions, and invest where needed, so as to prevent disruption to their important business services from impacting financial stability, firms' safety and soundness, or (in the case of insurers) policyholder protection.

Building on implementation work in 2022, the Bank and PRA continued to support regulated firms during 2023 as they implemented the operational resilience policy from 2021.[82] This work focused on improving the consistency of the way impact tolerances are set, the calibration of severe but plausible scenarios, and firms' work to build resilience so they can deliver their important business services within impact tolerances.

The PRA completed a thematic operational resilience assessment of domestic and international banks and insurers. The assessment began in August 2022 and provided feedback to firms on the progress made until 2023, with a second thematic review initiated in September 2023.

Cyber stress testing and resilience

Following the FPC's 2022 Cyber Stress Test,[83] the Bank and PRA published the thematic findings in 2023 so that firms and FMIs can incorporate learnings as they develop their operational resilience capabilities.

The PRA has continued to support the development of industry resilience capabilities through the provision of technical input into various industry associations, the Cross Market Operational Resilience Group (CMORG)[84] and its technical subgroups. Key deliverables in 2023 included good practice guidance for firms on operational resilience implementation, drawing on expertise from across industry to support firm preparedness and capability-building around the identification of important business services, impact tolerances, and scenario testing. Other key deliverables included a sector-wide test of the ability of firms and authorities to coordinate public messaging during severe operational disruption; an enhanced framework to support the safe and efficient reconnection to the system of an

81. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/operational-resilience-critical-third-parties-to-the-uk-financial-sector.
82. https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/statement-of-policy/2021/operational-resilience-march-2021.pdf.
83. https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2023/thematic-findings-2022-cyber-stress-test.pdf.
84. https://www.cmorg.org.uk.

organisation affected by a cyber attack; guidance for assessing the security of third parties; and a firm-level desktop exercise enabling organisations of any size across the sector to rehearse their response to a severe but plausible scenario. CMORG also launched its website, and the PRA worked with UK Financial Investments Limited (UKFI)[85] on holding the first CMORG conference in 2023.

The PRA has continued to assess the cyber resilience of regulated firms through a number of approaches, including the programme, which is a joint PRA and FCA framework for assessing the cyber resilience of firms' important business services through intelligence-led threat penetration testing. The PRA conducted 10 CBEST[86] assessments during the year, and initiated a further 10, as well as actively collaborating with other global financial regulators on a number of cross-jurisdictional assessments.

The PRA and the FCA also analysed the outcomes of completed CBEST assessments, and published CBEST thematic findings (2023 CBEST thematic).[87] In 2023, the PRA completed a number of STAR-FS[88] pilots, a testing concept similar to CBEST, applicable to smaller entities. The PRA also completed cyber self-assessments using the CQUEST cyber resilience questionnaire in insurance and international banking.

Critical third parties to the UK financial sector

The PRA has also increased its focus on third-party suppliers to the financial sector. Firms and FMIs increasingly rely on a small number of critical third parties (CTPs) to support their operations. This concentration could create risks to financial stability. For this reason, the Bank's FPC determined in 2021 that 'additional policy measures, some requiring legislative change, are likely to be needed to mitigate the financial stability risks stemming from concentration in the provision of some third-party services.'

FSMA 2023 enables HMT to designate certain third parties as 'critical' following an assessment of statutory factors, consultation with supervisory authorities (the FCA, the PRA, and the Bank in its capacity as supervisor of FMIs) and consideration of any third-party supplier representations. FSMA 2023 also gives the supervisory authorities new powers to oversee CTPs. In December 2023, the PRA, the Bank, and the FCA published a joint

85. UKFI manages the government's investments in the Royal Bank of Scotland (RBS), Lloyds Banking Group (Lloyds) and UK Asset Resolution Ltd (UKAR). UKFI is a company with HM Treasury as its sole shareholder and operates at arm's length from government.
86. https://www.bankofengland.co.uk/financial-stability/operational-resilience-of-the-financial-sector/2023-cbest-thematic.
87. https://www.bankofengland.co.uk/financial-stability/operational-resilience-of-the-financial-sector/2023-cbest-thematic.
88. https://www.bankofengland.co.uk/-/media/boe/files/financial-stability/star-fs-threat-intelligence-maturity-assessment-guide-march-2024.pdf.

CP26/23 – Operational resilience: Critical third parties to the UK financial sector,[89] proposing how these powers could be used to assess and strengthen the operational resilience of services provided by CTPs to firms and FMIs, thereby reducing the risk of systemic disruption. The consultation ended on 15 March 2024.

The PRA has reviewed a large number of outsourcing notifications from firms and held pre-notification meetings for particularly complex proposals. The PRA has also engaged on firms' multi-year technology transformation and digitisation programmes in order to better understand firm-specific and systemic risks.

Diversity and inclusion in firms

In September 2023, the PRA published CP18/23 – Diversity and Inclusion in PRA-regulated firms,[90] which proposed a range of measures designed to improve governance, decision-making, and risk management in firms by reducing groupthink and by promoting a culture that allows individuals in firms to feel able to speak up. In the CP, the PRA considered that the proposals would advance the PRA's secondary objectives of facilitating effective competition as well as the competitiveness and growth of the UK economy, because, among other reasons, enhanced diversity among employees can help support greater innovation and make firms more attractive in the labour market.

The PRA is now assessing the responses to CP18/23 as well as other feedback,[91] and will decide on any next steps in due course.

Enforcement: tackling threats to safety and soundness, and strengthening accountability in PRA-authorised firms

During the course of 2023/24, the PRA took several enforcement actions against both firms and individuals. It also consulted on and adopted amendments to its approach to enforcement with a view to providing routes for early cooperation and greater incentives for early admissions (Box B).

In April 2023, the PRA issued a public censure of Wyelands Bank Plc[92] for multiple serious failings involving risk management and controls, governance, and record keeping. Were it not for the deteriorating financial position of the firm, the PRA would have imposed a penalty of

89. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/operational-resilience-critical-third-parties-to-the-uk-financial-sector.
90. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/september/diversity-and-inclusion-in-pra-regulated-firms.
91. See the PRA's consideration of the objectives of the public sector equality duty, as set out in section 149 of the **Equality Act 2010** (Equality Act).
92. https://www.bankofengland.co.uk/news/2023/april/pra-censures-wyelands-bank-plc-for-breaching-large-exposure-limits-and-failings.

£8,515,000. Following the sanction against the firm, the PRA also imposed a fine of £118,808 on Mr Iain Mark Hunter, the former Chief Executive Officer (CEO), for breaches of multiple Individual and Senior Management Conduct Rules between 7 March 2016 and 28 May 2020. These included failing to take reasonable steps to ensure Wyelands Bank Plc was controlled effectively and complied with relevant regulatory rules. As part of the settlement reached with the PRA, Mr Hunter undertook that he will not in the future apply for or perform any function in relation to any regulated activity carried out by any authorised person, exempt person, or exempt professional firm (Box C).

In April 2023, the PRA also fined Mr Carlos Abarca,[93] the former Chief Information Officer of TSB, £81,620 for breaching Senior Manager Conduct Rule 2 in failing to take reasonable steps to ensure TSB Bank Plc adequately managed and supervised its 2018 IT migration programme.

In July 2023, the PRA imposed its highest-ever fine of £87,082,000 against Credit Suisse for risk management and governance failures in connection with its exposure to Archegos Capital Management (Box D).

In January 2024, the PRA imposed its second-highest fine of £57,417,500 against HSBC Bank Plc and HSBC UK Bank Plc[94] for multiple failings in relation to the implementation of the PRA's Depositor Protection rules, and (in the case of HSBC Bank Plc) for failing to be open and co-operative with the PRA as well as failures in relation to readiness for resolution (Box E).

During 2023/24, the PRA also opened two new cases. As of 29 February 2024, the PRA's enforcement team, which works closely with other relevant (including criminal) authorities, was overseeing four PRA cases. This included investigations into two PRA-authorised firms and six individuals.

The issues and themes encountered span the full spectrum of the PRA's strategic priorities, including operational risk and resilience, governance and risk management, regulatory reporting, as well as openness and co-operation with the PRA.

Cases refer to a common fact pattern, and can often encompass more than one investigation, to the extent that more than one entity or individual can be under investigation in relation to the relevant matter. Further detail on a number of the above cases is given below.

93. https://www.bankofengland.co.uk/news/2023/april/pra-fines-former-cio-of-tsb-bank-plc-for-breach-of-pra-senior-manager-conduct-rules.
94. https://www.bankofengland.co.uk/news/2024/january/pra-fines-hsbc-for-failures-in-deposit-protection-identification-and-notifcation.

Box B: The PRA's Updated Approach to Enforcement

Following a three-month consultation period, the Bank published PS1/24[95] in January 2024, setting out the revised approach to enforcement[96] across the Bank's full remit (including when acting as the PRA). The revised policies included amendments to the starting point for penalty calculations for individuals and for PRA-regulated firms, as well as clarifying the processes that the Bank will follow in its investigations. In particular, the amendments introduce a new Early Account Scheme that provides for a new path for early co-operation and greater incentives for early admissions with the aim of reaching outcomes more quickly in appropriate cases.

PS1/24[97] also sets out the PRA's policies and procedures for making statutory notice decisions. This includes updates to the Enforcement Decision Making Committee procedures for contested enforcement cases, updates to the PRA's procedures for decision-making in uncontested enforcement cases, and a new policy for supervisory and non-enforcement statutory notice decisions.

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95. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/january/the-bank-of-england-approach-to-enforcement-policy-statement.
96. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/january/the-bank-of-england-approach-to-enforcement-policy-statement.
97. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/january/the-bank-of-england-approach-to-enforcement-policy-statement.

Box C: Wyelands Bank Plc and Mr Iain Mark Hunter

Wyelands Bank Plc

In April 2023, the PRA censured Wyelands Bank Plc (hereafter 'Wyelands' or the Firm) for wide-ranging and significant regulatory failings between December 2016 and May 2020. These included breaches relating to large exposure limits, capital reporting, governance and risk controls, PRA Own Initiative Requirements, and poor retention of WhatsApp messages.

The Firm was found to have breached three of the PRA's Fundamental Rules: Fundamental Rule 3, Fundamental Rule 5, and Fundamental Rule 6. This was the first time the PRA had taken action against a firm for a breach of Fundamental Rule 3, which requires a firm to act in a prudent manner.

The Firm was also found to have breached regulatory requirements under the EU Capital Requirements Regulation and the PRA Rulebook, namely the General Organisational Requirements Rules, Record Keeping Rules, Risk Control Rules, and Related Party Transaction Risk Rules.

Wyelands became a member of the Gupta Family Group Alliance (GFG) in December 2016. In September 2019, the PRA required Wyelands to limit its exposures to GFG and connected parties due to concerns that Wyelands had an unacceptable concentration of risk.

Wyelands entered into several complex structured finance transactions which were introduced to it by GFG. These transactions significantly exceeded regulatory limits on large exposures, but Wyelands did not identify this and report it to the PRA. Wyelands' original business plan was to initially originate business from entities introduced by GFG, with a view to developing third-party business over time. However, in practice, Wyelands' business was almost entirely reliant on GFG and entities originally introduced by GFG. By March 2020, Wyelands had stopped entering into new credit transactions and commenced a wind-down of its business. In March 2021, the PRA required Wyelands to repay its depositors, which has been successfully completed.

The PRA considered that the seriousness of the breaches justified the imposition of a financial penalty of £8,515,000. However, as Wyelands was in wind-down at the time, with very limited financial resources, the PRA concluded that a fine would not advance its general objective of promoting the safety and soundness of firms.

Mr Hunter
As Senior Manager Function (SMF)1, the Chief Executive Officer (CEO) of Wyelands, Mr Hunter, was responsible for managing the conduct of the whole of Wyelands' business. He also held the role of Wyelands' SMF4 (Chief Risk Officer (CRO)) for part of the relevant period, with responsibility for the overall management of Wyelands' risk controls. In this CRO capacity, he failed to take reasonable steps to ensure Wyelands complied with various regulatory requirements and standards under the large exposures regime.

The PRA found that Mr Hunter had failed both to act with due skill, care, and diligence, and to take reasonable steps to ensure that Wyelands had adequate systems and controls in relation to the large exposures regime and PRA record-keeping requirements.

Mr Hunter also failed to comply with Wyelands' internal policy, which had been created to mitigate potential conflicts of interest arising from its membership of GFG, and failed to take appropriate steps to verify the accuracy of statements he made about Wyelands in two letters he wrote to the PRA.

Consequently, Mr Hunter breached Individual Conduct Rule 2 (you must act with due skill, care, and diligence), 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), and 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).

In January 2024, the PRA imposed a financial penalty of £118,808 on Mr Hunter, the former CEO of Wyelands, for breaching three PRA Conduct Rules between March 2016 and May 2020. Mr Hunter agreed to settle the matter with the PRA, but only after the end of the discount period, and so did not qualify for a 30% reduction in the fine.

Mr Hunter also gave an undertaking to the PRA that he will not in future apply for or perform any function in relation to any regulated activity carried out by any authorised person, exempt person, or exempt professional firm.

Box D:Credit Suisse

In July 2023, the PRA imposed a financial penalty on Credit Suisse International and Credit Suisse Securities (Europe) Ltd (together, 'the Firms') of £87,082,000 for significant failures in risk management and governance between 1 January 2020 and 31 March 2021 in connection with the Firms' exposures to Archegos Capital Management.

The investigation found that the Firm's risk management oversight and practices fell below the regulatory standards required and that the failings were symptomatic of an unsound risk culture within the business line that failed to appropriately balance considerations of risk against commercial reward. In summary, this resulted in the Firms failing to address the risk arising from Archegos' portfolio, confusion regarding responsibilities, and failures to adequately respond when certain limits were exceeded. The Firms had also failed to learn from similar past experiences and had insufficiently addressed concerns previously raised by the PRA.

The Firms breached four of the PRA's Fundamental Rules:

1. PRA Fundamental Rule 2 which requires a firm to conduct its business with due skill, care, and diligence;
2. PRA Fundamental Rule 3, which requires a firm to act in a prudent manner;
3. PRA Fundamental Rule 5, which requires a firm to have effective risk strategies and risk management systems; and
4. PRA Fundamental Rule 6, which requires a firm to organise and control its affairs responsibly and effectively.

This was the first time that a PRA enforcement investigation had established breaches of four of its Fundamental Rules.

The Firms agreed to settle at an early stage of the PRA's investigation and therefore qualified for a 30% discount pursuant to the PRA Settlement Policy.[98] Were it not for that discount, the PRA would have imposed a penalty of £124,403,000.

The PRA action was part of a co-ordinated global resolution, alongside action by the Swiss Financial Market Supervisory Authority and the US Federal Reserve Board.

98. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/january/the-bank-of-england-approach-to-enforcement-statements-of-policy-and-procedure.

Box E: HSBC

In January 2024, the PRA imposed a financial penalty on HSBC Bank Plc (HBEU) and HSBC UK Bank Plc (HBUK) (together 'the Firms') of £57,417,500 for historic depositor protection failings, arising from the Firms' failure, over many years, to properly implement the requirements set out in the Depositor Protection Rules.

The Firms' breaches included the failure to accurately identify deposits eligible for protection under the Financial Services Protection Scheme (FSCS). The PRA's investigation also found that the Firms had failed to assign clear ownership between lines of business and functions for the processes required under the Depositor Protection Rules (including failing to ensure that a senior manager under the Senior Managers and Certification Regime was allocated responsibility for these processes).

HBEU's failings further included:

- incorrectly marking 99% of eligible beneficiary deposits by value as 'ineligible' for FSCS protection;
- providing an incorrect attestation to the PRA confirming that its systems satisfied certain requirements of the Depositor Protection Rules; and
- failing to produce finalised versions of annual reports confirming compliance with the requirements of the Depositor Protection Rules.

The failings occurred for HBEU between 2015 and 2022, and for HBUK between 2018 and 2021.

As a result of these failings, the PRA deemed both Firms to have breached Fundamental Rule 2 and Fundamental Rule 6 as well as Depositor Protection Rules 11,12 and 14. HBEU was also found to have breached Depositor Protection Rule 50, and Fundamental Rules 7 and 8.

The seriousness of the depositor protection failings at HBEU were such that they undermined the firm's readiness for resolution, in breach of Fundamental Rule 8 – the first breach of this fundamental rule. HBEU also breached Fundamental Rule 7 by failing to be open and co-operative with the PRA by not alerting the PRA over an approximately 15-month period about problems identified in the incorrect marking of accounts.

The Firms' co-operation throughout the investigation, including the early admission of certain rule breaches, resulted in a 15% reduction to the penalty. In addition, the Firms' agreed to settle at an early stage of the PRA's investigation and thereby qualified for a further 30% discount pursuant to the PRA Settlement Policy. Were it not for these discounts, the PRA would have imposed a penalty of £96,500,000.

2. Be at the forefront of identifying new and emerging risks, and developing international policy

The PRA adapts and responds to changes in the external environment, economic and market developments, and any other risks that may affect its statutory objectives or priorities. The PRA has a horizon-scanning programme to identify emerging external risks, regulatory arbitrage, potentially dangerous practices, and other features of the regulatory regime that are not yet delivering the desired results, and to allocate supervisory and policy resources towards tackling the highest-priority risks. Consistent with its mission, the PRA will continue to contribute to the sharing of lessons learned internationally and to promote the safety and soundness of the firms that it regulates.

Digitalisation

The PRA works closely with other parts of the Bank, including the Fintech Hub, to monitor developments relating to digitalisation. The impact of digitalisation on business models has been a key component of the PRA's work, with a focus on banking as a service and firms' other technology-led business model developments, including deposit aggregators. The PRA has worked closely with other financial services policymakers, including HMT, through the Financial Services Regulatory Initiatives Forum[99] to share information and co-ordinate initiatives including those related to digitalisation (eg, operational resilience and critical third parties, regulatory data initiatives, etc). The PRA's New Bank Start-up Unit[100] and New Insurer Start-up Unit[101] have engaged with applicant firms that have novel uses of technology.

In the past year, the PRA has contributed to the BCBS's work on digitalisation of finance focused on Banking as a Service. The PRA has also been an active participant in the IAIS Fintech forum.

Artificial intelligence (AI) and machine learning

The Bank, PRA, and FCA published a DP5/22 – Artificial Intelligence and Machine Learning[102] – in October 2022 to further their understanding and to deepen dialogue on how AI may affect their respective objectives for the prudential and conduct supervision of financial firms. The DP is part of the three supervisory authorities' wider programme of work

99. https://www.fca.org.uk/publication/corporate/financial-services-regulatory-initiatives-forum-tor.pdf.
100. https://www.bankofengland.co.uk/prudential-regulation/new-bank-start-up-unit.
101. https://www.bankofengland.co.uk/prudential-regulation/new-insurer-start-up-unit.
102. https://www.bankofengland.co.uk/prudential-regulation/publication/2022/october/artificial-intelligence.

related to AI, including the AI Public Private Forum,[103] which published its final report in February 2022.[104]

In October 2023, the PRA published a feedback statement FS2/23 – Artificial Intelligence and Machine Learning,[105] which provided a summary of the responses to DP5/22. The responses included the observation that a regulatory definition of AI would not be useful, and that existing firm governance structures are sufficient to address AI risks. Additional points raised by respondents included the importance of greater co-ordination and alignment between regulators, their ongoing industry engagement, and the need for regulators to focus on consumer outcomes, especially with respect to ensuring fairness and ethical dimensions.

Climate change

The PRA continues to support the firms it regulates to ensure they can identify, measure, and manage financial risks, including any related to climate. The PRA maintained its risk-based supervision of the management of climate-related financial risks over the course of 2023 and continued to assess firms' practices against the expectations set out in SS3/19 – Enhancing banks' and insurers' approaches to managing the financial risks from climate change.[106] This included an assessment of climate-related financial risks within firms' capital plans, risk and solvency assessments, and risk management practices. The PRA continues to observe that, while firms are progressing their approaches to managing climate-related financial risks, there is still considerable work needed. Areas of particular focus include improving scenario analysis capabilities, developing and integrating climate-related financial risk management capabilities, and linking these more effectively into decision-making.

The PRA continues to promote high-quality and consistent accounting for climate change. The PRA sent a letter to Chief Financial Officers[107] which provided thematic feedback on observed firm practices and highlighted areas of focus for 2024 to help firms identify further progress they can make. For example, the PRA saw scope for firms to consider a wider range of climate risk drivers and develop and enhance tools to quantify the impact on expected credit loss. The limited availability and quality of data remain pervasive challenges for firms.

103. https://www.bankofengland.co.uk/events/2020/october/fintech-ai-public-private-forum.
104. https://www.bankofengland.co.uk/research/fintech/ai-public-private-forum.
105. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/october/artificial-intelligence-and-machine-learning.
106. https://www.bankofengland.co.uk/prudential-regulation/publication/2019/enhancing-banks-and-insurers-approaches-to-managing-the-financial-risks-from-climate-change-ss.
107. https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2023/september/thematic-feedback-2022-2023-written-auditor-reporting.pdf.

Finally, the PRA continued to engage regularly with domestic and international partners (including other central banks and supervisors) and contributed to several publications, shared supervisory approaches and firms' progress, and identified effective practice for managing climate-related financial risks. This work included:

- The PRA continued to advance the work of the Climate Financial Risk Forum (CFRF)[108] with the FCA by building capacity and generating best practice for the industry to advance its responses to the financial risks from climate change. During 2023, the CFRF launched two new working groups focused on climate financial resilience, incorporating aspects of nature and short-term scenarios, and on adaptation.

- The PRA contributed to workstreams as part of the Network for Greening the Financial System (NGFS),[109] including a stocktake on financial institutions' transition plans and their relevance to microprudential authorities.[110]

- The PRA actively participated in the BCBS's Task Force on Climate-related Financial Risks, which published the progress[111] in implementing the new supervisory principles[112] for climate-related risks and issued a consultation on Pillar 3 disclosures.[113] The Task Force is continuing to work towards examining risks in the current banking framework, potential gaps, and measures to address such gaps.

- The PRA also continued to play an active role in climate work at the IAIS, including chairing the scenario analysis workstream which delivered an application paper on climate scenario analysis[114] in the insurance sector; developing climate risk guidance related to various insurance core principles; contributing to the report on the role of insurance supervisors in addressing natural catastrophe protection gaps;[115] and participating in the annual global monitoring exercise and the publication of the global insurance market report.[116]

108. The CFRF was jointly established in 2019 (and is also jointly chaired) by the PRA and FCA to bring together senior financial sector representatives to share their experiences in managing climate-related risks and opportunities.
109. The NGFS is a network of 114 central banks and financial supervisors with the aim of accelerating the scaling-up of green finance and developing recommendations for central banks' role in addressing climate change. The NGFS's creation in 2017 was spearheaded by the Banque de France. The Bank of England is one of the eight founding central banks.
110. **https://www.ngfs.net/en/communique-de-presse/ngfs-publishes-stock-take-transition-plans**.
111. **www.bis.org/publ/bcbs_nl33.htm**.
112. **www.bis.org/bcbs/publ/d532.htm**.
113. **www.bis.org/press/p231129.htm**.
114. **https://www.iaisweb.org/uploads/2023/11/Draft-Application-Paper-on-climate-risk-scenario-analysis-in-the-insurance-sector.pdf**
115. **https://www.iaisweb.org/uploads/2023/11/IAIS-Report-A-call-to-action-the-role-of-insurance-supervisors-in-addressing-natural-catastrophe-protection-gaps.pdf**
116. **https://www.iaisweb.org/uploads/2023/12/Global-Insurance-Market-Report-2023.pdf**

Risks from use of 'funded reinsurance'

The PRA has paid close attention to the increased use of more complex 'funded reinsurance' transactions – ie, the wholesale transfer of pension liabilities, often to new, credit-focused entities – in the UK life insurance market, and the risks that rapid growth in their use may pose to policyholder protection and UK financial stability. The PRA is particularly concerned about the risk of an erosion of standards for assets that are used as collateral in these transactions, and individual and sector-specific concentrated exposures to correlated, credit-focused counterparties.

In 2023, the PRA issued a Dear CRO letter[117] to firms sharing insights from preliminary thematic review work in this area and subsequently launched a consultation on proposed new expectations in respect of life insurance firms using funded reinsurance arrangements, covering firms' risk management, modelling, and the structuring of such arrangements.

Influencing international change

Given the UK's position as a systemically important financial centre with close links to other jurisdictions, there are circumstances in which the PRA's statutory objectives are most effectively advanced by contributing to the development of international standards and implementing these jointly with its international partners.

Internationally, the PRA continued to engage on key operational risks with standard-setting bodies such as the FSB, the BCBS, the IAIS, and through forums at the G7, in Europe, as well as bilaterally.

- The PRA contributed to the BCBS's Report on the 2023 banking turmoil,[118] which was published in October 2023 following overseas bank failures in March 2023. The PRA also engaged closely with the BCBS to support the ongoing work aimed at identifying and addressing emerging risks. Key outputs included a consultation on targeted adjustments to the BCBS's prudential standard on banks' exposures to cryptoassets;[119] a Pillar 3 disclosure framework for climate-related financial risks;[120] and an update to the Committee's Core Principles for effective banking supervision.[121]

- The PRA engaged closely with the IAIS to support ongoing work that included consultations on the International Capital Standard (ICS) and the Insurance Core

117. **https://www.bankofengland.co.uk/prudential-regulation/letter/2023/june/insights-from-thematic-review**.
118. **https://www.bis.org/bcbs/publ/d555.htm**.
119. **https://www.bis.org/bcbs/publ/d545.htm**.
120. **https://www.bis.org/bcbs/publ/d560.htm**.
121. **https://www.bis.org/publ/bcbs230.htm**.

Principles for insurers' balance sheet valuation (ICP 14)[122] and capital adequacy (ICP 17),[123] as well as the monitoring of the IAIS's Insurance Capital Standard. In 2023, Victoria Saporta[124] (then a PRA Executive Director) stepped down as IAIS Executive Committee Chair. Under her eight-year leadership, the IAIS finalised significant reform projects, such as the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame),[125] the Holistic Framework for systemic risk in the insurance sector,[126] and the consultation exercise for the ICS. The PRA will continue to work closely with the IAIS as a regular member, attending the Executive Committee and a wide range of sub-committees and working groups.

- Senior PRA officials also engaged in bilateral exchanges and regulatory dialogues with their key counterparts in other jurisdictions, as well as in other international fora such as the FSB. For example, Sam Woods chaired and led the development of the FSB toolkit for enhancing third-party risk management and oversight.[127] Andrew Bailey also continues to chair the FSB Standing Committee on Supervisory and Regulatory Cooperation.

3. Support competitive and dynamic markets, alongside facilitating international competitiveness and growth, in the sectors that we regulate

The PRA advances its primary and secondary statutory objectives through regulation to support competitive and dynamic markets in the sectors that it regulates. Under FSMA 2023, the PRA has greater freedom to design and implement regulation in pursuit of its objectives and in alignment with the requirements of the UK market. Alongside this, the PRA's new secondary objective to facilitate international competitiveness and growth in the medium to long term has allowed the PRA to go further in developing proportionate prudential requirements, thereby reducing the burden on firms where appropriate. The PRA remains committed to playing an active role in international standard-setting, given the important role of global rules in safeguarding the UK's open economy through ensuring safe financial markets.

122. https://www.iaisweb.org/icp-online-tool/13525-icp-14-valuation.
123. https://www.iaisweb.org/icp-online-tool/13528-icp-17-capital-adequacy.
124. From 2016 to 2024, Victoria Saporta was Executive Director of the Prudential Policy Directorate, leading the Bank's work on developing the future regulatory framework after the UK's exit from the EU, the PRA's approach to its new secondary objective to facilitate competitiveness and growth, as well as the delivery of substantial policy packages, including Basel 3.1, Strong and Simple, and Solvency UK.
125. https://www.iaisweb.org/activities-topics/standard-setting/icps-and-comframe.
126. https://www.iaisweb.org/uploads/2022/01/191114-Holistic-Framework-for-Systemic-Risk.pdf.
127. https://www.fsb.org/2023/12/final-report-on-enhancing-third-party-risk-management-and-oversight-a-toolkit-for-financial-institutions-and-financial-authorities.

Competitiveness and growth

FSMA 2023 gives the PRA a new secondary objective – the secondary competitiveness and growth objective, or SCGO – which requires the PRA to act, so far as reasonably possible, to facilitate, subject to aligning with relevant international standards: (a) the international competitiveness of the economy of the UK (including in particular the financial services sector through the contribution of PRA-authorised persons); and (b) its growth over the medium to long term.

Since the new objective came into force, the PRA has engaged with a wide range of stakeholders to help shape, inform, and communicate its approach, including via organising a major international conference, delivering a series of speeches, and piloting a survey on the SCGO.[128] It has also made practical changes to how it operates internally to ensure the SCGO is appropriately considered as the PRA exercises its general functions.

The PRA has also updated its policy framework to take account of its new objective and has taken forward major policy reforms to deliver on it. The execution of this goal underpins the international competitiveness of the UK's economy, competition among regulated firms, and the growth of the economy over the medium to long term. Without undermining that goal, the PRA has also taken forward a range of policy initiatives to simplify aspects of its regime and to render them more proportionate and more efficient for firms.

Some of these policy initiatives are described in this Report. For greater detail on how the PRA has embedded and advanced its new SCGO, including quantitative and qualitative metrics,[129] please refer to the SCGO Report.[130]

128. The survey collected 145 responses between 18 May and 30 June 2023, with 63% of responses coming from banks, 16% from insurance companies, and the rest (21%) from asset manager companies, trade unions, academics and civil society. Survey results are publicly available: **https://www.bankofengland.co.uk/-/media/boe/files/events/2023/september/pilot-survey-secondary-competitiveness-and-growth-objective**.
129. The list of metrics published has been agreed with HMT, see CP27/23 – The Prudential Regulation Authority's approach to policy, **https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/pra-approach-to-policy-consultation-paper**.
130. **https://www.bankofengland.co.uk/prudential-regulation/publication/2024/july/pra-secondary-competitiveness-and-growth-objectives-report**.

Box F: Independent Evaluation Office assessment of SCGO implementation

In December 2023, the Court commissioned the Bank's Independent Evaluation Office (IEO) to evaluate whether[131] the PRA is 'set up for success' with respect to its new SCGO. The IEO has focused on assessing the PRA's approach for implementing the SCGO, with the aim of helping the PRA get better at what it does and driving continuous improvement in performance.

The IEO's overarching objective is to support Court in its governance responsibilities and in enabling the Bank to operate more effectively across all of the policy areas that support the objectives of monetary and financial stability, including the objectives of the PRA.

The IEO began working on this evaluation in 2024 and has published a report on its findings. The PRA has reviewed the IEO's report and published its response within the SCGO Report.[132] The findings from the IEO's report will therefore inform the PRA's future activity in this area.

131. https://www.bankofengland.co.uk/independent-evaluation-office.
132. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/july/pra-secondary-competitiveness-and-growth-objectives-report.

Competition

Under FSMA 2023, the PRA's other objectives were left unchanged. The PRA has an existing secondary objective of facilitating effective competition in the markets for services provided by PRA-authorised firms carrying on regulated activities (hereafter, SCO). Examples of regulatory activities undertaken by the PRA that advance the SCO include the creation of the Strong and Simple regime for smaller banks and building societies, the work to facilitate firms' ease of solvent exit, and the reforms to the Solvency II framework.[133]

- The aim of the Strong and Simple regime is to provide a framework for smaller banks and building societies that allows firms to meet standards in a simpler, proportionate, and therefore lower-cost way, without diluting those standards. The regime will enhance effective competition by enabling a dynamic and diverse banking sector in the UK, thereby increasing the sector's efficiency and productivity, and contributing positively to its ability to facilitate the growth of the UK's economy.

- The PRA published CPs outlining its proposals for an orderly 'solvent exit' for both non-systemic banks and building societies and also for insurers. The PRA considers that these proposals will advance the SCO by ensuring firms can solvently exit PRA-regulated activity with minimal disruption to the market, which is fundamental to a well-functioning and dynamic market. The proposals allow new entrants in and non-viable firms out. They also provide some assurance to investors that an exit route exists that does not rely on the backstop of an insolvency or resolution process.

- Finally, as part of reforms to the Solvency II framework that will create Solvency UK, the PRA is encouraging entry to the UK insurance market in a number of ways: raising the thresholds for small firms to be subject to Solvency UK, thereby enabling them to compete more effectively with larger firms; removing capital requirements for branches of international insurers operating in the UK, which will facilitate greater entry into the UK market; and introducing a new 'mobilisation' regime for new insurers to facilitate their entry into insurance markets.

The most significant policy initiatives that advance the SCO are reported in this section. There is a complementary relationship between SCGO and SCO. Effective competition can reinforce the medium-term growth of the UK economy by supporting a strong and dynamic financial sector. For this reason, many of the reforms that advance the SCGO also advance

133. See, for example, 4.13, 5.8, and 5.12 in CP4/23: **https://www.bankofengland.co.uk/prudential-regulation/publication/2023/february/strong-and-simple-framework**.

the SCO. For detailed reporting of how the PRA has advanced its SCO please refer to the SCGO Report.[134]

Strong and Simple framework

In 2023/24, the PRA further developed the Strong and Simple framework, which aims to provide a simpler but equally resilient prudential framework for smaller and domestically focused banks and building societies. The PRA completed its consultation of simplifications to liquidity and disclosure requirements via consultation paper CP4/23 – The Strong and Simple Framework: Liquidity and Disclosure requirements for Simpler-regime Firms.[135] In December 2023, the PRA published its final policy on those simplifications, as well as the criteria that banks and building societies would need to meet to be in scope in policy statement PS15/23 – The Strong and Simple Framework: Scope Criteria, Liquidity and Disclosure Requirements.[136] Firms that are subject to the simpler regime are now called Small Domestic Deposit Takers (SDDTs).[137] From 1 January 2024, eligible firms have been able to take up the offer of a modification to become an SDDT. The simplified disclosure requirements for SDDTs became available to SDDTs on the same day.[138]

In December 2023, the PRA published its near-final policy on the Interim Capital Regime (ICR). The ICR will allow firms that are eligible to be SDDTs to remain subject to current (Capital Requirements Regulation) Pillar 1 capital requirements until the capital regime for SDDTs is implemented.[139]

Over 2023/24, the PRA has been developing its proposals for the simplified capital regime for SDDTs. The regime is intended to be a simpler capital regime for these firms, but one that would maintain those firms' resilience. In developing its proposals, the PRA has been

134. **https://www.bankofengland.co.uk/prudential-regulation/publication/2024/july/pra-secondary-competitiveness-and-growth-objectives-report**.
135. **https://www.bankofengland.co.uk/prudential-regulation/publication/2023/february/strong-and-simple-framework**.
136. **https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/strong-and-simple-framework-policy-statement**.
137. In PS15/23, the PRA set out its rationale to rename Simpler-regime firms to Small Domestic Deposit Takers (SDDTs), and Simpler-regime consolidation entities to SDDT consolidation entities. To avoid confusion, throughout the rest of this document, the PRA will refer to SDDTs, SDDT consolidation entities, the SDDT regime, and SDDT criteria, rather than Simpler-regime firm, Simpler-regime consolidation entities, simpler regime, and Simpler-regime criteria, even when referring to past consultations. See paragraph 1.12 in PS15/22: **https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/strong-and-simple-framework-policy-statement**.
138. See paragraph 1.25 in PS15/22: **https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/strong-and-simple-framework-policy-statement**.
139. PS17/23 – Implementation of the Basel 3.1 standards near-final part 1, **https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/implementation-of-the-basel-3-1-standards-near-final-policy-statement-part-1**.

considering potential simplifications to different elements of the capital regime, including minimum requirements and buffers.

The main aim of the regime is to enhance effective competition by enabling a dynamic and diverse banking sector in he UK while maintaining resilience, thereby increasing the sector's efficiency and productivity.

Ease of entry and exit

The PRA has continued to support potential market entrants through the work of the New Bank[140] and Insurer Start-up Units.[141] This included providing clear online guidance and conducting two roundtable industry engagement sessions to build awareness of expectations and seek feedback on firms' experience of the process. Over the course of 2023/24, the PRA engaged with 19 firms through pre-application meetings, allowing them to iterate and develop their proposition to support a better-quality application. The PRA received 16 formal applications and authorised 11 firms in the same period.[142]

Improving how firms can leave regulated markets in an orderly way is a vital complement to greater ease of entry to those markets. It advances the SCO by enabling a dynamic and competitive market which entrants can join and leave with minimal impact on the wider market and the PRA's statutory objectives. During the year, the PRA published two CPs: CP10/23 – Solvent exit planning for non-systemic banks and building societies (June 2023)[143] and CP2/24 – Solvent exit planning for insurers (January 2024).[144] Both publications set out proposed new rules and expectations for firms to prepare to exit the market solvently, without having to rely on the backstop of an insolvency or resolution process, both of which increase the risk of a disorderly or disruptive process.

Since then, PS5/24 – Solvent exit planning for non-systemic banks and building societies[145] was published in March 2024, with implementation due in 2025 Q3. Once the consultation detailed in CP2/24 has concluded, the PRA expects to publish a policy statement in 2024 H2, with a proposed implementation date in 2025 Q4.

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140. https://www.bankofengland.co.uk/prudential-regulation/new-bank-start-up-unit.
141. https://www.bankofengland.co.uk/prudential-regulation/new-insurer-start-up-unit.
142. Some firms that have submitted applications may have been in the pre-application stage prior to 1 March 2023.
143. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/june/solvent-exit-planning-for-non-systemic-banks-and-building-societies.
144. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/january/solvent-exit-planning-for-insurers-consultation-paper.
145. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/march/solvent-exit-planning-for-non-systemic-banks-and-building-societies-policy-statement.

The PRA considers that firms' increased preparedness for solvent exit, and the prevention of disorderly exits, not only facilitate effective competition but also reinforce strong prudential standards, which are key to instilling trust and confidence among investors, firms, and other regulators. The PRA considers that these policies advance the SCO, by ensuring that the UK remains competitive and attractive as a place to do business, with a robust, effective, and trusted regulatory regime.

Solvency UK

As described in the first section of this Report (covering the first strategic objective) above, the implementation of Solvency UK reforms has advanced the PRA's statutory primary objective of promoting the safety and soundness of regulated firms in the insurance sector.

In addition, the reforms advance the SCO through measures designed to facilitate entry by:

- raising the threshold for small firms to become subject to Solvency UK, thereby enabling them to compete more effectively with larger firms;
- removing capital requirements for branches of international insurers operating in the UK, which will facilitate greater entry into the UK market; and
- introducing a new 'mobilisation' regime for new insurers to facilitate their entry into insurance markets.

The PRA considers that the reforms also advance the SCGO by simplifying overly complex requirements, reducing regulatory reporting requirements and increasing flexibility for firms. They include simplifications and process improvements to the calculation of the transitional measure on technical provisions, a streamlined set of rules for internal models to calculate capital requirements, greater flexibility for insurance groups in the calculation of group solvency requirements, and the removal of certain requirements for branches of international insurers.

Implementation of Basel 3.1 standards

Although the SCGO does not apply to the implementation of Basel 3.1 standards,[146] international competitiveness and growth considerations are nevertheless part of the factors the PRA must 'have regard' to, and they were among the most significant of those factors in developing the policy and rules. The reforms have a positive impact on competitiveness and growth by:

146. Disapplied by regulation 4 of The Financial Services and Markets Act 2023 (Commencement No. 2 and Transitional Provisions) Regulations 2023.

- maintaining confidence in PRA-regulated banks, thereby promoting stable and reliable financing to the UK real economy;
- maintaining confidence in the UK as a global financial centre by sufficient alignment with internationally-agreed standards; and
- tailoring the internationally agreed standards to adapt regulation to the UK context and facilitate its competitiveness. For example, PS17/23 lowered the calibration of aspects of the standardised approach to counterparty credit risk (SA-CCR) and credit valuation adjustment risk (CVA) frameworks and introduced more flexible approaches to certain asset classes within the market risk framework.

In addition, the reforms advance the SCO by:

- promoting a more level playing field between firms by reducing the potential competitive advantage that firms, which use internal model (IM) approaches, currently have relative to firms that use standardised approaches (SA), and increasing the consistency in risk-weighted assets approaches across firms;
- reducing barriers to entry for smaller firms to use IMs for market risk by allowing model permission to be granted at the trading desk level rather than for the entire trading book portfolio; and
- providing greater proportionality through simpler, less burdensome alternatives for smaller and less complex firms with limited trading activity.

Non-performing exposures

On 9 December 2022, HMT published a Written Ministerial Statement on financial services reforms[147] which highlighted its support for removing certain EU regulations, and noted the PRA's intention to consult on removing rules for the capital deduction of certain non-performing exposures (NPEs) held by banks, allowing for a judgement-led approach to address the adequacy of firms' provisioning for NPEs and to simplify the UK rulebook.

In November 2023, the PRA published PS14/23 – The non-performing exposures capital deduction,[148] which removed the CET1 deduction requirement and associated reporting requirements in the PRA Rulebook regarding NPEs that are treated as insufficiently covered by firms' accounting provisions.

147. https://questions-statements.parliament.uk/written-statements/detail/2022-12-09/hcws425.
148. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/november/the-non-performing-exposures-capital-deduction-policy-statement.

The NPE deduction was on-shored from the EU Capital Requirements Regulation (CRR) and included in the PRA Rulebook. It was originally an EU-specific measure designed to reduce the stock of NPEs, prevent any excessive build-up in the future, and to prevent the emergence of systemic risks in the EU non-banking sector.

The PRA considers that removing the NPE deduction requirement will increase the scope for the PRA to take a judgement-led approach to the prudential risks associated with NPE under-provisioning.

This initiative advances the SCGO because removing the NPE deduction, which was on-shored from the EU CRR, and instead using a judgement-led approach, enhances the standing of the UK and its competitiveness by reducing firms' costs of monitoring, compliance, and data gathering in relation to the NPE deduction requirement.
The initiative also advances the SCO because removing the NPE deduction requirement has a relatively greater impact in terms of reducing reporting costs for smaller firms, which in turn helps to facilitate competition.

International engagement and supervisory co-operation

Banking and insurance are global industries and the broad policy framework for supervising banks and insurance companies is agreed internationally. Effective cross-border engagement and co-operation is essential for success as it facilitates an open economy, which supports competitiveness and growth. Central to this international engagement is the PRA's work with international authorities to play a leading role in promoting consistency in the implementation of international prudential standards, and to encourage continued openness between jurisdictions.

To this end, the PRA enters into Memoranda of Understanding (MoUs) with overseas (and supra-national) regulatory authorities to facilitate supervisory cooperation and the transfer of supervisory relevant information for overseas branches and subsidiaries based in the UK, as well as UK branches and subsidiaries in other countries. These MoUs are based on an assessment of the other party having in place broadly equivalent professional secrecy arrangements. The MoUs include those with EU institutions (ECB, EBA,[149] EIOPA[150]), as well as being a signatory to the IAIS multilateral MoU. The PRA continues to make progress in seeking to establish new MoUs, having concluded a number of assessments of prospective counterparties' legal protections for confidential information in the past year. The PRA currently has 79 MoUs across 50 countries.

149. European Banking Authority: **https://www.eba.europa.eu/homepage**.
150. European Insurance and Occupational Pensions Authority: **https://www.eiopa.europa.eu/index_en**.

The PRA also participated in negotiations with Switzerland to develop and establish new deference arrangements under the Berne Financial Services Agreement. It continues to work on the implementation of the agreement in 2024.

PRA staff contributed to a programme of international seminars and technical co-operation run by the Bank's Centre for Central Banking Studies.[151] Participants from over 80 international central banks and financial regulators attended in person as well as via virtual events covering a range of prudential regulation and supervision topics.

In October 2023, the PRA published CP21/23 – The PRA's approach to the authorisation and supervision of insurance branches,[152] in which it proposed to clarify the PRA's approach and expectations for third-country branches. The proposals may encourage international insurers to apply to operate in the UK through a branch given that applications will be assessed against a clear and consistent set of criteria.

Regulatory change – developing the PRA's approach to rule-making and rule review

Further to the enactment of FSMA 2023 by Parliament, the PRA has taken on wider rule-making responsibilities and enhanced accountability requirements. FSMA 2023 introduced reforms to the regulatory framework to ensure the UK financial services framework is fit for the future, reflecting the UK's position outside of the EU.

FSMA 2023 increases the PRA's responsibilities by repealing assimilated law, allowing for relevant elements of it to be replaced in PRA rules, where appropriate, as discussed in 'Replacing direct regulatory requirements in the PRA Rulebook' below. The Act also introduces enhanced objectives, as discussed earlier in this section, and accountability requirements that support the PRA's transparency and accountability to Parliament.

In 2023, the PRA consulted on its proposed approach to policy via CP27/23,[153] which built on DP4/22[154] published in 2022 and sets out the PRA's intention to take advantage of the opportunities presented by the Government's reforms. CP27/23 covers the PRA's approach to: (i) its objectives and regulatory principles; (ii) international engagement and collaboration; (iii) the policy cycle; and (iv) delivering a first-rate PRA Rulebook. CP27/23 also explains how

151. https://www.bankofengland.co.uk/ccbs.
152. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/october/approach-to-the-authorisation-and-supervision-of-insurance-branches.
153. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/pra-approach-to-policy-consultation-paper.
154. https://www.bankofengland.co.uk/prudential-regulation/publication/2022/september/pra-approach-to-policy.

the PRA took account of feedback to DP4/22 and provides more detail on its proposed approach in areas such as stakeholder engagement and the SCGO.

FSMA 2023 also introduced a statutory requirement for the PRA to keep its rules under review and to prepare and publish a statement of its policy with respect to its review of rules. The PRA consulted on its approach to rule review by publishing CP11/23 – PRA statement on the review of rules and subsequently explained how it addressed the responses it received to CP11/23 in PS4/24 – PRA statement on the review of rules[155] published in February 2024. This included, where appropriate, the reasons for any changes in approach. In parallel, the PRA published its statement on the review of rules[156] and created a webpage on the Bank's website dedicated to rule reviews as a single point of access to information relating to the PRA's rule review activities.

Replacing direct regulatory requirements in the PRA Rulebook

FSMA 2023 repeals assimilated law (previously known as retained EU law) relating to financial services, subject to commencement by HMT. Assimilated law can then be replaced with regulators' rules or new legislation tailored to the UK's domestic model of regulation. This constitutes a step change in the PRA's rule-making responsibilities.

The PRA has worked closely with HMT and FCA on sequencing the replacement of the files of assimilated law with a view to ensuring a proportionate, orderly, and phased transition from legislation to the rulebook, and managing the impact of changes on industry.

The PRA has already made good progress with respect to the files that HMT has prioritised into the first two 'tranches', including key files such as Solvency II, Securitisation, CRR, among others. The PRA has consulted on significant parts of tranches 1 and 2 in 2023 and will continue this work throughout 2024 and 2025. The completion of the repeal and replacement of Solvency II and Securities Regulation files is expected by the end of 2024, and the last of the PRA's tranche 1 and 2 files is planned for implementation in 2026. Work on the remaining files that were not included in tranches 1 and 2 will begin in 2024.

Establishing a Cost Benefit Analysis (CBA) Panel

CBA is an important part of the PRA's policymaking process. In 2023, the PRA made progress towards enhancing its approach to CBA to reflect its wider rule-making responsibilities under the new framework provided by FSMA 2023. CBAs inform and refine the policy approach to identified issues, helping to design approaches that offer the greatest benefits.

155. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/june/review-of-rules.
156. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/february/pra-statement-on-the-review-of-rules-policy-statement.

As required by FSMA 2023, in October 2023, the PRA published a statement of policy[157] on its approach to appointing members to its statutory panels. In line with this approach, the PRA has completed an open, competitive, and rigorous recruitment process for identifying and appointing a diverse range of expert individuals to constitute the CBA Panel. In consultation with the Bank, the PRA then led an assessment process informed by the appointment considerations, as set out in the above-mentioned statement of policy on Panel appointments.

As noted in the PRA Business Plan 2024/25,[158] the PRA will finalise the set-up of the Panel and start to include it as part of the policymaking process, which will enhance transparency and provide regular, independent input into the CBAs.

Digital money and innovation

In 2023, the PRA continued to contribute to the Bank's cross-authority work on cryptoassets in order to support innovation by banks and the development of a coherent framework across the digital money field. The PRA has also continued to work with HMT on the future financial services regulatory regime for cryptoassets.[159] HMT confirmed in October 2023[160] that tokenised deposits would continue to be regulated as deposits. In addition, the PRA has continued its work with HMT and the FCA to ensure that the regulatory perimeter and the boundaries between different activities are clearly and robustly drawn.

The PRA published a Dear CEO letter[161] in November 2023 to provide clarity on the PRA's expectations of how deposit-takers should address risks arising from the issuance of multiple forms of digital money and money-like instruments to retail customers. This Dear CEO letter was part of a package of publications by the Bank, PRA, and FCA. The package also included a cross-authority roadmap on innovation in payments,[162] which set out the interaction between the Bank's proposed regime for systemic payment systems using stablecoins[163] and related service providers, as well as the FCA's proposed regime for stablecoin issuers, custodians and the use of stablecoins as a means of payment.[164]

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157. https://www.bankofengland.co.uk/prudential-regulation/publication/panel-appointments-sop.
158. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/april/pra-business-plan-2024-25.
159. https://www.gov.uk/government/consultations/future-financial-services-regulatory-regime-for-cryptoassets.
160. https://assets.publishing.service.gov.uk/media/653a82b7e6c968000daa9bdd/Update_on_Plans_for_Regulation_of_Fiat-backed_Stablecoins_13.10.23_FINAL.pdf.
161. https://www.bankofengland.co.uk/prudential-regulation/letter/2023/innovations-in-the-use-of-deposits-emoney-and-regulated-stablecoins.
162. https://www.bankofengland.co.uk/paper/2023/cross-authority-roadmap-on-innovation-in-payments.
163. https://www.bankofengland.co.uk/paper/2023/dp/regulatory-regime-for-systemic-payment-systems-using-stablecoins-and-related-service-providers.
164. https://www.fca.org.uk/publications/discussion-papers/dp23-4-regulating-cryptoassets-phase-1-stablecoins.

These initiatives aim to provide clarity on the ways in which the PRA expects deposit-takers to address the risks arising from these innovations while supporting innovation. Supporting innovation safely and proportionately is an important in which the PRA can advance its SCGO.

Providing clarity around innovation-related risks and the regulator's expectations also helps level the playing field, making it easier for smaller firms with fewer resources to innovate safely, which enhances effective competition and advances the SCO.

The PRA continued to progress work on the international standard for the treatment of banks' cryptoassets exposures, including with its international peers, with the BCBS consulting on proposed amendments[165] to augment the final prudential standards.[166] The PRA has also continued to work with its international partners to assess bank-related developments in cryptoassets markets, including the role of banks as issuers of stablecoins and tokenised deposits.

Operational effectiveness

Maintaining a high level of regulatory operational effectiveness in authorisations plays an important part in the UK's success as a global financial centre. To demonstrate the PRA's commitment to transparency and accountability and to recognise the contribution of operational effectiveness to UK competitiveness, the PRA introduced quarterly reporting of performance metrics for a range of regulatory transactions in 2023, including on the time taken to determine cases. Additional annual summary information on withdrawals and refusals was added to the metrics published in March 2024. The PRA has successfully addressed previous delays in the determination of applications under the Senior Managers and Certification Regime, with 95% of cases completed within the three-month service standard over the period March 2023 to March 2024, and the 98% target met consistently since June 2023. The median time to determine a case has reduced from 86 days in the final quarter of the previous reporting period to 57 days in the final quarter of this period.[167]

In 2023/24, the PRA authorised eight new insurers and three new banks, compared with four new insurers[168] and six new banks in 2022/23. This brings the total number of new UK insurers authorised since the creation of the PRA to 56, and the total number of new banks to 67, of which 36 are brand new or de novo UK banks. In addition, the total number of Credit Unions authorised since the creation of the PRA remains at seven.

165. **https://www.bis.org/bcbs/publ/d567.htm**.
166. **https://www.bis.org/bcbs/publ/d545.pdf**
167. **https://www.bankofengland.co.uk/prudential-regulation/authorisations**.
168. One insurer was incorrectly included in the 2022/23 report, but was fully authorised during the 2023/24 period.

The PRA approved 1,225 applications for senior management functions, and 68 changes in control of authorised firms. The PRA dealt with 239 variations and cancellations of Part 4A permissions,[169] and 877 applications relating to waivers and modifications of PRA rules and to permissions regarding models, capital exposures, and other issues.

Governance and risk management – remuneration reforms

The PRA has continued to take steps to improve the effectiveness and proportionality of the remuneration regime following the UK's exit from the EU. Working together with the FCA, the PRA published its final policy on the limits on the ratio between fixed and variable components of total remuneration ('bonus cap')[170] in October 2023, and on enhancing the proportionality of the remuneration requirements that apply to small firms in December 2023.[171]

Removing the bonus cap has enhanced firms' ability to offer reward packages that can attract talent into the UK banking sector. This in turn facilitates the competitiveness and growth of the UK economy and therefore advances the SCGO.

The change also advances the SCO by giving firms more flexibility to risk-share with employees, thereby helping firms to explore new opportunities, especially for smaller firms and/or new entrants which often have fewer financial resources and more limited access to external financing options.

During 2023, the PRA continued carrying out thematic work in relation to risk-management practices, with a focus on the links between governance, accountability, risk culture, and internal controls.

Senior Managers and Certification Regime (SM&CR) reforms

On 30 March 2023, the PRA and FCA jointly published a DP1/23 – Review of the Senior Managers and Certification Regime (SM&CR)[172] covering the regulatory framework of the SM&CR with a particular focus on gathering views on the regime's effectiveness, scope, and proportionality. Identifying the areas in which improvements could be made in terms of operational efficiency and proportionality can advance both the SCGO and the SCO. In

169. Part 4A of FSMA sets out the requirements of variations of permissions and the threshold conditions which must be met at authorisation of the activity and on an ongoing basis.
170. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/october/remuneration-ratio-between-fixed-and-variable-components-of-total-remuneration.
171. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/remuneration-enhancing-proportionality-for-small-firms-policy-statement.
172. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/march/review-of-the-senior-managers-and-certification-regime.

parallel, HMT launched a Call for Evidence[173] covering the legislative framework of the SM&CR. The response period ended on 1 June 2023. The PRA received over 90 responses relevant to its work as a prudential regulator, which reflects the high level of stakeholder interest in the regime. The PRA is considering potential options for reform and continues to work closely with HMT and the FCA.

The SM&CR remains a cornerstone of the PRA's regulatory approach in ensuring senior managers can be held to account. The PRA has published enforcement action against two SMF holders for breaches of the PRA's Senior Manager Conduct Rules (with one SMF holder also in breach of an individual Conduct Rule) in 2023/24.

4. Run an inclusive, efficient, and modern regulator within the central bank

Financial Services Regulatory Initiatives Forum and Grid

The PRA and Bank – along with other financial services regulators and HMT – continued participating in the Financial Services Regulatory Initiatives Forum,[174] which considers the timing of regulatory initiatives and their operational impact on firms. To promote transparency of its activities, the Forum publishes the Regulatory Initiatives Grid on a biannual basis when possible.

Following the announcement of the General Election, the eighth edition of the Grid has been delayed until later in the year.

The seventh edition of the Grid,[175] published in November 2023, reflected the PRA's ongoing work to deliver an ambitious programme of reforms, while remaining conscious of firms' planning processes. In particular, a section on the Government's 'Smarter Regulatory Framework'[176] presented the PRA's work to replace assimilated law relating to financial services with rules tailored to the UK. The Grid plays an important role in identifying PRA policymaking priorities and potential burden placed on firms.

The Forum continues to look for ways to improve the Grid, and the PRA welcomes feedback on it.

173. https://www.gov.uk/government/calls-for-evidence/senior-managers-certification-regime-a-call-for-evidence.
174. https://www.fca.org.uk/publication/corporate/financial-services-regulatory-initiatives-forum-tor.pdf.
175. https://www.bankofengland.co.uk/report/2023/seventh-edition-of-the-regulatory-initiatives-grid.
176. https://www.gov.uk/government/collections/a-smarter-regulatory-framework-for-financial-services.

Data and technology

The PRA has continued to make progress with respect to its priority of strengthening and transforming its data-related capabilities via phased investment in tools, technology, processes, and skills in order to bolster the efficiency and effectiveness of analytics that support supervision activities.

A number of additional priority data visualisation and analysis tools have been rolled out to PRA staff to support the use of financial and operational data for PRA-regulated banks and insurers, including dashboards to gauge the levels of market risk and credit risk to which firms are exposed, track Senior Managers Regime approvals, and analyse business model risks, among other functionalities.

The PRA has also made progress in using different forms of text analytics, including: completing the necessary design, security, and risk work to enable use of speech-to-text technology for internal processes; and undertaking targeted trials of prototype machine learning tools developed by the PRA to extract and categorise information from narrative documents, alongside the exploration of possible future uses of related third-party large language models in line with wider Bank work. Some aspects of this work have been published in Bank research papers[177] and in other forms.

To make the most of these developments, PRA staff have continued to benefit from an updated digital skills programme that is tailored according to a handful of key role types, as well as individual and group coaching for some staff cohorts.

Throughout the year, the PRA has continued to play a leading role in international collaboration to underpin its work in this area, including by liaising closely with other leading regulators, central banks, academic institutions, and industry to share specialist knowledge and experience through periodic structured engagement, conferences, as well as informal collaboration.

The PRA has continued to make progress with the BDR, as part of the broader TDC programme,[178] and intends to consult on the first of three phases of reforms around the end of 2024. When complete, the BDR will be able to better align banking regulatory data collections with the day-to-day needs of supervisors, ensure the PRA has good-quality data to carry out its new policymaking responsibilities in line with the post-Brexit regulatory framework, and reduce the burden on firms by better integrating and streamlining data

177. **https://www.bankofengland.co.uk/working-paper/2023/deep-learning-model-fragility-implications-for-financial-stability-regulation**.
178. TDC is a transformation programme created jointly by the Bank and the FCA. The PRA's BDR is part of this wider initiative.

collections. The first phase of BDR reforms is focused on streamlining the existing regulatory reporting estate, removing reporting templates that may no longer be needed or which contain information that can be gathered at lower cost elsewhere, reviewing collections of counterparty credit information, and incorporating lessons from recent market events.

The BDR, launched in 2023/24, envisions that regulators should be able to 'get the data they need to fulfil their mission at the lowest possible cost to industry' through improvements to the integration of reporting, reporting instructions, and data standards. Alongside the BDR, TDC has progressed work on other important use cases, including by publishing a joint update[179] by the Bank and FCA in July 2023 on Phase 2 work on Commercial Real Estate data and Incident, Outsourcing and Third-Party Reporting (IOREP). The BDR follows a similar review of regulatory reporting for insurers as part of the Solvency II Review, on which the PRA published near-final policy in PS3/24.

Supervisory approach

In 2023, the PRA implemented its updated approach to categorising firms based on their 'potential impact' on financial stability. The PRA communicated with individual firms about how supervisory workplans were affected. This new approach along with changes made as part of the PRA's supervisory approach are set out in the PRA's published supervisory approach documents,[180] which were updated in July 2023.

Independent Review of Co-operative Bank Supervision

In 2019, HMT published the: Independent review of the prudential supervision of The Co-operative Bank plc.[181] The PRA and the Bank published a response[182] alongside, outlining the recommendations the PRA would address by undertaking further work. In 2020 and 2021, the PRA provided updates on its work in its Annual Reports.[183] By early 2024, the PRA had completed and embedded all of the remaining work necessary to address those recommendations.

179. **https://www.bankofengland.co.uk/news/2024/march/tdc-response-to-phase-industry-recommendations**.
180. See CP27/23 – The Prudential Regulation Authority's approach to policy; **https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/pra-approach-to-policy-consultation-paper**.
181. **https://www.gov.uk/government/publications/independent-review-of-the-prudential-supervision-of-the-co-operative-bank-plc**.
182. **https://www.bankofengland.co.uk/prudential-regulation/publication/2019/pra-and-banks-response-to-the-independent-review-of-the-co-operative-bank**.
183. See page 22 of the PRA's 2019/20 annual report; **https://www.bankofengland.co.uk/-/media/boe/files/annual-report/2020/pra-2020.pdf** and page 42 of the PRA 2020/21 annual report; **https://www.bankofengland.co.uk/-/media/boe/files/annual-report/2021/pra-2021.pdf**

Risks to the delivery of the PRA business plan, unforeseen events, and execution risk

Continued uncertainty around the direction of inflation and interest rates in the economy provided a challenging backdrop to the delivery of the business plan for 2023/24. Prioritising resource against key deliverables and milestones remained a focus for the year. This included significant work undertaken in the wake of events around Silicon Valley Bank (SVB) and Credit Suisse (CS), as well as ensuring that key policy milestones could be met. While the PRA came close to meeting its headcount targets, experienced staff continued to be stretched by the need to provide training to new joiners. The PRA expects capacity issues to abate as new joiners deepen their experience.

The PRA has continued to invest in mitigating operational risks. This has included managing a demanding portfolio of technology projects at the same time as the Bank continued to devote significant resources to address obsolescence of its wider technology estate, which has caused resource contention over the year. As noted above, while the PRA is now close to its headcount targets, retention remains in focus to minimise the loss of key skills and knowledge.

Since FSMA 2023 came into force, the PRA has focused on ensuring that it is correctly structured and resourced to ensure that it has the right processes and procedures in place to take on expanded rule-making responsibilities and achieve its ambition of being a strong, accountable, responsible, and accessible rule-maker.

Measuring progress

In 2023/24, the PRA continued to draw on a variety of information to monitor the progress of delivery against its statutory objectives, strategy, and business plan on an ongoing basis. The PRC, the Supervision Risk and Policy Committee (SRPC), and the Operations, People, and Innovation Committee (OPIC) regularly received information on both quantitative and qualitative measures and indicators for the purpose of assessing delivery against the PRA's strategy, business plan, statutory objectives, and risk tolerances. This enabled the PRC to report to the Chancellor of the Exchequer on the adequacy of resources and provide sufficient information on supervisory processes and outcomes.

Effective and regular co-ordination with the FCA

The PRA continues to co-ordinate well with the FCA across a wide range of policy and supervisory matters. There have also been valuable interactions with the FCA on a number of other supervisory and policy matters of joint interest. Throughout the year, the PRA and FCA continued their joint work on FSMA 2023. Since the Bill's enactment, there has been joint co-ordination on implementing the requirements of FSMA 2023. Several other notable matters of joint interest were:

- the publication of the updated PRA-FCA With-Profits Memorandum of Understanding;[184]
- the publication of an update on the Bank of England and Financial Conduct Authority Memorandum of Understanding;[185]
- publication of CP26/23 – Operational resilience: Critical third parties to the UK financial sector;[186]
- publication of CP13/23 – Margin requirements for non-centrally cleared derivatives: Amendments to BTS 2016/2251 and PS18/23;[187]
- publication of DP1/23 – Review of the Senior Managers and Certification Regime (SM&CR);[188]
- publication of PS9/23 – Remuneration: Ratio between fixed and variable components of total remuneration (‘bonus cap’);[189]
- publication of CP18/23 – Diversity and inclusion in PRA-regulated firms;[190] and
- the publication of PS3/23 – Financial Services Compensation Scheme – Management Expenses Levy Limit 2023/24.[191]

Co-ordination between the PRA and FCA enforcement areas also continues to work well, with regular meetings to ensure that a co-ordinated approach is taken to investigations. This includes: (i) consultation before opening an investigation in relation to a dual-regulated firm (or group) or individual to decide whether to open a solo or joint investigation; and (ii) advance notice of – and consultation in relation to – enforcement actions. Similarly,

184. https://www.bankofengland.co.uk/-/media/boe/files/memoranda-of-understanding/fca-and-pra-supervision-of-with-profits-policies.pdf
185. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/april/update-on-the-boe-and-fca-mou.
186. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/operational-resilience-critical-third-parties-to-the-uk-financial-sector.
187. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/july/margin-requirements-for-non-centrally-cleared-derivatives.
188. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/march/review-of-the-senior-managers-and-certification-regime.
189. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/october/remuneration-ratio-between-fixed-and-variable-components-of-total-remuneration.
190. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/september/diversity-and-inclusion-in-pra-regulated-firms.
191. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/march/financial-services-compensation-scheme-management-expenses-levy-limit-2023-2024.

respective authorisations teams have continued to work together and have significantly improved the timeliness of decision-making.

Firm feedback

The PRA seeks input from firms on the effectiveness and quality of its supervisory framework and approach, including via the annual firm feedback survey. This process is overseen by a team independent of supervision.

The PRA values firms' participation in the survey and seeks to understand what firms think works well and what might be done differently. Through the survey, PRA-authorised firms offered their feedback on a number of topics, including:

- the PRA's understanding of firms;
- the firms' understanding of the PRA's regulatory objectives and expectations;
- the level of challenge to firms;
- the effectiveness of the PRA's relationship with firms;
- the PRA's co-ordination with other regulators and data requests;
- the clarity and accessibility of prudential policy, rules, and requirements; and
- operational resilience.

In 2023, 122 firms responded to the survey. Chart 1 shows the survey results from the past three years. The full results will be made available on the Bank's website.

The PRA also held follow-up meetings and roundtable discussions with a cross-section of firms to provide an opportunity for a more detailed discussion of views.

The firms' approval scores for 2023 were marginally higher than in 2022. Feedback pointed to an improved co-ordination between the PRA and the FCA, particularly around the SM&CR and other application processes; a reduced number of data requests; and better communications.

Two emerging themes were identified from the survey in 2023, both of which are already priorities for the PRA:

- **Size and complexity of the PRA Rulebook**: The updated PRA Rulebook website,[192] which has been live since 10 April 2024, has been designed to be more engaging and informative for users, taking account of feedback received in response to DP3/21 – The PRA Rulebook website: Planned updates.[193] The website will offer better accessibility and a range of improved functionalities,[194] including an enhanced ability to see past, current, and future versions of a rule, as well as an easier-to-use 'time-travel' function showing a visual timeline of the dates when part of a rule was changed.

- **Level of firm input to policy roll-out**: Firms wanted greater scope to engage with regulators at an early stage of policy formulation. Stakeholder engagement is increasingly important in light of the PRA's broader rule-making responsibilities. Input from stakeholders supports more informed policymaking, and also enables the PRA to account more effectively for UK circumstances as it develops policy. The PRA will therefore aim to gather input to policy formulation earlier and more widely, where appropriate. As set out in CP27/23, early engagement is typically most feasible when the PRA is engaging on longer-term emerging risks, or when the broad parameters of the policy area are already known.

Parliamentary accountability

The PRA's objectives are set by Parliament. Accountability to Parliament is taken very seriously and representatives of the PRA aim to account for its decisions as transparently and clearly as possible. The senior staff of the PRA and PRC members frequently appear in front of parliamentary committees. Between 1 March 2023 and 29 February 2024, PRA representatives appeared at five parliamentary committee hearings:

- 7 February 2024 – Treasury Select Committee (TSC) Hearing on the work of the PRA with Sam Woods, Gareth Truran, Phil Evans, and Tanya Castell.

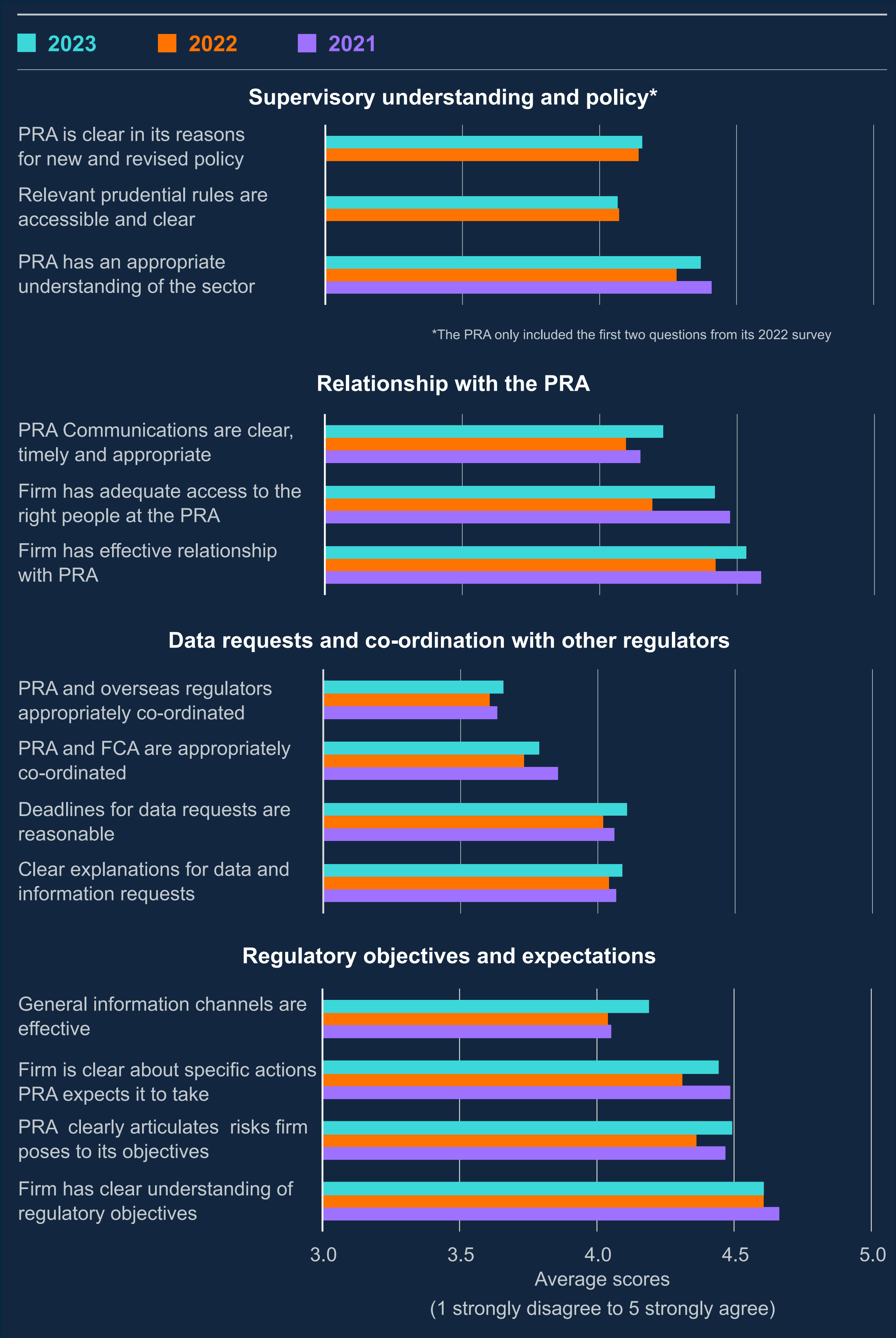
- 17 January 2024 – TSC Hearing on the Sexism in the City Inquiry with Sam Woods and Victoria Saporta.

- 13 September 2023 - TSC Sub Committee hearing on financial regulation with Sam Woods, Gareth Truran, and Charlotte Gerken.

- 28 March 2023 – TSC Hearing on Silicon Valley Bank UK with Andrew Bailey, Dave Ramsden, and Sam Woods.

192. https://www.prarulebook.co.uk/.
193. https://www.bankofengland.co.uk/prudential-regulation/publication/2021/november/pra-rulebook-website-updates.
194. https://www.bankofengland.co.uk/news/2024/march/new-pra-rulebook-website.

Chart 1: Average yearly scores by question



- 7 March 2023 – TSC Hearing on the work of the PRA with Sam Woods, Victoria Saporta, and Julia Black.

As described earlier, following Royal Assent of FSMA 2023, the House of Lords voted to establish a new Financial Services Regulation Committee (FSRC), whose specific purpose includes scrutiny of financial service regulatory consultations, and the PRA has engaged with the Committee as it begins its work.

Even prior to FSMA 2023 coming into force, the PRA has, as a matter of general practice, always ensured that all its CPs are sent to the House of Commons TSC, the House of Lords' Industry and Regulators Committee, and the Lords' Economic Affairs Committee.

In line with a new provision introduced by FSMA 2023, the PRA now sends all CPs to the TSC and FSRC (copying the other committees mentioned above) with a summary: highlighting how the proposals advance the PRA's objectives;[195] demonstrating that the PRA has had regard to the regulatory principles in section 3B FSMA when preparing the proposals; and engaging with any matters to which the PRA must have regard under section 138EA FSMA.

PRA executives have also engaged with parliamentarians outside of parliamentary committees, including through evidence to All-Party Parliamentary Group inquiries, briefings with parliamentarians on PRA policy and through correspondence. The PRA is committed to carrying out its policymaking role in a transparent way, and to help to facilitate scrutiny by Parliament in any other way.

Communications supporting the PRA's objectives

Communication with industry and other stakeholders is an essential part of delivering the PRA's statutory objectives. The PRA communications area covers a wide range of publications, including discussion papers (DPs), consultation papers (CPs), policy statements (PSs), supervisory statements (SSs), statements of policy (SoPs), speeches, and letters to firms.

195. The PRA has two primary objectives: a general objective to promote the safety and soundness of PRA-authorised persons, and an objective specific to insurance firms for the protection of policyholders. The PRA has secondary objectives – which are to be advanced when the PRA discharges its general functions in a way that advances its primary objectives – to facilitate effective competition in the markets for services provided by PRA-authorised persons; and to facilitate the international competitiveness of the UK economy (in particular the financial services sector) and its growth in the medium to long term, subject to aligning with relevant international standards.

In 2023/24, the PRA Communications team supported the PRA's policy publications referred to in the earlier sections of this Annual Report. These included:

- 27 CPs
- 21 PSs
- 4 new SSs
- 24 amended SSs
- 10 new SoPs
- 10 amended SoPs
- 4 statements
- 11 letters

Policy publications are available on the policy page.[196]

Temporary Permissions Regime

The PRA has concluded the process of assessing applications for authorisation from European Economic Area firms that entered the Temporary Permissions Regime (TPR)[197] in January 2021, with the regime ending as scheduled in December 2023. Of the 265 firms that entered the TPR under the PRA's responsibility, 40 banks and 95 insurers were authorised. The remainder of the firms exited the regime: for example, firms that chose not to apply for authorisation, to cancel their permissions, or to move into the financial services contracts regime, allowing them to wind down their UK regulated activities in an orderly manner. The TPR and the authorisation process for branches have offered continuity for EU-based banks and insurers and their customers, while ensuring that UK regulatory standards are applied consistently across the whole population of supervised firms.

Diversity, equity, and inclusion at the PRA

The PRA has progressed the implementation of the detailed recommendations made in the Bank's Independent Court Review of Ethnic Diversity.[198] The action plan aims to support equality of opportunities, improve ethnic and gender representation, and progress initiatives to improve psychological safety, including encouraging employees to voice their opinions via the 'speak my mind' initiative. More widely the PRA has embraced the Bank's strategic priority of building a diverse and inclusive Bank, taking a series of actions and measures to advance this objective.

196. https://www.bankofengland.co.uk/prudential-regulation/policy.
197. https://www.bankofengland.co.uk/prudential-regulation/publication/2021/june/firm-authorisations-under-the-tpr-regime.
198. https://www.bankofengland.co.uk/report/2021/court-review-of-ethnic-diversity-and-inclusion.

For more details on PRA representation targets and progress made so far, please refer to the Diversity, equity and inclusion section of the Bank's Annual Report and Accounts.

The PRA recognises the importance of all staff feeling valued and having the opportunity to thrive. PRA colleagues play an important role in the Bank's strong employee networks, which cater to diverse groups such as Disability, LGBTQ+, social mobility, gender, age, carers, and many more.

Complying with FSMA

This section covers a number of issues that the PRA considers when carrying out its duties and other areas on which it reports.

These include:

- complying with FSMA;[199]
- complying with the Regulators' Code and principles;
- the PRA's complaints scheme;
- details of how the PRA has used the provisions of section 166 of FSMA; and
- sections 339A and 339B of FSMA relating to firms' auditors.

Complying with FSMA

In discharging its general functions during the reporting period, the PRA was required, in as far as was reasonably possible, to: (i) act in a way that advances its general objective to promote the safety and soundness of PRA-authorised persons; and (ii) specifically for insurers, act in a way that is compatible with its general objective and with its insurance objective to contribute to the securing of an appropriate degree of protection for those who are, or may become, policyholders (sections 2B and 2C of FSMA). This Report sets out how the PRA has discharged its general functions and the extent to which, in its opinion, the objectives have been advanced. Section 3B of FSMA sets out a number of regulatory principles to which the PRA must have regard (under section 2H(2) of FSMA) in discharging its general functions. These are:

- the need to use the PRA's resources in the most efficient and economic way;
- the principle that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction;

199. Certain requirements added by FSMA 2023 have been considered but no relevant regulations or policy statement have yet been made by HM Treasury (HMT) – paragraphs 19(1)(ea) and (fb) of schedule 1ZB FSMA.

- the desirability of sustainable growth in the UK economy over the medium or long term. As of 29 August 2023, this regulatory principle was substituted[200] by the need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target), where the PRA considers the exercise of its functions to be relevant to the making of such a contribution;[201]

- the general principle that consumers should take responsibility for their decisions;

- the responsibilities of the senior management of persons subject to requirements imposed by or under FSMA, including those affecting consumers, in relation to compliance with those requirements;

- the desirability, where appropriate, of the PRA exercising its functions in a way that recognises differences in the nature of, and objectives of, businesses carried on by different persons (including different kinds of persons such as mutual societies and other kinds of business organisation) subject to requirements imposed by or under FSMA;

- the desirability in appropriate cases of publishing information relating to persons on whom requirements are imposed by or under FSMA, or requiring such persons to publish information, as a means of contributing to the advancement by the PRA of its objectives; and

- the principle that the PRA should exercise its functions as transparently as possible.

The PRA has taken these principles into consideration when discharging its general functions, including when making policy.

Furthermore, when discharging its general functions in a way that advances its objectives during the reporting period, the PRA was required, so far as was reasonably possible, to act in a way that: (i) facilitated effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities; and (ii) facilitated the international competitiveness of the UK economy (including in particular the financial services sector through the contribution of PRA-authorised persons) and its growth in the medium to long term, subject to aligning with relevant international standards (section 2H(1) of FSMA). There are several examples in the SCGO Report[202] of how meeting this requirement was achieved.

200. Except in connection with the proposals in CP16/22 – Implementation of the Basel 3.1 standards.
201. FSMA 2023 also introduced a requirement to consider section 5 of the Environment Act 2021. However, this requirement is not yet in force.
202. **https://www.bankofengland.co.uk/prudential-regulation/publication/2024/july/pra-secondary-competitiveness-and-growth-objectives-report**.

Details of how the PRA has met its duty to consult (under section 2L of FSMA), how it considered any representations made (under section 2N of FSMA), and how it engages with firms more generally can be found in the review portion of this Report provided above. These arrangements include the establishment and maintenance of the PRA Practitioner Panel ('the Panel')[203] under section 2M of FSMA. The Panel is an independent body representing the interests of practitioners in the financial services industry. It plays an important role in PRA policymaking by providing appropriate challenge and scrutiny. The Panel also considers items from other directorates within the Bank that have policies with potential prudential impact.

The PRA Practitioner Panel met six times in 2023/2024, providing input at different stages of policy development – from early-stage policy development to practical insights to implementation. The Panel provided feedback to the PRA and the Bank on topics such as the Strong and Simple framework,[204] the implementation of the Basel 3.1 standards[205] in the UK, the review of the Senior Manager Certification Regime,[206] and the policy approach to critical third parties.[207]

The PRA Insurance Practitioner Panel/Insurance Sub-committee met three times during the 2023/24 reporting period. The Insurance Practitioner Panel (IPP) was established in October 2023, following which the Practitioner Panel Insurance Sub-committee (ISC) ceased to exist. The IPP/ISC provided feedback to the PRA on topics such as the PRA's stress testing approach[208] for the insurance sector, Insurance Ease of Exit,[209] and Solvency II reforms[210] and transfer.[211]

203. https://www.bankofengland.co.uk/prudential-regulation/pra-practitioner-panel.
204. https://www.bankofengland.co.uk/prudential-regulation/strong-and-simple.
205. https://www.bankofengland.co.uk/prudential-regulation/publication/2022/november/implementation-of-the-basel-3-1-standards.
206. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/march/review-of-the-senior-managers-and-certification-regime.
207. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/operational-resilience-critical-third-parties-to-the-uk-financial-sector.
208. https://www.centralbanking.com/regulation/insurance/7959893/pra-plans-dynamic-insurance-stress-test-for-2025.
209. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/january/solvent-exit-planning-for-insurers-consultation-paper.
210. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/february/review-of-solvency-ii-adapting-to-the-uk-insurance-market-policy-statement.
211. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/april/review-of-solvency-ii-consultation-paper.

In October 2023, as required by FSMA 2023, the PRA published a statement of policy[212] in relation to the appointment of members of its statutory panels.[213] The recruitment of members to the Panel and the IPP is in line with the statement of policy. The considerations for appointment include relevant experience, sectoral representation, and ensuring members are external to the PRA, the Bank, the FCA, the Payment Systems Regulator (PSR), and HMT. The nominations process also includes diversity and equality considerations, in line with the PRA's public sector equality duty. The PRA did not engage with the statutory panels of the FCA or the PSR during the reporting period.

The PRA and the FCA have a duty to ensure a co-ordinated exercise of functions and to maintain an MoU[214] describing how they intend to comply with that duty (under section 3D and section 3E of FSMA, respectively).

The PRA has powers to require the FCA to refrain from taking certain actions specified under section 3I of FSMA, or regulatory actions specified under section 3J in relation to with-profits policies. The PRA did not exercise either of these powers during 2023/24

Section 354B of FSMA outlines the PRA's duty to co-operate with other persons (whether in the UK or elsewhere) who have functions similar to those of the PRA, or have functions relevant to financial stability. Details of how the PRA has complied with this duty are provided throughout this Report, especially under the 'International engagement and supervisory co-operation' section.

Regulators' Code and principles

In accordance with sections 21 and 22 of the Legislative and Regulatory Reform Act 2006 and the Legislative and Regulatory Reform (Regulatory Functions) Order 2007, the PRA, when exercising its functions, is required to have regard to the following Regulators' principles and Code.

Regulators' principles

- Regulatory activities should be carried out in a way that is transparent, accountable, proportionate, and consistent.

- Regulatory activities should be targeted only at cases in which action is needed.

212. https://www.bankofengland.co.uk/prudential-regulation/publication/panel-appointments-sop.
213. See earlier section on how the SoP was implemented in relation to the CBA Panel.
214. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/april/update-on-the-boe-and-fca-mou.

Regulators' Code

Regulators should:

- carry out their activities in a way that supports those they regulate to comply and grow;
- provide simple and straightforward ways to engage with those they regulate and hear their views;
- base their regulatory activities on risk;
- share information about compliance and risk;
- ensure clear information, guidance and advice is available to help those they regulate meet their responsibilities to comply; and
- ensure that their approach to their regulatory activities is transparent.

Transparency by regulators includes publishing, on a regular basis, details of their performance against their service standards, including feedback received from those they regulate and data relating to complaints about them. Details of firm feedback are set out in this Report, while details of complaints are set out below, and the PRA's statutory Authorisations Performance Report is published on the Authorisations page.[215]

Complaints Scheme

As part of the statutory Complaints Scheme (established pursuant to Part 6 of the Financial Services Act 2012), the PRA is responsible for ensuring that, so far as reasonably practicable, complaints received are investigated quickly. In July 2023, the PRA, Bank, and FCA jointly published an updated and more user-friendly Complaints Scheme,[216] in line with provisions set out in FSMA 2023 and taking account of feedback received in response to CP8/20 – Complaints against the regulators (the Bank of England, the FCA, and the PRA).[217] The updated Complaints Scheme came into force on 1 November 2023.

During the reporting period, the PRA received six complaints, one of which was investigated but not upheld. A further complaint was excluded from the Scheme as the subject matter was not within the scope of the Scheme. Of the remaining four, two complaints were not

215. **https://www.bankofengland.co.uk/prudential-regulation/authorisations**.
216. The updated Complaints Scheme came into force on 1 November 2023; **https://www.bankofengland.co.uk/prudential-regulation/publication/2023/july/complaints-against-the-regulators-boe-fca-pra**.
217. **https://www.bankofengland.co.uk/prudential-regulation/publication/2020/complaints-against-the-regulators-boe-fca-pra**.

investigated by the PRA. One of these complaints was not investigated as the PRA had already responded adequately to a substantively similar complaint from the same complainant on a previous occasion. The other was not investigated because the complaint related to events that took place more than 12 months prior to the complaint being made.[218]

Four of the six complaints were referred to the Financial Regulators Complaints Commissioner, who was still considering them at the end of the reporting period. The Commissioner also completed reviews of two complaints against the PRA from the previous reporting period. Details of the final decisions are available on the Commissioner's website.[219]

The PRA also completed an assessment of one complaint from the previous reporting period, which was excluded from the Scheme as the subject matter was not in scope of the Scheme.

Section 166 reports by skilled persons

Section 166 of FSMA gives the PRA powers to obtain an independent expert review of aspects of a regulated firm's activities. Such reviews can be undertaken where the PRA seeks additional information, further analysis, expert advice and recommendations, or assurance around a particular subject.

In 2023/24, the PRA commissioned 21 reviews by skilled persons (2022/23: 31), including two (2022/23: three) where the PRA contracted directly with the skilled person. The reviews fell within the areas shown in Table A.

In 2023/24, the PRA commissioned one review of a firm's regulatory reporting (2022/23: eight) under Lot F. This was part of follow up to a Dear CEO letter, of 10 September 2021, on the reliability of regulatory reporting.

218. Paragraph 2.4 of the 'Complaints against the Regulators: The Complaints Scheme' specifies that complainants must notify the PRA of their complaint within 12 months of the date of first becoming aware of the issues they are complaining about.
219. **https://frccommissioner.org.uk**.

Table A: Section 166 reviews by areas of focus

Lot[(a)]	Total for 2023/24	Total for 2022/23
Lot B: Governance and individual accountability	4	2
Lot C: Controls and risk management frameworks	13	16
Lot F: Prudential – deposit-takers, recognised clearing houses and PRA-designated investment firms	2	11
Lot G: Prudential – insurance	2	2
Total	**21**	**31**

(a) The Skilled Person Panel is composed of 12 areas of expertise for skilled persons services, referred to as Lots. A detailed description of the services provided under each lot can be found on the PRA's website; **www.bankofengland.co.uk/prudential-regulation/supervision**.

The total estimated cost of section 166 reviews commissioned in 2023/24 was £29.1 million (2022/23: £27.2 million).[220] Of this total, the estimated cost of the two reviews contracted directly with the skilled persons was £0.5 million[221] (2022/23: three, at a cost of £0.7 million). The cost of the review commissioned in 2023/24 on regulatory reporting was £0.4 million (2022/23: £20.6m).

Meeting with auditors

Under section 339A(2) of FSMA, the PRA is required to issue and maintain a code of practice that includes arrangements on the:

- sharing of information (that the PRA is not prevented from disclosing) with auditors of PRA-authorised persons; and
-
- exchange of opinions with auditors of PRA-authorised persons.

The PRA published SS7/13 – The relationship between the auditor and the supervisor: a code of practice (the Code)[222] back in April 2013. Section 339B(2) of FSMA states that the PRA must make arrangements for meetings to take place at least once a year with the

220. The costs disclosed include actual costs incurred by the firms, or an estimate where the review is ongoing, and the actual costs are not yet available. For reviews commissioned in 2023/24, 13 reviews have been completed and 8 reviews remain ongoing. The comparative figures have also been revised to reflect the actual costs incurred for reviews commissioned in 2022/23 and completed in 2023/24. Three reviews commissioned in 2022/23 are ongoing, and the reported costs for these reviews remain estimates.
221. Costs of directly contracted section 166 reviews are ultimately recovered from the relevant regulated firm, inclusive of VAT.
222. **https://www.bankofengland.co.uk/prudential-regulation/publication/2013/the-relationship-between-the-external-auditor-and-the-supervisor-a-code-of-practice-ss**.

external auditor of any PRA-authorised person to which section 339C of FSMA applies. 37 firms (2022/23: 35) fell within the scope during the reporting period, and the PRA held 63 meetings (2022/23: 53) with the auditors of these firms. At least one meeting with the auditor of each such firm was held during the reporting period. The PRA looks to auditors to contribute to effective supervision by engaging with the PRA in a proactive and constructive way. The PRC is updated annually on the quality of the relationship between auditors and supervisors. For the period ending 28 February 2023, the PRC was presented with the results of a survey of supervisors. A significant majority of those surveyed were satisfied with their auditor-supervisor relationship.

Structural reform: ring-fencing

Ring-fencing has been in effect since 1 January 2019, and applies to UK banking groups with core deposits above the threshold, which was £25 billion during 2023/24. These banking groups are required to ensure the provision of core services (broadly, facilities for accepting core retail deposits, and payments and overdrafts relating to core retail deposit accounts) is separate from certain other activities within their groups, such as investment and international banking.[223] As at 1 January 2024, the following UK banking groups were in scope of ring-fencing, and contain at least one ring-fenced body (RFB): Barclays, HSBC, Lloyds Banking Group, NatWest Group, Santander UK, TSB, and Virgin Money. Key information and materials relating to ring-fencing, including the list of RFBs, is available on the ring-fencing webpage.[224]

The PRA's activity relating to ring-fencing advances its general safety and soundness objective. The PRA is required to discharge its functions in a way that seeks (among other things) to:

- ensure that the business of RFBs is carried on in a way that avoids any adverse effect on the continuity of the provision in the UK of core services;
- ensure that the business of RFBs is protected from risks (arising in the UK or elsewhere) that could adversely affect the continuity of the provision in the UK of core services; and
- minimise the risk that the failure of an RFB or of a member of an RFB's group could affect the continuity of the provision in the UK of core services.

223. The requirement for large UK banking groups to ring-fence their core services is set out in Part 9B FSMA (inserted by the Financial Services (Banking Reform) Act 2013).
224. https://www.bankofengland.co.uk/prudential-regulation/key-initiatives/ring-fencing.

FSMA requires the PRA to report in its Annual Report, in general terms, on certain aspects of ring-fencing.[225] These include: the extent to which, in the PRA's opinion, RFBs have complied with ring-fencing provisions; the steps taken by RFBs to comply with ring-fencing provisions; the steps the PRA has taken to enforce ring-fencing provisions; the extent to which RFBs are carrying on activities that would be excluded or prohibited but for an exception or exemption in the legislation; and the extent to which RFBs appear to have acted in accordance with the PRA's guidance relating to the operation of the ring-fencing provisions.

The legislation specifies the activities that must be conducted by RFBs, as well as the activities RFBs are prohibited from undertaking. Any activities falling outside those two categories – for example, taking deposits from large corporates, or mortgage and credit card lending – can be carried out from either side of the ring-fence ('permitted business'). Banking groups chose to structure themselves in different ways, reflecting their current operations and preferred business strategies. As a result, some groups placed almost all permitted business within the ring-fence, while some others chose to locate significant proportions of their permitted business outside of the ring-fence. Over the previous year, the structure of most firms' RFB subgroups remained largely the same. Other than the exemption granted with regard to SVB (see below), firms have generally complied with the PRA's group structure policy set out in SS8/16.[226]

Throughout the 2023/24 reporting period, the PRA has continued to focus on ensuring the ring-fencing arrangements established by firms are effective, and that they continue to comply with ring-fencing provisions. The regime has now been in place for five years, so in general firms' arrangements have proved more mature and embedded, with fewer breaches. The PRA has been notified of a limited number of instances of non compliance. These were mostly of low materiality, and none were classed as severe. In all such cases, the firms took steps to resolve breaches immediately, or took other action, including putting remediation plans in place. The PRA has not taken any enforcement action in respect of the ring fencing provisions in the past year (more information on the use of the PRA's statutory powers is available on the Bank of England's approach to enforcement webpage).[227]

An exemption to ring-fencing legislation and PRA policy was provided in the specific case of HSBC's acquisition of Silicon Valley Bank UK Limited. In March 2023 SVB's US parent entered resolution. The UK subsidiary was also resolved and subsequently acquired by HSBC's RFB. This meant that some prohibited activity was permitted within the ring-fenced

225. **https://www.legislation.gov.uk/ukpga/2000/8/schedule/1ZB#commentary-key-f2cc2471e7cded68aee10dadf**.
226. **https://www.bankofengland.co.uk/prudential-regulation/publication/2016/ring-fenced-bodies-ss**.
227. **https://www.bankofengland.co.uk/prudential-regulation/the-bank-of-england-enforcement**.

part of HSBC's group. While this would have been allowed through a four-year transition period during which SVB would not be subject to the ring-fencing regime, a Statutory Instrument introduced by HMT ensured that the exemption from the regime would be granted on a permanent basis. The PRA worked closely with other financial authorities throughout the resolution and acquisition, and supported the outcome as the best means to preserve financial stability.

The PRA engaged with a number of policy developments on ring-fencing in 2023/24. Through the Joint HMT/Bank Ring-fencing Taskforce, the PRA has continued to work to implement the recommendations of the Independent Review of Ring-fencing and Proprietary Trading, which reported in March 2022. In particular, the PRA worked closely with HMT on the publication of their consultation, 'A Smarter Ring-fencing Regime'[228] and also published its own CP20/23[229] on managing the risks from third country subsidiaries and branches, which RFBs will be allowed to establish following the proposed legislative changes.

In addition, during 2023 the PRA conducted a review of its own ring-fencing rules,[230] in line with statutory obligations. In conducting this review, the PRA considered the intents of the ring-fencing regime, the PRA's statutory objectives, the ring-fencing requirements set out in statute, and feedback from RFBs. The report assessed how the rules operate in practice, and considered the PRA's experience of supervising firms against these rules over the past five years, including instances where RFBs have applied for waivers and modifications, and instances of compliance breaches or delays. The report of this review has been laid in Parliament and published on the PRA's website. The report concluded that the rules are fit for purpose and in line with the statutory purposes of the regime; but it also noted that some rules could be amended to improve the functioning of the regime to which further consideration would be given.

Use of exceptions

The activities of RFBs are restricted by ring-fencing legislation and PRA rules. For example, the legislation prohibits RFBs from carrying on 'excluded activities' and contains certain 'prohibitions', including:

- dealing in investments or commodities as principal;
- incurring exposures to relevant financial institutions (RFIs);

228. https://www.gov.uk/government/consultations/a-smarter-ring-fencing-regime-consultation-on-near-term-reform.
229. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/september/changes-to-ring-fencing-regime.
230. https://www.bankofengland.co.uk/prudential-regulation/publication/2024/january/review-of-ring-fencing-rules-report.

- accessing payment systems indirectly; and
- maintaining or establishing a branch or subsidiary in a country or territory which is not the UK or an EEA Member State.

The legislation also sets out certain permitted exceptions and exemptions to these ‘excluded activities’ and ‘prohibitions’ to allow RFBs to carry out activities which they would otherwise be prohibited from undertaking. These exceptions and exemptions aim to allow RFBs to undertake activities typical for a retail and commercial bank, such as ‘dealing in investments as principal’ for risk management purposes, collateral management, selling simple derivatives to its account holders subject to conditions, transactions with central banks, and managing pension liabilities.

PRA rules require an RFB to have policies in place that specify in detail the circumstances in which it will make use of exceptions, known as ‘exceptions policies’. The PRA assesses RFBs’ use of exceptions through ongoing supervisory engagement, regulatory reports, and by undertaking reviews of RFBs’ policies. This informs the PRA of the extent to which RFBs undertook activities that would be excluded or prohibited, but for an exception or exemption in the legislation.

Overall, the information reviewed suggests that firms’ use of exceptions is consistent with the objectives of the ring-fencing regime, and that firms have not taken risk positions that exceed the risk limits set out in the legislation.

The legislation includes exceptions to permit RFBs to deal in investments as principal or to incur exposures to RFIs where the sole or main purpose of the associated transaction is to hedge risks. All firms subject to ring-fencing used these exceptions to some extent. Interest-rate hedges or similar transactions again accounted for a significant majority of RFBs’ hedging, while hedging for exchange rate risk was also prominent. There was variety among firms in whether hedging activity increased or decreased in 2023, likely reflecting firm-specific factors. Exposures to RFIs due to hedging continued to be low compared with firms’ capital bases, and overall the use of hedges by RFBs reflects prudent risk management in line with PRA expectations.

The exceptions not related to hedging, such as for customer derivatives, own securitisations and covered bonds, trade finance, conduit lending, infrastructure finance, and ancillary exposures, were used by most RFBs to varying degrees. The use of these exceptions was within any applicable limits and consistent with the RFBs’ business models. For example, similar to 2022/23, the exception permitting RFBs to sell simple derivatives to their account holders was used by five of the seven RFB subgroups during 2023/24, with a relatively low value of related exposures. Every firm was comfortably in compliance with the caps in legislation, including that the risk requirement for customer derivatives and hedges be less than 0.5% of own funds.[231]

The exceptions and exemptions related to other prohibitions were used to a small extent. RFBs were overwhelmingly direct participants in inter-bank payment systems, in line with the intent of the ring-fencing regime: more than 90% of transactions were of this nature. Where inter-bank payment systems were accessed indirectly, this was often through another RFB in the same group.

231. The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014; **www.legislation.gov.uk/uksi/2014/2080/article/12/made**.

Report on the use of powers delegated under the EU (Withdrawal) Act 2018

Exercise by the Prudential Regulation Authority (PRA) of sub-delegated powers under the European Union (Withdrawal) Act 2018 (EUWA) – report for the financial year ending 29 February 2024.

Presented to Parliament pursuant to paragraph 32(2)(a) of schedule 7 to the EUWA.

Onshoring and temporary transitional powers

The powers to make onshoring changes to the PRA Rulebook and Technical Standards in light of the UK's withdrawal from the EU, and to make directions under the temporary transitional power, expired at the end of 2022. There is therefore nothing to report for this and subsequent reporting years.

Ongoing transferred powers

There are a number of other powers transferred under the Act that are required to be reported if exercised. The PRA has exercised its power to make Technical Standards Instruments under section 138P Financial Services and Markets Act 2000.

A total of two standards instruments have been made during the reporting period:

- PRA Standards Instrument: The Technical Standards (Specification of the Methodology for the Identification of G-SIIS) Instrument 2023 (made 17 October 2023).[232]
- PRA Standards Instrument: The Technical Standards (Bilateral Margining Instrument) (made 12 December 2023).[233]

With respect to Solvency II, the PRA has exercised its power to publish technical information relating to risk-free interest rate term structures; and the symmetric adjustment of the equity capital charge[234] which are updated monthly. The PRA has published detailed information

232. https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2023/october/ps1323app1.pdf.
233. https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/margin-requirements-for-non-centrally-cleared-derivatives-policy-statement.
234. Regulation 4B of the Solvency 2 Regulations 2015/575, and Article 3(5) of the Solvency II Delegated Act 2015/35.

about its approach to publishing technical information for Solvency II firms on the Solvency II page.

During the reporting period, the PRA did not use its powers to require and set fees conferred on it under:

- Regulation 209 of The Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019; and
- Regulation 63 EEA Passport Rights (Amendment, etc, and Transitional Provisions) (EU Exit) Regulations 2018.

For further information on fees, see PS8/23 – Regulated fees and levies: Rates proposals 2023/24.[235]

235. **https://www.bankofengland.co.uk/prudential-regulation/publication/2023/june/regulated-fees-and-levies-rates-proposals-2023-24**.

Financial review of 2023/24

The PRA incurred operating costs in 2023/24 of £315 million (2022/23: £326 million) against a budget of £319 million (2022/23: £321 million). In 2023/24, the PRA final outturn was £4 million lower than budget. Costs directly within the PRA's control, pensions and depreciation were all lower than budget while support costs allocated to the PRA for services provided by the Bank's central functions were higher than anticipated.

Additional income of £2 million was received by the PRA in the form of Retained Financial Penalties. As a result, there is a surplus of £6 million.

Under section 7(2A) of the Bank of England Act 1998, as amended by the Bank of England and Financial Services Act 2016, the Bank is required to present financial and other disclosures in respect of its activities as the PRA. These are available in the PRA statement of balances for the period ended 29 February 2024 in the Bank's Annual Report and Accounts 2023/24.

Abbreviations

ACS	Annual Cyclical Scenario
AI	Artificial Intelligence
Bank	Bank of England
BCBS	Basel Committee on Banking Supervision
CEO	Chief Executive Officer
CFRF	Climate Financial Risk Forum
CMA	Competition and Markets Authority
Court	Bank's Court of Directors
CP	consultation paper
CRO	Chief Risk Officer
CRR	Capital Requirements Regulation
CTP	critical third party
CVA	credit valuation adjustment
DP	discussion paper
EBA	European Banking Authority
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
EU	European Union
EUWA	European Union Withdrawal Act 2018
FCA	Financial Conduct Authority
FinTech	Financial Technology
FMI	Financial Market Infrastructures
FPC	Financial Policy Committee
FRF	Future Regulatory Framework
FSB	Financial Stability Board
FSMA	Financial Services and Markets Act 2000 (as amended)
FSRIF	Financial Services Regulatory Initiatives Forum
FSRC	Financial Services Regulation Committee
IAIS	International Association of Insurance Supervisors
ICR	Interim Capital Regime
ICS	Insurance Capital Standard
IEO	Independent Evaluation Office
IRB	Internal ratings-based
IT	Information technology
MA	matching adjustment
MoU	Memorandum of Understanding

MPC	Monetary Policy Committee
MRM	Model risk management
PRA	Prudential Regulation Authority
PRC	Prudential Regulation Committee
PS	policy statement
RegTech	Regulatory Technology
RFB	Ring-fenced bank
RFI	Relevant financial institutions
SA	standardised approach
SAECC	Symmetric adjustment of the equity capital charge
SCO	Secondary competition objective
SCGO	Secondary competitiveness and growth objective
SMF	Senior Management Function
SM&CR	Senior Managers and Certification Regime
SS	supervisory statement
SoP	statement of policy
TPR	Temporary permissions regime
TSC	Treasury Select Committee
UKFI	UK Financial Investments Limited

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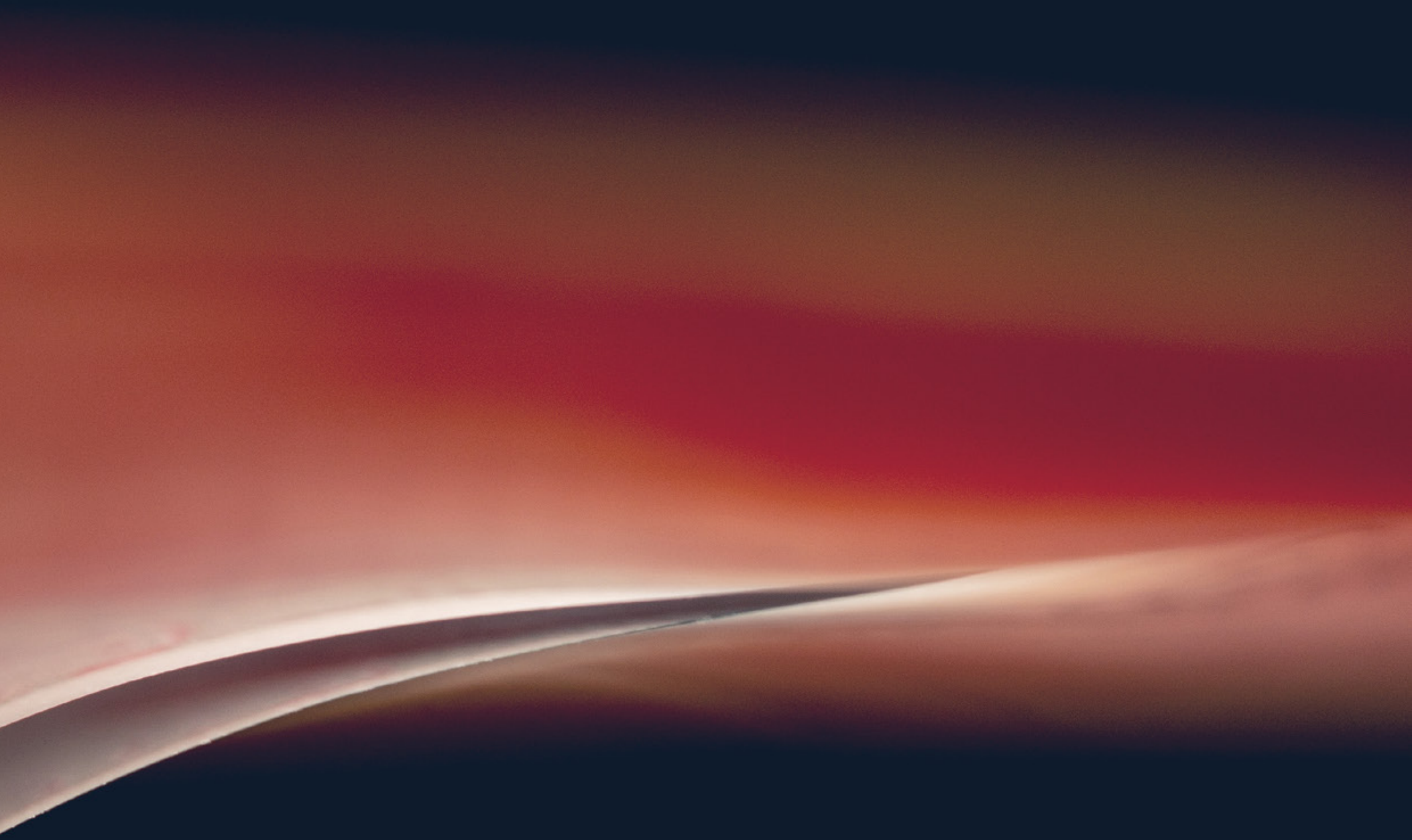

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Our mission is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability

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