BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Publication

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Occasional Consultation Paper – June 2021

June 2021

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AUTHORITY

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The consultation paper will explain if responses will be shared with other organisations (for example, the Financial Conduct Authority). If this is the case, the other organisation will also review the responses and may also contact you to clarify aspects of your response. We will retain all responses for the period that is relevant to supporting ongoing regulatory policy developments and reviews. However, all personal data will be redacted from the responses within five years of receipt. To find out more about how we deal with your personal data, your rights or to get in touch please visit bankofengland.co.uk/legal/privacy.

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Responses are requested by Wednesday 25 August 2021.

In light of current measures to help prevent the spread of COVID-19, please address any comments or enquiries by email to: OCP.Responses@bankofengland.co.uk.

Alternatively, please address any comments or enquiries to:
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1 Overview

1.1 This Consultation Paper (CP) sets out the Prudential Regulation Authority's (PRA) proposals to make minor amendments to PRA rules, supervisory statements (SS), reporting data items and instructions, the Branch Return, and associated guidance and notes.

1.2 The chapters in this CP are relevant to different types of firms, as follows:

- Chapters 2 and 3 – banks, building societies, and PRA-designated investment firms;
- Chapter 4 – Capital Requirements Regulation (CRR) firms;
- Chapter 5 – PRA-supervised third country branches; and
- Chapter 6 –
  - Audit Committee – CRR firms, UK Solvency II insurance and reinsurance firms, and the Society of Lloyd's and managing agents; and
  - Auditors – major UK banks and building societies.

1.3 The chapters contained in this CP, the policy material they propose to change, and the appendices containing the draft amended policy, are listed in the table below.

Chapter	Policy Material	Appendix
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The PRA's statutory obligations

1.4 In carrying out its policy making functions, the PRA is required to comply with several legal obligations. The PRA has a statutory duty under the Financial Services and Markets Act 2000 (FSMA)[1] to consult when introducing new rules (FSMA s138J), or new standards instruments (FSMA s138S). When not making rules, the PRA has a public law duty to consult widely where it would be fair to do so.

1.5 The PRA fulfils its statutory obligations and public law duties by providing the following in relation to the proposed policy:

(i) **a cost benefit analysis**;

(ii) **compatibility with the PRA's objectives:** an explanation of the PRA's reasons for believing that making the proposed rules is compatible with the PRA's duty to act in a way that advances its general objectives,[2] insurance objective (if applicable),[3] and secondary competition objective;[4]

(iii) **FSMA regulatory principles:** an explanation of the ways in which having regard to the regulatory principles has affected the proposed rules;[5]

(iv) **CRR rules:** in addition to the above, FSMA requires the PRA to 'have regard' to several further matters when making CRR rules.[6] It also requires the PRA to explain how the new 'have regards' have affected its proposed rules.[7] The FS Act further requires the PRA to 'consider, and consult the Treasury about, the likely effect of the rules on relevant equivalence decisions;

(v) **impact on mutuals:** a statement as to whether the impact of the proposed rules will be significantly different to mutuals than to other persons;[8]

(vi) **HM Treasury recommendation letter:** The Prudential Regulation Committee (PRC) should have regard to aspects of the Government's economic policy as recommended by HM Treasury; and[9]

(vii) The PRA is also required by the Equality Act 2010[10] to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

1.6 Appendix 16 provides further detail on all of the statutory obligations. The analysis in each chapter of this CP explains how each proposal has had regard to the matters listed in paragraph 1.5, including an explanation of the ways in which having regard to these matters has affected the proposals.

1.7 The PRA has consulted with the Financial Conduct Authority (FCA) on the proposals in this OCP.

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1 Section 138J of FSMA.
2 Section 2B of FSMA.
3 Section 2C of FSMA.
4 Section 2H(1) of FSMA.
5 Sections 2H(2) and 3B of FSMA.
6 Section 144C(1) of FSMA.
7 Section 144D of FSMA.
8 Section 138K of FSMA.
9 Section 30B of the Bank of England Act 1998.
10 Section 149.

Implementation

1.8 Pending consideration of the responses to this consultation, the proposed implementation dates for the changes resulting from this CP are:

- Wednesday 1 December 2021 for Chapter 2;
- Saturday 1 January 2022 for Chapters 4 and 6; and
- upon publication of the final policy for Chapters 3 and 5.

Responses and next steps

1.9 This consultation closes on Wednesday 25 August 2021. The PRA invites responses on the proposals set out in this consultation. Please address any comments or enquiries to OCP.Responses@bankofengland.co.uk.

1.10 The proposals set out in this CP have been designed in the context of the UK having left the European Union and the transition period having come to an end. Unless otherwise stated, any references to EU or EU derived legislation refer to the version of that legislation which forms part of retained EU law.[11] The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework.

11 For further information please see https://www.bankofengland.co.uk/eu-withdrawal/transitioning-to-post-exit-rules-and-standards.

2 Pillar 2A: Amendments to FSA081 template, instructions, and SS32/15

2.1 In this chapter, the PRA proposes changes to reporting requirements to support a better understanding of schemes' risk profiles, improve consistency, and ensure a level playing field for firms.

2.2 The proposals in this chapter would result in amendments to:

- the Reporting Pillar 2 Part of the PRA Rulebook (Appendix 1);
- SS32/15 'Pillar 2 reporting, including instructions for completing data items FSA071 to FSA082, and PRA111'(Appendix 2);[12]
- FSA081 template (Appendix 3); and
- the associated FSA081 instructions (Appendix 4).

2.3 This chapter is relevant to banks, building societies, and PRA-designated investment firms.

Proposals

Amendments to Pillar 2 reporting templates and instructions

(i) Template

2.4 The PRA proposes to add the following entries to the FSA081 template:

- a new asset category for insured annuities;
- two new entries for the life expectancies assumed for current and future pensioners; and
- a tick box to confirm the latest funding valuation documentation has been submitted alongside the FSA081 template.

2.5 The PRA considers that the new asset category for insured annuities entry would provide it with a better understanding of a scheme's risk profile, given the increasing number of schemes with such policies. The entries for life expectancies would provide the PRA with a better understanding of the longevity profile of the scheme. The tick box would serve as a reminder to firms of the existing requirement to provide said documentation.

2.6 The PRA proposes to remove the following entry from the FSA081 template:

- The asset category for other assets (data item number 220).

2.7 The PRA considers that removing the 'other assets' category would increase consistency between firms' submissions, as investments in unusual asset categories would be reallocated into the most relevant category.

12 July 2015: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/pillar2-reporting-including-instructions-for-completing-data-items-fsa071-to-fsa082-ss.

2.8 The PRA proposes to require all firms submitting an FSA081 to provide the asset and liability sensitivities known as 'PV01' and 'IE01' (ie data items 230, 240, 280, and 290 in the existing FSA081). Currently this requirement only applies to significant firms.

2.9 The PRA considers that receiving PV01s and IE01s for all schemes would provide a level playing field between firms, as the PRA would not need to make assumptions about the impact of certain assets (such as derivatives) on a scheme's inflation and interest rate sensitivities.

2.10 The PRA proposes to make the following formatting changes to the FSA081 template:

- changes to existing data labels;
- removal of unnecessary validation rules on certain cells; and
- the reordering of 'Section II – Pillar 2 calculations'.

2.11 The PRA considers that these changes would make it easier for firms to identify the data they are required to submit, and give the template a more logical flow.

(ii) Instructions

2.12 The PRA proposes to revise the FSA081 instructions to reflect the changes above and to improve the guidance for the existing data requirements. The proposed changes to the FSA081 instructions are outlined in Appendix 4.

Consequential amendments to SS32/15 'Pillar 2 reporting, including instructions for completing data items FSA071 to FSA082, and PRA111'

2.13 The FSA081 data item and instructions are contained in SS32/15.[13] As a result, the PRA proposes to update the relevant appendices in SS32/15, with the links to the amended data item and instructions subject to the outcome of this consultation, as shown in Appendix 2.

The PRA's statutory obligations

Cost benefit analysis

2.14 The PRA considers that the proposals in this chapter would benefit firms by providing clarity over their reporting requirements by removing discrepancies in labelling and improving instructions.

2.15 The additional requirements are minor, as most of the information is likely to be available as part of a firm's annual accounting requirements.

2.16 As such, the PRA expects that the proposals would not materially increase costs to firms. Some firms may note a small, immaterial increase in cost if the additional information is not currently provided in existing management or accounting information.

PRA objectives

2.17 The PRA has a statutory objective to promote the safety and soundness of PRA-authorised persons. The PRA considers that the proposals set out in this chapter would assist the PRA in advancing this objective by clarifying expectations for firms and improving the quality of reporting.

13 July 2015: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/pillar2-reporting-including-instructions-for-completing-data-items-fsa071-to-fsa082-ss.

2.18 When discharging its general function in a way that advances its primary objectives, the PRA has, as a secondary objective, a duty to facilitate effective competition in the markets for services provided by PRA-authorised persons. The PRA considers that the proposals in this chapter would not have an impact on effective competition as they do not change the intention of any existing PRA policy.

Have regards

FSMA regulatory principles

2.19 In developing the proposals in this chapter, the PRA has had regard to the regulatory principles. Two of the principles are particularly relevant:

(i) the principle that a burden or restriction which is imposed on a person should be proportionate to the benefits expected to result from the imposition of that burden. The PRA considers that the amendments proposed in this chapter would benefit firms as they provide clarity of reporting requirements in the instructions and templates; and

(ii) that the PRA should exercise its functions transparently. The proposals in this chapter are compatible with this principle as they seek to make corrections which will make PRA's expectations clearer.

2.20 The PRA has considered the remaining FSMA regulatory principles (see Appendix 16), and considers that they are not relevant to this proposal.

CRR rules

2.21 **Finance for the real economy, growth, and sustainable growth:** The proposed rules are unlikely to have a significant impact on capital requirements, balance sheet structure, or business activities. Hence the proposed rules are unlikely to have any material impact on finance for the real economy. Therefore the impact on growth and sustainable growth is also not expected to be significant.

2.22 **Relative standing of the UK and competitiveness:** The PRA considers the proposed changes to be relatively minor and unlikely to result in a material change in the current relative standing of the UK, or the competitiveness of the UK.

2.23 The PRA has considered the remaining CRR rules have regards (see Appendix 16), and considers that they are not relevant to these proposals.

Impact on mutuals

2.24 The PRA considers that the impact of the proposed rule changes on mutuals is expected to be no different from the impact on other firms.

HM Treasury recommendation letter

2.25 HM Treasury has made recommendations to the PRC about aspects of the Government's economic policy to which the PRC should have regard when considering how to advance the PRA's objectives and apply the regulatory principles.[14] The PRA has considered HM Treasury's

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14 Information about the PRC and the recommendations from HM Treasury are available on the Bank's website at: https://www.bankofengland.co.uk/about/people.

recommendations when developing the proposals in this chapter, and considers the aspect most relevant to the proposals is transparency. This has been addressed in paragraph 2.19 above.

2.26 The PRA has considered the remaining aspects of government economic policy as laid out in the HM Treasury recommendation letter (see Appendix 16), and considers that they are not relevant to these proposals.

Equality and diversity

2.27 The PRA considers that the proposals do not give rise to equality and diversity implications.

3 Reporting: Changes to FSA042, FSA017 instructions, and MLAR guidance notes

3.1 In this chapter, the PRA proposes changes to reporting requirements to delete a legacy template and to prepare for the expected discontinuation of LIBOR after the end of 2021. These proposals would result in the following changes:

- an update to the Regulatory Reporting Part of the PRA Rulebook (Appendix 5);
- an update to SS34/15 'Guidelines for completing regulatory reports' (Appendix 6);[15]
- deletion of the Undertakings Collective Investment Transferable Securities (UCITS) template (FSA042) from the PRA Rulebook;
- amendments to the 'Interest rate gap report' (FSA017) and associated instructions (Appendix 7); and
- amendments to the Notes for completion of the Mortgage Lenders & Administrators Return (MLAR) (Appendix 8).

3.2 This chapter is relevant to banks, building societies, and PRA-designated investment firms

Proposals

Deletion of FSA042

3.3 FSA042 is a legacy template that is replicated in both the PRA Rulebook and the FCA Handbook. The PRA proposes to remove FSA042 template from the PRA Rulebook because most PRA-designated firms no longer meet the criteria for FSA042 submission, and no firms currently report using this template. Furthermore, the PRA does not consider information contained within this template to be materially insightful and therefore the template is no longer fulfilling its intended use.

3.4 As such, this change ensures that PRA reporting remains fit for purpose.

Amendments to FSA017 instructions and MLAR guidance notes

3.5 In preparation for the expected discontinuation of LIBOR after the end of 2021, the PRA proposes to remove the existing references to LIBOR in the FSA017 instructions (Appendix 7) and the MLAR guidance notes (Appendix 8) as this will no longer be a valid example.

3.6 The PRA proposes to replace LIBOR in the FSA017 instructions with compounded Sterling Overnight Index Average (SONIA) for the purposes of referencing an interest rate benchmark.

The PRA's statutory obligations

Cost benefit analysis

3.7 The PRA considers that deleting FSA042 from the PRA Rulebook would not require extra resource as no PRA firms currently report this.

15 August 2015: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/guidelines-for-completing-regulatory-reports-ss.

3.8 The PRA considers that no extra expense would be incurred by firms as a result of the proposals to amend the FSA017 instructions and the MLAR guidance notes. These are minor updates that would bring PRA's instructions and guidance in line with existing terminology. Firms should already be in the process of transitioning away from LIBOR, and the PRA has published regular guidance to support them with this.[16]

PRA objectives

3.9 The PRA has a statutory objective to promote the safety and soundness of PRA-authorised persons. The PRA considers that the deletion of the FSA042 template will assist the PRA in advancing this objective by removing a redundant template, thereby reducing the burden on firms to assess the scope of FSA042 reporting requirements. Furthermore, the PRA considers that the proposals to replace existing references to LIBOR would clarify the PRA's reporting expectations in FSA017 and MLAR, thus reducing potential confusion on whether LIBOR should be used for reporting purposes, after it is discontinued.

3.10 When discharging its general function in a way that advances its primary objectives, the PRA has, as a secondary objective, a duty to facilitate effective competition in the markets for services provided by PRA-authorised persons. The PRA considers that the proposals in this chapter would not have an adverse impact on effective competition, as they do not materially change the PRA's expectations.

Have regards

FSMA regulatory principles

3.11 In developing the proposals in this chapter, the PRA has had regard to the regulatory principles. Two of the principles are particularly relevant:

(i) that regulators use their resources in the most efficient and economical way. The PRA considers that these proposals are minor and would improve the efficiency of the use of PRA resources by reducing the time that supervisors spend on data queries. The proposals would also ensure that firms submit the appropriate information as required by the PRA; and

(ii) that regulators should exercise their functions as transparently as possible. The PRA considers that the proposals in this chapter are compatible with this principle as they seek to provide clarity regarding reporting requirements. The proposals would furthermore ensure that the relevant instructions and guidance are accurate and up-to date, and that firms have access to the most recent PRA reporting templates and instructions.

3.12 The PRA has considered the remaining FSMA regulatory principles (see Appendix 16), and considers that they are not relevant to these proposals.

Impact on mutuals

3.13 The PRA considers that the impact of the proposed rule changes on mutuals is expected to be no different from the impact on other firms

HM Treasury recommendation letter

3.14 HM Treasury has made recommendations to the PRC about aspects of the Government's economic policy to which the PRC should have regard when considering how to advance the PRA's

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16 Guidance available at: https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor.

objectives and apply the regulatory principles.[17] The PRA considers the aspect most relevant to the proposals is transparency. This has been addressed in paragraph 3.11 above.

3.15 The PRA has considered the remaining aspects of government economic policy as laid out in the HM Treasury recommendation letter (see Appendix 16), and considers that they are not relevant to these proposals.

Equality and diversity

3.16 The PRA considers that the proposals do not give rise to equality and diversity implications.

17 Information about the PRC and the recommendations from HM Treasury are available on the Bank's website at https://www.bankofengland.co.uk/about/people.

4 Definition of Capital: Minor update to the PRA Rulebook and SS7/13

4.1 In this chapter, the PRA sets out a proposal to change the scope of Chapter 4 of the Definition of Capital Part of the PRA Rulebook, to refer to CRR (Capital Requirements Regulation) firms rather than UK banks. The proposal would result in:

- deletion of Rule 4.1 in the Definition of Capital Part of the PRA Rulebook (Appendix 9); and
- an update to SS7/13 'Definition of capital (CRR firms)' (Appendix 10).[18]

4.2 This chapter is relevant to CRR firms.

Proposals

4.3 Chapter 4 of the Definition of Capital Part of the PRA Rulebook requires firms to assess whether funding to connected counterparties is of a capital nature and, if it is, requires firms to treat it in a similar way under the relevant CRR requirements. The scope is currently limited to UK banks only, which has been inherited from the General Prudential sourcebook, within the FCA's Handbook.[19]

4.4 The PRA considers that limiting the scope to UK banks is unintentional. Amending the scope of these rules to include all CRR firms, rather than limiting it to UK banks, would be consistent with the PRA's expectations that firms should comply with the purpose as well as the letter of the CRR. In line with this approach, the PRA expects firms not to structure transactions around the CRR capital regime.[20]

4.5 To implement this policy change the PRA proposes to delete Rule 4.1 of the Definition of Capital Part of the PRA Rulebook.

Consequential amendments to SS7/13 'Definition of capital (CRR firms)'

4.6 As a result, the PRA proposes to replace existing references to 'banks' with 'firms' in Section 8 of SS7/13 'Connected funding of a capital nature (CFCN)', subject to the outcome of this consultation.

The PRA's statutory obligations

Cost benefit analysis

4.7 The PRA considers that the amendments proposed would enhance safety and soundness by closing an unintended gap in the scope of the rules and would not have any adverse impact on firms. There would be no costs to firms resulting from the proposals. The PRA is not aware of any firms that need to take action as a result of this change and firms have, in the past, been compliant with proposed rule.

PRA objectives

4.8 The PRA has a statutory objective to promote the safety and soundness of PRA-authorised persons. The PRA considers that the proposal positively addresses a potential threat to safety and soundness by closing a gap in the application of PRA rules.

[18] December 2013: https://www.bankofengland.co.uk/prudential-regulation/publication/2013/crdiv-and-capital-ss.
[19] GENPRU 2.2.233: https://www.handbook.fca.org.uk/handbook/GENPRU/2/2.html?date=2013-03-31#D1677.
[20] August 2013: https://www.bankofengland.co.uk/prudential-regulation/publication/2013/strengthening-capital-standards-implementing-crd-4. Paragraphs 6.19–6.23 of CP5/13 refer to CRD Article 104 and do not make any distinction between UK banks and other firms.

4.9 When discharging its general function in a way that advances its primary objectives, the PRA has, as a secondary objective, a duty to facilitate effective competition in the markets for services provided by PRA-authorised persons. The PRA considers that the proposal in this chapter would not have a significant impact on effective competition, as it does not materially change the PRA's expectations.

Have regards

FSMA regulatory principles

4.10 In developing the proposals in this chapter, the PRA has had regard to the regulatory principles. Four of the principles are particularly relevant:

(i) that regulators use their resources in the most efficient and economical way. The PRA considers that the proposal would improve the efficiency of use of the PRA's resources. In the absence of this change, the PRA may be required to apply greater scrutiny to identify and address connected funding of a capital nature, requiring extra resource;

(ii) 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, in general terms, which are expected to result from the imposition of that burden or restriction. The PRA considers that the proposal would impose additional reporting requirements only in circumstances where a firm seeks to engage in connected funding of a capital nature that could adversely affect its safety and soundness;

(iii) the responsibilities of the senior management of PRA-authorised persons in relation to compliance with requirements imposed by the PRA. The PRA considers that senior management would not incur any additional responsibilities as a result of this proposal;

(iv) the desirability 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. The PRA considers that the proposal would remove confusion by confirming that requirements apply to all CRR firms; and

(v) the principle that the PRA should exercise its functions transparently. The proposal in this Chapter is compatible with this principle as it seeks to correct the scope of Chapter 4 of Definition of Capital Part and make minor consequential amendments to SS7/13, subject to the outcome of this consultation.

4.11 The PRA has considered the remaining FSMA regulatory principles (see Appendix 16), and considers that they are not relevant to this proposal.

CRR rules

4.12 **Finance for the real economy, growth, and sustainable growth:** The proposal is unlikely to have a significant impact on capital requirements, balance sheet structure or business activities. Hence the proposal is unlikely to have any material impact on finance for the real economy. Therefore the impact on growth and sustainable growth is also not expected to be significant.

4.13 **Relative standing of the UK and competitiveness:** The PRA considers the proposal to be relatively minor and unlikely to result in a material change in the current relative standing of the UK, or the competitiveness of the UK.

4.14 The PRA has considered the remaining CRR rules have regards (see Appendix 16), and considers that they are not relevant to this proposal.

Impact on mutuals

4.15 The PRA considers that the impact of the proposed policy changes on mutuals is expected to be no different from the impact on other firms, as the proposal applies uniformly to all CRR firms.

HM Treasury recommendation letter

4.16 HM Treasury has made recommendations to the PRC about aspects of the Government's economic policy to which the PRC should have regard when considering how to advance the PRA's objectives and apply the regulatory principles.[21] The PRA considers the aspect most relevant to the proposal is competition. This has been addressed in paragraph 4.9 above.

4.17 The PRA has considered the remaining aspects of government economic policy as laid out in the HM Treasury recommendation letter (see Appendix 16), and considers that they are not relevant to this proposal.

Equality and diversity

4.18 The PRA considers that the proposal does not give rise to equality and diversity implications.

21 Information about the PRC and the recommendations from HM Treasury are available on the Bank's website at https://www.bankofengland.co.uk/about/people.

5 Regulatory Reporting: Amendments to the Branch Return

5.1 In this chapter, the PRA sets out proposals - with regard to the Branch Return - to amend the method of submission, make minor formatting corrections to the Branch Return, and to clarify the accompanying reporting guidance.

5.2 These proposals would result in the following changes:

- amendments to the Regulatory Reporting Part of the PRA Rulebook (Appendix 5);
- an update to SS34/15 'Guidelines for completing regulatory reports' (Appendix 11);[22]
- an updated Branch Return template (Appendix 12); and
- updated reporting guidance (Appendix 13).

5.3 This chapter is relevant to PRA-supervised third-country branches.

Proposals

Amendments to the Branch Return

(i) Collection method

5.4 The PRA proposes to change the method of submission of the Branch Return from Excel templates submitted via email, to a submission of XML-format documents via Bank of England Electronic Data Submission (BEEDS).

5.5 The PRA considers that submitting via BEEDS, as opposed to the existing method of email submission, would ensure a secure receipt of data, create a stronger audit trail, and provide a more efficient method of data validation feedback to firms.

(ii) Formatting

5.6 The PRA proposes to make the following minor formatting changes to the Branch Return:

- under 'General information':
  - to amend the 'Name of the template' cell from 'TBD' to 'BranchReturn';
  - under 'Accounting standards used', to add the option for firms to report using US GAAP, and to remove the spaces in the enumerations; and
  - to remove the grey shading in columns C, D, and E.
- under Part 1 (Total Assets and Liabilities), to amend the name of row 150 of the Branch Return from 'memo item: Assets originated by UK branch but booked outside of UK' to 'memo item: Assets originated by UK branch but booked outside of the UK branch';
- under Part 2 (Deposits), to amend row 010 from 'Total' to 'Total Deposits';

22 August 2015: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/guidelines-for-completing-regulatory-reports-ss.

- under Part 3 (Loans and advances other than held for trading) to amend row 080 from 'LOANS AND ADVANCES' to 'Loans and advances';
- under Part 4 (Loan commitments, financial guarantees & other commitments given), to remove all grey shading from column C;
- under Part 6 (Payments, Settlements, Custody & Clearing), to add drop-down options for row 011; and
- under Parts 7 (3rd Party Services Provided & Received), 8a (Intragroup Assets by counterparty for systemic branches), and 8b (Intragroup Liabilities by counterparty for systemic branches), to remove all bold formatting from column C, apart from in the table headings.

5.7 The PRA also proposes to replace the reference to the Branch Return in Rule 22.3 in the Regulatory Reporting Part of the PRA Rulebook, from an Excel version to a PDF version. This change will give the PRA greater flexibility to make minor technical changes to the supporting data collection mechanisms, such as changes to the format of a data point, without engaging the full statutory process for amending PRA rules. This is in line with the PRA's approach to other data collections.

5.8 The PRA considers that these changes serve to correct minor errors in the Branch Return, would enable easier processing of data, and make the Branch Return clearer for firms. In particular, the PRA considers that the proposal to amend row 150 of Part 1 of the Branch Return would clarify to firms that when reporting cross-currency swaps, firms should report net positive mark-to-market (MTM) leg. In the associated draft reporting guidance, the PRA is clarifying that firms should report notional values as opposed to initial margin for centrally-cleared transactions. Both of these are in response to questions raised by firms in the Branch Return Q&As on the implementation of the new Branch Return.[23]

Amendments to the reporting guidance for the Branch Return

5.9 The PRA proposes to update the accompanying reporting guidance for the Branch Return for the purposes of clarification following questions from firms, which the PRA subsequently published in the Branch Return Q&As.[24] The PRA considers that these changes would also allow for more consistent and comparable reporting across third-country branches. The proposed changes to the reporting guidance form are outlined below, and in Appendix 14:

- clarifying the PRA's expectations for reporting absolute numbers to the nearest thousand;
- updating the 'Validations' paragraph to reflect that the validations are in a separate document;
- adding US GAAP as one of the options for the accounting standard used;
- clarifying under the 'Product Breakdown' in Part 1 that where assets do not meet the FINREP criteria to be reported as either 'Loans and advances' or 'Derivatives', they should be reported as 'Other assets';

[23] Version 3, January 2021: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/branch-return-qa-v3.pdf.
[24] See footnote 23.

- clarifying the treatment of Certificates of Deposit and FX derivatives in Part 1 of the Branch Return;
- clarifying that firms should report the net positive MTM leg when reporting cross-currency swaps in Part 1 of the return;
- updating the guidance for 'Total liabilities' (row 130 of Part 1) to clarify the treatment of equity;
- updating the guidance for 'memo item: Assets originated by UK branch but booked outside of the UK branch' (row 150 of Part 1) to reflect the proposed new name of this row, and to clarify which assets should be reported here;
- clarifying under what circumstances the number in 'memo item: Gross derivative assets' (row 160 of Part 1) should match the number reported in Bank of England statistical form BT;
- clarifying that the deposits in Part 2 should be principal plus accrued interest for retail and wholesale deposits;
- clarifying that 'Total deposits' (row 010 in Part 2) is not required to equal 'Deposits' (row 090 in Part 1);
- confirming the treatment of deposits that are in scope for coverage by both the Financial Services Compensation Scheme (FSCS) and another deposit insurance scheme in columns 020 and 030 of Part 2;
- clarifying the PRA's expectations for reporting the Gross Carrying Amount, intragroup balances, and mortgages in Part 3;
- updating the guidance on Part 5 to clarify the PRA's expectations on reporting derivatives in the Branch Return, including a particular point on 'Notional amounts' (columns 030 and 040);
- clarifying in the guidance on Part 6 that the data should relate to UK-based financial market infrastructures, and that firms should report using the corporate entities, as opposed to their individual clearing services;
- adding that for centrally-cleared transactions in 'Average transaction value (£)' (row 030 of Part 6), firms should report notional values as opposed to initial margin; and
- adding an example under Part 7 to clarify the PRA's expectations for the column preceding column 010.

The PRA's statutory obligations

Cost benefit analysis

5.10 The benefits of the proposals in this chapter arise from enhanced the security of data transmission, and clarification of guidance on completion of the Branch Return. This helps avoid any costs to firms that could arise where communication is not secure, there is a need for audit of submissions, or firms misunderstand the guidance itself.

5.11 The PRA considers the implementation costs of changing the Branch Return submission method to BEEDS, rather than via email, to be minimal because it is straightforward for firms to enrol for and submit data using BEEDS. In addition, the PRA website provides an Excel XML generator and instructions.[25] The PRA considers that submission via BEEDS would provide a secure route of data submission, and a clearer audit trail.

5.12 The PRA does not consider that the formatting changes to the Branch Return, and replacing the Branch Return reference in the PRA Rulebook to a PDF format, would lead to additional costs for firms. This latter change would allow the PRA to be more responsive to technical problems where these are identified by firms, reducing the time required to address them, and reducing the potential for uncertainty and additional costs for firms. The PRA considers that the renaming of row 150 under Part 1 of the Branch Return would help to clarify PRA expectations, and reduce the scope for error and the consequent need for resubmission.

5.13 The PRA considers that the amendments to the reporting guidance may reduce firms' reporting costs, as the updated guidance would provide firms with greater clarity on their reporting requirements, and reduce the scope for error and the consequent need for resubmission.

PRA objectives

5.14 The PRA has a statutory objective to promote the safety and soundness of PRA-authorised persons. The PRA considers that the proposals outlined in this chapter would ensure the safety and soundness of the firms it regulates by improving the transparency, consistency, and quality of the data submitted and any potential analyses.

5.15 When discharging its general function in a way that advances its primary objectives, the PRA has, as a secondary objective, a duty to facilitate effective competition in the markets for services provided by PRA-authorised persons. The PRA considers that the proposals in this chapter do not have a significant impact on effective competition, as they do not materially change the PRA's expectations.

Have regards

FSMA regulatory principles

5.16 In developing the proposals in this chapter, the PRA has had regard to the regulatory principles. Three of the principles are particularly relevant:

(i) that regulators use their resources in the most efficient and economical way. The PRA considers that the clearer reporting guidance, and BEEDS validation feedback, would reduce the time that its supervisors spend on data queries;

(ii) that a burden which is imposed on a person should be proportionate to the benefits, in general terms, which are expected to result from the imposition of that burden. The PRA considers that the minimal implementation costs are outweighed by the benefits of clearer reporting guidance. In addition, there is value in the instant validation feedback, secure data submission, and clearer audit trail enabled by moving to submission via BEEDS; and

(iii) that the regulators should exercise their functions as transparently as possible. The PRA considers that the proposals in this chapter are compatible with this principle, as they seek to ensure that the relevant forms are usable, accurate, and up-to-date, with the aim of improving the transparency of the information the PRA requires.

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[25] Available under the 'Branch Return Form' section at: https://www.bankofengland.co.uk/prudential-regulation/regulatory-reporting/regulatory-reporting-banking-sector/banks-building-societies-and-investment-firms.

5.17 The PRA has considered the remaining FSMA regulatory principles (see Appendix 16), and considers that they are not relevant to these proposals.

CRR rules

5.18 **Finance for the real economy, growth, and sustainable growth:** The proposed rules relate to the reporting requirements for PRA-supervised third-country branches. The proposals are unlikely to have a significant impact on capital requirements, balance sheet structure or business activities. Hence the proposed rules are unlikely to have any material impact on finance for the real economy. Therefore the impact on growth and sustainable growth is also not expected to be significant.

5.19 **Relative standing of the UK and competitiveness:** The PRA considers the proposed changes to be relatively minor and unlikely to result in a material change in the current relative standing of the UK, or the competitiveness of the UK.

5.20 The PRA has considered the remaining CRR rules have regards (see Appendix 16), and considers that they are not relevant to these proposals.

Impact on mutuals

5.21 The PRA considers that the impact of the proposed policy changes on mutuals is expected to be no different from the impact on other firms.

HM Treasury recommendation letter

5.22 HM Treasury has made recommendations to the PRC about aspects of the Government's economic policy to which the PRC should have regard when considering how to advance the PRA's objectives and apply the regulatory principles. The PRA has considered the implications of the proposals in this chapter on each of the recommendations. The aspect of the Government's economic policy most relevant to the proposals in this chapter is competition, which has been considered in paragraph 5.15 above.

5.23 The PRA considers that the competitiveness recommendation is relevant to these proposals. The PRA has not materially changed these proposals, because they are relatively minor and proportionate changes that the PRA considers are unlikely to result in a material change in the competitiveness of the UK.

5.24 The PRA has considered the remaining aspects of government economic policy as laid out in the HM Treasury recommendation letter (see Appendix 16), and considers that they are not relevant to these proposals.

Equality and diversity

5.25 The PRA considers that the proposals do not give rise to equality and diversity implications.

6 Audit Committee and Auditors: Correction and update

6.1 In this chapter, the PRA sets out proposals to correct and update a reference in Rule 2.4(5) in the Audit Committee Part of the PRA Rulebook (Appendix 14), and to correct an error in SS1/16 'Written reports by external auditors to the PRA' (Appendix 15).[26]

6.2 This chapter is relevant to:

- Audit Committee – CRR firms, UK Solvency II insurance and reinsurance firms, and the Society of Lloyd's and managing agents; and
- Auditors – major UK banks and building societies, as set out in Chapter 8 of the Auditors Part of the PRA Rulebook.

Proposals

Audit Committee

6.3 A reference to the Statutory Auditors and Third Country Auditors Regulations 2016 in Audit Committee 2.4(5) needs to be updated. The PRA therefore proposes to amend 'the Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/XXX)' to 'the Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/649)'.

Auditors

6.4 It has come to the PRA's attention that a reference to the PRA Rulebook in paragraph 5.1 of SS1/16 is incorrect. The PRA therefore proposes to amend 'Rule 7.11' to 'Rule 7.1'.

The PRA's statutory obligations

Cost benefit analysis

6.5 The PRA considers that these proposals would not result in additional costs to firms. The Statutory Instrument referenced in Rule 2.4(5) already applies to relevant firms, and the proposed change does not create new obligations. The update to SS1/16 is a simple correction, and the underlying rules applicable to relevant firms have not changed.

PRA objectives

6.6 The PRA has a statutory objective to promote the safety and soundness of PRA-authorised persons. The PRA considers that keeping policy material updated provides confidence to firms in following the expectations set out in that material, which contributes to the PRA's statutory objective to promote the safety and soundness of PRA-authorised firms.

6.7 The PRA does not expect the proposals would have any significant impact on competition, as they do not change existing policy.

Have regards

FSMA regulatory principles

6.8 In developing the proposals in this chapter, the PRA has had regard to the regulatory principles. The regulatory principle of most relevance to these proposals is that the regulators should exercise

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26 January 2016: https://www.bankofengland.co.uk/prudential-regulation/publication/2016/written-reports-by-external-auditors-to-the-pra-ss.

their functions as transparently as possible. The aim of these proposals is to correct policy material, and to make the PRA's expectations as transparent and clear as possible.

6.9 The PRA has considered the remaining FSMA regulatory principles (see Appendix 16), and considers that they are not relevant to these proposals.

Impact on mutuals

6.10 The PRA considers that the impact of the proposed policy changes on mutuals is expected to be no different from the impact on other firms.

HM Treasury recommendation letter

6.11 HM Treasury has made recommendations to the PRC about aspects of the Government's economic policy to which the PRC should have regard when considering how to advance the PRA's objectives and apply the regulatory principles. The PRA has considered the implications of the proposals in this chapter on each of the recommendations. The aspect of the Government's economic policy most relevant to the proposals in this chapter is transparency, which has been considered in paragraph 6.8 above.

6.12 The PRA has considered the remaining aspects of government economic policy as laid out in the HM Treasury recommendation letter (see Appendix 16), and considers that they are not relevant to these proposals.

Equality and diversity

6.13 The PRA considers that the proposals do not give rise to equality and diversity implications.

Appendices

1	Draft amendments to Reporting Pillar 2 Part of the PRA Rulebook
2	Draft amendments to SS32/15 'Pillar 2 reporting, including instructions for completing data items FSA071 to FSA082, and PRA111'
3	Draft amendments to FSA081 template – available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2021/june/cp1321app3.xlsx
4	Draft amendments to FSA081 instructions
5	Draft amendments to Regulatory Reporting Part of the PRA Rulebook
6	Draft amendments to SS34/15 'Guidelines for completing regulatory reports'
7	Draft amendments to FSA017 instructions
8	Draft amendments to Notes for completion of the Mortgage Lenders & Administrators Return
9	Draft amendments to Definition of Capital Part of the PRA Rulebook
10	Draft amendments to SS7/13 'Definition of capital (CRR firms)'
11	Draft amendments to SS34/15 'Guidelines for completing regulatory reports'
12	Draft amendments to Branch Return - available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2021/june/cp1321app12.pdf
13	Draft amendments to reporting guidance for the Branch Return - available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2021/june/cp1321app13.pdf
14	Draft amendments to Audit Committee Part of the PRA Rulebook
15	Draft amendments to SS1/16 'Written reports by external auditors to the PRA'
16	PRA statutory obligations

Appendix 1: Draft amendments to Reporting Pillar 2 Part of the PRA Rulebook

PRA RULEBOOK: CRR FIRMS: REPORTING PILLAR 2 (AMENDMENT) INSTRUMENT 2021

Powers exercised

A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):
   (1) section 137G (The PRA's general rules); and
   (2) section 137T (General supplementary powers).

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

Pre-conditions to making

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

PRA Rulebook: CRR Firms: Reporting Pillar 2 (Amendment) Instrument 2021

D. The PRA makes the rules in the Annex to this Instrument.

Commencement

E. This instrument comes into force on 1 December 2021.

Citation

F. This instrument may be cited as PRA Rulebook: CRR Firms: Reporting Pillar 2 (Amendment) Instrument 2021.

By order of the Prudential Regulation Committee

[DATE]

Annex

Amendments to the Reporting Pillar 2 Part of the PRA Rulebook

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

4 DATA ITEMS

…

4.9 FSA081 can be found ~~here~~here.

…

Appendix 2: Draft amendments to SS32/15 'Pillar 2 reporting, including instructions for completing data items FSA071 to FSA082, and PRA111'

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

Extract

…

Appendix 3 - Instructions for completing data items FSA071 to FSA082, and PRA111

…

Name		Data item	Instructions
FSA081	Pillar 2 Pension risk	~~https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/fsa-data-items/fsa081dec18.xltx~~ [new link to be inserted on finalisation of policy]	~~https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/fsa-data-items/fsa081instructionsdec18.pdf~~ [new link to be inserted on finalisation of policy]

Appendix 3: Draft amendments to FSA081 template – available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2021/june/cp1321app3.xlsx

Appendix 4: Draft amendments to FSA081 instructions

~~**FSA081 Pillar 2 pension risk**~~

~~A firm in scope must submit the data items required by this data item proportionately to the nature, scale and complexity of its activities. A graduated approach is described by the colour codes below:~~

> ~~**White/no colour:** This information is to be provided by all firms~~
>
> ~~**Yellow:** This information is to be provided by significant firms. The PRA may ask other firms to submit the data on a case-by-case basis.~~
>
> ~~**Light grey:** the information is requested from significant firms and deposit-takers and designated investment firms whose size, interconnectedness, complexity and business type give them the capacity to cause disruption to the UK financial system (and through that to economic activity more widely) by failing or by carrying out their business in an unsafe manner. The PRA may ask other firms to submit the data on a case-by-case basis.~~

~~**General information**~~

~~Firm should complete the following mandatory fields:~~

- ~~the basis of their reporting – UK consolidated, solo consolidation, UK consolidation group, prudential sub-consolidation, or capital sub-group;~~
- ~~the submission number – firms should enter ‘1’ and increase this number by ‘1’ in case of resubmission;~~
- ~~the unique ‘firm reference number’ (FRN);~~
- ~~the name of the firm;~~
- ~~the reporting period start and end dates – these dates should coincide with the ICAAP assessment period. In particular, the reporting end date is the balance sheet end date used for purposes of the ICAAP assessment; and~~
- ~~the reporting currency – firms should report in the currency of their ICAAP i.e. Pounds Sterling (GBP), US Dollars (USD), Euros (EUR), Canadian Dollars (CAD), Swiss Francs (CFH), Japanese Yen (JPY) or Swedish Krona (SEK).~~

~~**Units**~~

~~All amounts should be reported in absolute values rounded to the nearest whole number in reporting currency, with the following exceptions:~~

- ~~firms should enter negative values for the data elements ‘Asset PV01’ and ‘Liability PV01’, and positive values for ‘Asset IE01’ and ‘Liability IE01’; and~~
- ~~they should report the Macauley durations as decimal numbers up to 2 decimal places.~~

~~Where values correspond to percentages, these should be entered as decimal numbers up to 2 decimal places. For example, ’70.00%’.~~

~~**Section 1 Information on the scheme**~~

~~Assets must be reported at market value at the effective date, which should coincide with the reporting period end date; liabilities must be reported at accounting value (except where otherwise stated) at the effective date. Firms don't need to report the risk-free rate for their assets or liabilities.~~

~~Scheme 1, Scheme 2 etc.~~

~~Separate information is requested for the largest defined benefits schemes for which firms have material responsibility.~~

~~Total~~

~~In this column firms should report information at the entire firm level, without breaking it down into the individual defined benefit schemes.~~

~~Other schemes and post retirement employee benefits~~

~~All non-material defined benefits pensions. Information should be aggregated.~~

~~Details, comments and notes~~

~~Firms may enter additional information in support of the data provided in the columns to the left of it. If the designated box is not sufficient, firms should submit, or provide links to, additional information via electronic means to the PRA.~~

~~Market value of asset components - other credit~~

~~Include below investment grade corporates and provide a separate break down by category, eg sub investment grade, unrated, and other material categories that merit differentiation. If the designated box is not sufficient, firms should submit, or provide links to, additional information via electronic means to the PRA.~~

~~Deficit (surplus) of pension scheme – on an accounting basis~~

~~The deficit (surplus) of the pension schemes must be calculated by valuing the assets at market value and the liabilities at accounting value.~~

~~Section 75 valuation (ie value of liabilities)~~

~~The buyout value of the liabilities of each scheme. For United Kingdom schemes, this has to be calculated in accordance to Section 75 of the Pensions Act 1995. For non-United Kingdom schemes, firms need to make an assessment of what their obligations would be to the pension schemes in the event of resolution (ie the cost of settling the liabilities).~~

~~Explanation of principles underlying choice of pension accounting assumptions for each defined benefit plan in the group, and whether this has received auditor acceptance.~~

~~Outline the principles underlying the choice of pension accounting assumptions for each defined benefit plan and whether the principles and the choice in the most recent year have received auditor acceptance.~~

~~Fixed interest portfolio~~

~~Firms should also provide the split by market value, denominated in the overall currency used for FSA081, of the major currency denominations of the fixed interest portfolio, eg sterling, dollar, Euro, or other. This information should be provided in the additional separate lines at the bottom of this data item, with any commentary in the designated box. If the designated box is not sufficient, firms should submit, or provide links to, additional information via electronic means to the PRA.~~

~~Section 2 Pillar 2 calculations~~

~~The deficit (surplus) of the pension fund under stress scenarios, as specified in Table D of the statement of policy on Pillar 2 is to be reported.~~

~~Firms' assessment~~

~~The deficit (surplus) should be calculated using the firm's own methodology.~~

~~Stress scenario~~

~~The deficit (surplus) should be calculated using the accounting basis.~~

~~Incremental deficit from one-year stress~~

~~The stressed deficit minus the starting deficit.~~

~~Management actions~~

~~A description and separate quantification for each management action and offset a firm wishes to claim when Pillar 2A capital for pension risk is calculated.~~

~~Details, comments and notes~~

~~An explanation of why each action would be effective in a stress and how it fulfils the PRA's eligibility criteria for accepting management actions and offsets.~~

~~Section 3~~

~~The information in this section has to be reported by significant firms and deposit-takers and designated investment firms whose size, interconnectedness, complexity and business type give them the capacity to cause disruption to the UK financial system (and through that to economic activity more widely) by failing or by carrying out their business in an unsafe manner. The PRA may ask other firms to submit the data on a case-by-case basis.~~

~~Interest rate and inflation sensitivities~~

~~The discount rate and inflation sensitivities should be applied independently. For the inflation sensitivity figures, please include all liabilities that are affected by inflation e.g. RPI and CPI pension increases, deferred revaluation and salary increases. In addition, any caps and floors to the pension increases should be allowed for.~~

~~Derivatives~~

~~A breakdown of all derivatives by type, including:~~

- ~~the total market value, which should be consistent with the information provided in Section I;~~

- ~~the total notional value; and~~
- ~~the sensitivity of the market value to the underlying, eg for swaps please provide the sensitivity to parallel shifts in swap rates, for credit default swaps (CDS) please provide the sensitivity to parallel shifts in the credit curve, etc.~~

~~SPV~~

~~In relation to any SPV or similar arrangements proposed to be used as an offset to Pillar 2 pension risk capital, firms are required to provide to the PRA:~~

- ~~the document or agreement governing that vehicle;~~
- ~~summaries of the above, the purpose of the vehicle, and how it operates;~~
- ~~explanation of the effectiveness of the vehicle as a mitigant to risk in a going concern scenario;~~
- ~~a breakdown of the investments of the vehicle at the effective date at individual asset level;~~
- ~~explanations of how the assets held by the vehicle change over time;~~
- ~~if the SPV is held on the firm's balance sheet, a breakdown at the effective date of the risk-weightings of the assets and an explanation of those risk weightings;~~
- ~~breakdown at the effective date of assets to which prudential filters have been applied, together with an explanation of these prudential filters;~~
- ~~explanation of the valuation methodology used for these assets; and~~
- ~~explanation of how the SPV contributes to the capital resources of the group and solo entities.~~

~~Quantitative information should be provided in separate lines at the bottom of this data item, with any commentary added in the designated box. If the designated box is not sufficient, firms should submit, or provide links to, additional information via electronic means to the PRA.~~

~~Additional documents to be attached to the submission~~

~~All firms should provide a latest funding update and triennial valuation report for United Kingdom schemes. These are the reports provided by the scheme actuary to the trustees of the pension plan. Firms should submit these documents via electronic means to the PRA.~~

~~Comments~~

~~Comment boxes are limited to 255 characters. Any additional information should be sent to the PRA via electronic means.~~

~~December 2018~~

Pillar 2 pension risk – guidance for completion of the FSA081 template

This document provides guidance for completion of the PRA's FSA081 template, which firms must submit as part of their Pillar 2 reporting. The guidance follows the structure of the FSA081 template and is therefore split into four sections:

- General information
- Section I – information on the scheme
- Section II – Pillar 2 calculations
- Section III – interest rate and inflation sensitivities

The above sections are discussed in this guidance document.

Not all firms will be required to submit every piece of information in the FSA081 template. The information required will be in proportion to the nature, scale, and complexity of the firm's activities. To enable this, the FSA081 input cells are colour-coded. This is detailed below, and each firm should follow the colour coding as follows:

Cell colour	**Input required?**
White/no colour	Yes, to be provided by all firms.
Light grey	The information is requested from significant firms and deposit-takers, and designated investment firms whose size, interconnectedness, complexity, and business type give them the capacity to cause disruption to the UK financial system (and through that to economic activity more widely) by failing or by carrying out their business in an unsafe manner. The PRA may ask other firms to submit the data on a case-by-case basis.
Dark grey	No.

Units

Generally, amounts should be reported in absolute values, rounded to the nearest whole number in reporting currency, unless otherwise stated. For any entries that are percentages, these should be entered with 1 decimal place. For example, '70.0%'.

Additional documents to be attached to the submission

All firms should provide a latest triennial valuation report and annual funding update for United Kingdom schemes. The triennial valuation reports are provided by the scheme actuary to the trustees of the pension plan every three years. If the latest triennial valuation report was provided in a previous submission, we only require the annual funding update. Firms should submit these documents via electronic means to the PRA.

Comments boxes

Any additional information not fitting into the comments boxes should be sent to the PRA via electronic means.

[DATE]

General information

Firms should complete the following mandatory fields:

Row reference	Row label(s)	Guidance
3	Basis of reporting	UK consolidated, solo consolidation, UK consolidation group, prudential sub-consolidation, or capital sub-group.
4	Submission number	The submission number – firms should enter ‘1’ and increase this number by ‘1’ if a resubmission is required.
5	Firm reference number (FRN)	The unique ‘firm reference number’.
6	Name of the firm	The name of the firm.
7-8	Reporting period start date Reporting period end date	These dates should coincide with the ICAAP assessment period. In particular, the reporting end date is the balance sheet end date used for the purposes of the ICAAP assessment.
9	Reporting currency	Firms should report in the currency of their ICAAP ie Pounds Sterling (GBP), US Dollars (USD), Euros (EUR), Canadian Dollars (CAD), Swiss Francs (CFH), Japanese Yen (JPY) or Swedish Krona (SEK).

Section I – information on the scheme

Assets must be reported at market value at the effective date, which should coincide with the reporting period end date; liabilities must be reported at accounting value (except where otherwise stated) at the effective date. Other points of guidance are set out in the tables below.

Column reference	**Column label(s)**	**Guidance**
010	Total	Firms should report information at the entire firm level, without breaking it down into the individual defined benefit schemes.
020-090	Scheme 1, Scheme 2 etc	Separate information is requested for the largest defined benefit schemes for which firms have material responsibility. One column per such scheme.
100	Other schemes and post retirement employee benefits	All non-material defined benefit pension arrangements. Information should be aggregated into this one column.
110	Details, comments, and notes	Firms may enter additional information in support of the data provided. For example, we expect firms to provide: • a split of market values by major currency denomination if applicable; and • the proportion of the market value that is currency hedged, again split by major currency denomination. If the designated box is insufficient, firms should submit, or provide links to, additional information via electronic means to the PRA.

Row reference	**Row label(s)**	**Guidance**
010	Name of scheme	For firms also participating in the Bank's stress test via the annual cyclical scenario, please ensure there is consistency between the scheme names used in the FSA081 and the relevant stress testing templates.
020-050	Various	-
060-130	Fixed interest sovereign bonds Index linked sovereign bonds Fixed interest corporate bonds AAA Fixed interest corporate bonds AA Fixed interest corporate bonds A Fixed interest corporate bonds BBB Index linked corporate bonds (all credit ratings) Other credit	For any holdings denominated in non-GBP currencies, additional information should be provided in the comments box (column 110) and/or the separate box in Section III of this template (labelled no. 15). The additional information should include: • the split of the total market value by each major currency denomination ie split between Sterling, Dollar, Euro, and other; and • the proportion of the market value that is currency hedged, again split by major currency denomination. If the information does not fit in these spaces, firms should submit this to the PRA via

		electronic means or provide links.
130	Other credit	Include corporate bonds below investment grade and, in the comments box, provide a separate breakdown by category, eg sub-investment grade/unrated/other material categories that merit differentiation. If the comments box is insufficient, firms should submit, or provide links to, additional information via electronic means to the PRA.
140-210	Various	-
215	Insured annuities	Please ensure the equivalent liability is included in the overall scheme liabilities.
230	Asset PV01 (1bp increase)	Ordinarily, this figure is negative.
240	Asset IE01 (1bp increase)	Ordinarily, this figure is positive.
250-270	Various	-
280	Liability PV01 (1bp increase)	Ordinarily, this figure is negative.
290	Liability IE01 (1bp increase)	Ordinarily, this figure is positive.
300	Deficit/(surplus) of pension scheme – on an accounting basis	The deficit/(surplus) of the pension schemes must be calculated by valuing the assets at market value and the liabilities at accounting value.
310	Section 75 valuation (i.e. value of liabilities)	The buyout value of the liabilities of each scheme. For United Kingdom schemes, this must be calculated in accordance to Section 75 of the Pensions Act 1995. For non-United Kingdom schemes, firms should assess what their obligations would be to the pension schemes in the event of resolution (ie the cost of settling the liabilities).
320-340	Active members Deferred pensioners Pensioners	These entries should reflect the Macaulay duration for each of these member categories, based on the accounting liabilities in entries 250-270. Please enter to 1 decimal place.
350-430	Fixed interest sovereign bonds Index linked sovereign bonds Fixed interest corporate bonds (all credit ratings) Fixed interest corporate bonds AAA Fixed interest corporate bonds AA Fixed interest corporate bonds A Fixed interest corporate bonds BBB Index linked corporate bonds (all credit ratings) Other credit	These entries should reflect the Macaulay duration for each of these asset categories. Please enter to 1 decimal place.
440-500	Various	-
501-502	Life expectancy…	If a member is expected to live to age 90, please enter '25' (90 minus 65) rather than '90'.
11	Explanation of principles underlying choice of pension accounting assumptions for each defined benefit	Outline the principles underlying the choice of pension accounting assumptions for each defined benefit plan and whether the

	plan in the group, and whether this has received auditor acceptance.	principles and the choice in the most recent year have received auditor acceptance. For example, firms should explain the principles that they use to select the particular discount rate, inflation and pension increase assumptions, and mortality table assumptions that they have used to produce the figures, and draw attention to any changes in these principles since the previous FSA081 submission.

Section II – Pillar 2 calculations

The key points of guidance for this section are set out in the tables below.

Column reference	Column label(s)	Guidance
010	Firms' assessment	These figures should be calculated using the firm's own methodology.
020	Stress scenario 1	These figures should be calculated using the accounting basis and the scenario described as 'Scenario 1' in 'The PRA's methodologies for setting Pillar 2 capital'.
030	Stress scenario 2	These figures should be calculated using the accounting basis and the scenario described as 'Scenario 2' in 'The PRA's methodologies for setting Pillar 2 capital'.
12	Details, comments and notes	An explanation of why each action would be effective in a stress and how it fulfils the PRA's eligibility criteria for accepting management actions and offsets.

Row reference	Row label(s)	Guidance
520	Deficit/(surplus) of the pension scheme, before stress, on firm's own basis (column 010) and accounting basis (columns 020 and 030)	Please enter the pension scheme's deficit (positive) or surplus (negative) at the 'Reporting period end date', before any stresses have been applied. If the accounting basis has been used for the firm's own assessment in column 010, then ordinarily these three entries will be the same.
530	Increase/(decrease) in deficit from 1-year stress	The change in surplus/deficit due to the stress applied. For example: Before stress: accounting surplus of 20 After stress: accounting deficit of 80 In this example, we would therefore enter a positive figure of 100.
540-590	Management action/offset 1 Management action/offset 2 Management action/offset 3 Management action/offset 4 Management action/offset 5 Management action/offset 6	A quantification for each management action and offset a firm wishes to claim when Pillar 2A capital for pension risk is calculated. A reduction to the capital requirement should be entered as a negative figure here. Please describe each action/offset in the comments box to the right of the entry.
600	Pillar 1 pensions capital	If non-zero, please enter as a negative figure. Typically, this would be the accounting deficit for the scheme at the 'Reporting period end date'.
605	Total pillar 2 pensions risk capital	This should equal the sum of items 520 to 600.

Section III – interest rate and inflation sensitivities

The key points of guidance for this section are set out in the tables below.

Row reference	Data item name	Guidance
610-690	Change to discount rate / inflation rate	The discount rate and inflation sensitivities should be applied independently. For the inflation sensitivity figures, please include all liabilities that are affected by inflation e.g. RPI and CPI pension increases, deferred revaluation and salary increases. In addition, any caps and floors to the pension increases should be allowed for.
13	Additional information for derivatives – see guidance	A breakdown of all derivatives by type, including: • the total market value, which should be consistent with the information provided in Section I; • the total notional value; and • the sensitivity of the market value to the underlying, e.g. for swaps please provide the sensitivity to parallel shifts in swap rates, for credit default swaps please provide the sensitivity to parallel shifts in the credit curve, etc.
14	Additional information for SPVs – see guidance	In relation to any special purpose vehicle ('SPV') or similar arrangements proposed to be used as an offset to Pillar 2 pension risk capital, firms are required to provide to the PRA: • the document or agreement governing that vehicle; • summaries of the above, the purpose of the vehicle, and how it operates; • explanation of the effectiveness of the vehicle as a mitigant to risk in a going concern scenario; • a breakdown of the investments of the vehicle at the effective date at individual asset level; • explanations of how the assets held by the vehicle change over time; • if the SPV is held on the firm's balance sheet, a breakdown at the effective date of the risk-weightings of the assets and an explanation of those risk weightings; • breakdown at the effective date of assets to which prudential filters have been applied, together with an explanation of these prudential filters; • explanation of the valuation methodology used for these assets; and • explanation of how the SPV contributes to the capital resources of the group and solo entities. Quantitative information should be provided in separate lines at the bottom of this data item, with any commentary added in the designated box. If the designated box is not sufficient, firms should submit, or provide links to, additional information via electronic means to the PRA.
15	Firms' further notes/qualitative information on data reported	Any other information, as required.
16	Provision of	Please confirm the relevant documentation has been provided

	relevant funding documentation	by entering "X" in the box. If the latest triennial valuation report was provided in a previous submission, we only require the annual funding update.

Appendix 5: Draft amendments to Regulatory Reporting Part of the PRA Rulebook

PRA RULEBOOK: CRR FIRMS, NON CRR FIRMS: REGULATORY REPORTING AMENDMENT NO [..] INSTRUMENT 2021

Powers exercised

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

(1) section 137G (The PRA's general rules); and
(2) section 137T (General supplementary powers).

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

Pre-conditions to making

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

PRA Rulebook: CRR Firms, Non CRR Firms: Regulatory Reporting Amendment No […] Instrument 2021

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

Commencement

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

Citation

F. This instrument may be cited as the PRA Rulebook: CRR Firms, Non CRR Firms: Regulatory Reporting Amendment No […] Instrument 2021.

By order of the Prudential Regulation Committee
[DATE]

Annex

Amendments to the Regulatory Reporting Part

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

...

4 10 REGULATED ACTIVITY GROUP 4

…

10.2 The applicable *data items* referred to in the table in 6.1 are set out in the table below:

RAG **4**	
Description of *data item*	Applicable *data items* [1]
…	
~~UCITS (2)~~ [deleted.]	~~FSA042~~ [deleted.]

…

(2) ~~Only applicable to *firms* that have *permission* for *establishing, operating or winding up a regulated collective investment scheme*.~~[deleted]

10.3 The applicable reporting frequencies for submission of *data items* referred to in 10.2 are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

RAG **4**	
Data item	Reporting frequency
…	
~~FSA042~~ [deleted.]	~~Quarterly~~ [deleted.]

10.4 The applicable due dates for submission referred to in the table in 6.1 are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in 10.3, unless indicated otherwise.

RAG **4**						
Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annually

…						
~~FSA042~~ [deleted.]	-	-	-	~~20 *business days*~~ [deleted.]	-	-

…

5 16 DATA ITEMS AND OTHER FORMS

…

16.13 ~~FSA042 can be found here.~~ [deleted.]

…

6 22 BRANCH REPORTING

…

22.3 The Branch Return Form can be found ~~here~~ here.

…

Appendix 6: Draft amendments to SS34/15 'Guidelines for completing regulatory reports'

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

Extract

…

Appendix 1 - Guidelines for completing data items FSA005 to FSA048 and PRA101 to PRA108

…

Name		Data item	Instructions
FSA017	Interest rate gap report	www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/fsa-data-items/fsa017-data-item.pdf	~~www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/fsa-data-items/fsa017-instructions.pdf~~ [new link to be inserted on finalisation of policy]
FSA042	UCITS	~~www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/fsa-data-items/fsa042-data-item.pdf~~ [DELETED]	~~www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/fsa-data-items/fsa042-instructions.pdf~~ [DELETED]

Appendix 2 – Notes for completion of the Mortgage Lenders and Administrators Return

Notes for completion	Link
In force until 30 September 2020	www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/crd-iv/mlar-notes-june-2017
In force from 1 October 2020	~~www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/crd-iv/mlar-notes-oct-2020~~ [new link to be inserted on finalisation of policy]

Appendix 7: Draft amendments to FSA017 instructions

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

Extract

…

FSA017 - Instructions
9 FSA017 – Interest rate gap ………. **Data elements** ……….. For example, a 3 year loan could be repriced every six months at a spread above 6 month ~~LIBOR rate~~ compounded in arrears SONIA. If it was rolled over a month ago then it will reprice in 5 months', not in 3 years', time.) ……….. Swaps: if a fixed rate mortgage of 3 years maturity is swapped to a 6 month ~~LIBOR~~ ~~rate~~ compounded in arrears SONIA then the impact on the gap analysis should be shown by placing the notional swapped amount into the 3 year liability time bucket and the same amount in the 6 month asset time bucket.

Appendix 8: Draft amendments to Notes for completion of the Mortgage Lenders & Administrators Return

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

Extract

…

MLAR - Instructions
D3 Loans: Interest rates …….. '**variable**' includes all other interest rate bases (i.e. other than those defined above as 'fixed') applying to particular products, including those at, or at a discount or premium to, one of the firm's administered lending rates; and those linked to ~~Libor (or other market rate); those linked to~~ an index ~~(e.g. FTSE) etc~~. However if any such loan products are subject to a 'capped rate', then treat those as 'fixed'.

Appendix 9: Draft amendments to Definition of Capital Part of the PRA Rulebook

PRA RULEBOOK: CRR FIRMS: DEFINITION OF CAPITAL (AMENDMENT) INSTRUMENT 2021

Powers exercised

A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
(1) section 137G (The PRA’s general rules); and
(2) section 137T (General supplementary powers).

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

Pre-conditions to making

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

PRA Rulebook: CRR Firms: Definition of Capital (Amendment) Instrument 2021

D. The PRA makes the rules in the Annex to this Instrument.

Commencement

E. This instrument comes into force on 1 January 2022.

Citation

F. This instrument may be cited as PRA Rulebook: CRR Firms: Definition of Capital (Amendment) Instrument 2021

By order of the Prudential Regulation Committee

[DATE]

Annex

Amendments to the Definition of Capital Part

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

…

4 CONNECTED FUNDING OF A CAPITAL NATURE

…

4.1 ~~This Chapter applies to every *firm* that is a *UK bank*.~~ [deleted]

…

Appendix 10: Draft amendments to SS7/13 'Definition of capital (CRR firms)'

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

…

8 Connected funding of a capital nature (CFCN)

8.1 Chapter 4 of the PRA's Definition of Capital rules states that firms must treat all CFCN as a holding of capital of the connected party and apply to it the treatment under the CRR applicable to such a holding. The CFCN rule applies on an ongoing basis. Therefore where a loan initially falls outside the definition of CFCN but later falls into it, the appropriate capital treatment should be applied immediately and the PRA should be notified. For example, if the initial lending to a connected party is subsequently down-streamed to another connected party, the relationship between the ~~bank~~ firm and the ultimate borrower may be such that, looking at the arrangements as whole, the entity to which the ~~bank~~ firm lends is able to regard the loan as being capable of absorbing losses.

8.2 ~~Banks~~ Firms should take account of contractual, structural, reputational or other factors when determining whether a transaction is a CFCN.

8.3 Lending to a connected party will not normally be considered CFCN where that party is acting as a vehicle to pass funding to an unconnected party and has no other creditors whose claims could be senior to those of the lender.

8.4 Additionally, for connected parties within the same consolidation group, it is likely that a loan is not CFCN if:

(a) it is secured by collateral that is eligible for the purposes of credit risk mitigation under the standardised approach to credit risk; or

(b) it is repayable on demand (and is treated as such for accounting purposes by the borrower and lender) and the ~~bank~~ firm can demonstrate that there are no potential obstacles to exercising the right to repay, whether contractual or otherwise.

…

Appendix 11: Draft amendments to SS34/15 'Guidelines for completing regulatory reports'

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

Extract

…

Appendix 13 - Guidelines for completing the Branch Return

Name	Data item	Validations	Instructions
Branch Return	~~https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/branch-return-template-sept-2020.xlsx~~ [new link to be inserted on finalisation of policy]	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/branch-return-form-validations-sept-2020.xlsx	~~https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/branch-return-guidance-september-2019.pdf~~ [new link to be inserted on finalisation of policy]

Appendix 12: Draft amendments to Branch Return – available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2021/june/cp1321app12.pdf

Appendix 13: Draft amendments to reporting guidance for the Branch Return – available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2021/june/cp1321app13.pdf

Appendix 14: Draft amendments to Audit Committee Part of the PRA Rulebook

PRA RULEBOOK: CRR FIRMS AND SOLVENCY II FIRMS: AUDIT COMMITTEE (AMENDMENT) INSTRUMENT 2021

Powers exercised

A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):
(1) section 137G (The PRA's general rules); and
(2) section 137T (General supplementary powers).

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

Pre-conditions to making

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

PRA Rulebook: CRR Firms and Solvency II Firms: Audit Committee (Amendment) Instrument 2021

D. The PRA makes the rules in the Annex to this Instrument.

Commencement

E. This instrument comes into force on 1 January 2022.

Citation

F. This instrument may be cited as PRA Rulebook: CRR Firms and Solvency II Firms: Audit Committee (Amendment) Instrument 2021.

By order of the Prudential Regulation Committee

[DATE]

Annex

Amendments to the Audit Committee Part

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

...

2 AUDIT COMMITTEE

...

2.4 A *firm* must ensure that its *audit committee* performs at least the following functions:

…

(5) reviews and monitors the independence of the statutory auditor or the audit firm in accordance with, where applicable, paragraphs 2(3), 2(4), 3, 4(1), 4(2), 5 to 8 and 10 to 12 of Schedule 1 to the ~~Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/XXX)~~Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/649) and, where applicable, Article 6 of the *Statutory Audit Regulation*, and in particular the suitability of the provision of non-audit services to the firm in accordance with Article 5 of the *Statutory Audit Regulation*; and

…

Appendix 15: Draft amendments to SS1/16 'Written reports by external auditors to the PRA'

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

…

5 Co-operation with the PRA and interaction with other duties

5.1 Rule 7.1~~1~~[4] of the Auditor Part of the PRA Rulebook requires auditors to co-operate with the PRA in the discharge of its functions under any relevant legislation.

…

Appendix 16: PRA statutory obligations

The statutory obligations applicable to the PRA's policy development process are set out below. This CP explains the policy assessment of relevant considerations.

- Purpose of the policy proposals (FSMA s138J(2)(b)).
- Cost benefit analysis (FSMA s138J(2)(a) and (7)(a)); and
an estimate of those costs and benefits (if reasonable) (FSMA s138J(8)).
- Analysis of whether the impact on mutuals is significantly different to the impact on other authorised firms (FSMA s138J(2)(c) and 138K).
- Compatibility with the PRA's primary objectives (FSMA s138J(2)(d)(i), 2B, and 2C).
- Compatibility with the PRA's secondary competition objective (FSMA s138J(2)(d)(ii) and 2H(1)).
- Compatibility with the regulatory principles (FSMA s138J(2)(d)(ii), 2H(2), and 3B).
- Have regard to the HM Treasury recommendation letter (BoE Act s30B).
- Have due regard to the public sector equality duty (Equality Act s149).
- Have regard, subject to any other requirement affecting the exercise of the regulatory function, to the principles of good regulation and when determining general policy or principles to the Regulators Code (Legislative and Regulatory Reform Act 2006 s21 & 22).
- Have regard, so far as consistent with the proper exercise of those functions, to the purpose of conserving biodiversity. Conserving biodiversity includes, in relation to a living organism or type of habitat, restoring or enhancing a population or habitat (Natural Environment and Rural Communities Act 2006, s40).
- Consultation of the FCA (FSMA s138J(1)(a)).
- *Where the consultation proposals a PRA rule change or amendment to onshored BTS that affects the processing of personal data* – consultation with the Information Commissioner's Office (Article 36(4) General Data Protection Regulation).
- *For UK Technical Standards Instruments only*: FSMA s138J(1)(a) is replaced with: consultation of the FCA and/or Bank, where that Regulator has an interest in the technical standards (FSMA s138P(4) and (5)).
- *For UK Technical Standards Instruments only*: notice given to HMT of the consultation on the UKTS ('best efforts' basis).
- *For CRR rules only:* subject to certain exceptions, have regard to:
    - relevant standards recommended by the Basel Committee on Banking Supervision from time to time;
    - the likely effect of the rules on the relative standing of the United Kingdom as a place for internationally active credit institutions and investment firms to be based or to carry on

activities. For these purposes, the PRA must consider the United Kingdom's standing in relation to the other countries and territories in which, in its opinion, internationally active credit institutions and investment firms are most likely to choose to be based or carry on activities;

- the likely effect of the rules on the ability of CRR firms to continue to provide finance to businesses and consumers in the United Kingdom on a sustainable basis in the medium and long term; and

- the target in section 1 of the Climate Change Act 2008 (carbon target for 2050).

(s144C (1)&(2) FSMA – exceptions in s144E FSMA).

- *For CRR rules only*: explanation of the ways in which having regard to the matters specified above has affected the proposed rules (s144D FSMA).

- *For CRR rules only*: publication of a summary of the proposed CRR rules.

- *For CRR rules only*: consideration and consultation with the Treasury about the likely effect of the rules on relevant equivalence decisions (s144C (3) &(4) FSMA).