

Bank of England PRA

Appendix 3: Draft amendments to SS15/13: Groups

Draft supervisory statement

October 2024

Draft for consultation



Bank of England | Prudential Regulation Authority

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In this appendix, new text is underlined and deleted text is struck through.

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1. Introduction

1.1 This supervisory statement is relevant to all banks, building societies, and designated investment firms and all PRA-approved or PRA-designated holding companies.

1.2 This statement sets out the Prudential Regulation Authority's (PRA's) expectations about applications relating to:

- (a) its approach to consolidation, in particular individual consolidation (CRR Article 9 of the Groups Part of the PRA Rulebook), the method of consolidation for entities falling within GRR under Article 18 of the Groups Part of the PRA Rulebook, and sub-consolidation; and
- (b) excluding certain entities from consolidation (CRR Article 19(2)).

1.3 This statement should be read in conjunction with the CRR articles listed, the requirements in the Groups Part of the PRA Rulebook and the high-level expectations outlined in The PRA's approach to banking supervision¹, and The Prudential Regulation Authority's approach to rule permissions and waivers² For Ring-Fenced Bodies (RFBs), as defined in section 142A of the Financial Services and Markets Act (FSMA), or any other PRA-authorized person that is a member of a group containing an RFB, this statement should be read alongside the PRA's Supervisory Statement 8/16 'Ring-fenced bodies (RFBs)'.³

2. Approach to consolidation

Individual consolidation

2.1 Where a parent institution wishes to apply for individual consolidation under Article 9 of the Groups Part of the PRA Rulebook, it will be expected to make a formal application to the PRA pursuant to section 138BA of FSMA.⁴ The PRA expects the application to demonstrate how the conditions criteria set out in paragraphs 2.2B and 2.2C CRR Article 9 and Article 396(2) of the Large Exposures (CRR) Part of the PRA Rulebook are met.

2.2 The PRA will assess individual consolidation applications against paragraphs 2.2B and 2.2C CRR Article 9 and Article 396(2) of the Large Exposures (CRR) Part of the PRA

¹ <https://www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors>

² www.bankofengland.co.uk/prudential-regulation/publication/2024/july/pras-approach-to-rule-permissions-and-waivers-statement-of-policy.aspx

³ PRA Supervisory Statement 8/16 'Ring-fenced bodies', July 2016, available at:

www.bankofengland.co.uk/pras/Pages/publications/ss/2016/ss816.aspx.

⁴ [PS12/24 – The Prudential Regulation Authority's approach to rule permissions and waivers | Bank of England](#)

Rulebook on a case-by-case basis. Where the ~~conditions~~ criteria in paragraphs 2.2B and 2.2C CRR Article 9 and Article 396(2) of the Large Exposures (CRR) Part of the PRA Rulebook are met, the PRA will assess whether it is still appropriate to permit the treatment, if doing so risks conflict with its statutory objectives. The PRA will apply a high level of scrutiny to applications under Article 9 of the Groups Part of the PRA Rulebook ~~CRR Article 9~~ as per the PRA's previous existing individual sole consolidation regime.

2.2A An RFB, or any other PRA-authorized person that is a member of a group containing an RFB, should note that the PRA will assess whether it remains appropriate to permit the treatment where the ~~conditions~~ criteria set out in paragraphs 2.2B and 2.2C CRR Article 9 and Article 396(2) of the Large Exposures (CRR) Part of the PRA Rulebook are met, including an assessment of the impact of the proposed treatment on the ability of the RFB and any other members of its group to fulfil their ring-fencing obligations, and on the PRA's general safety and soundness objective in relation to ring-fencing.⁵

2.2B Subject to paragraph 2.2C, the PRA may permit on a case-by-case basis parent institutions to incorporate in the calculation of their requirement under Article 9 of the Groups Part of the PRA Rulebook subsidiaries which meet the expectations laid down in lines (m) and (n) of paragraph 2.7 and whose material exposures or material liabilities are to that parent institution.

2.2C The treatment set out in paragraph 2.2B and accordingly the permission specified in Article 9 of the Groups Part of the PRA Rulebook shall be granted only where the parent institution demonstrates fully to the PRA the circumstances and arrangements, including legal arrangements, by virtue of which there is no current or foreseen material practical or legal impediment to the prompt transfer of own funds, or repayment of liabilities when due by each relevant subsidiary to its parent undertaking.

Methods of consolidation

2.3 Where a parent institution does not wish to proportionately consolidate its undertakings subject to ~~CRR Article 18(5) of the Groups Part of the PRA Rulebook~~, it will be expected to make a formal application to the PRA pursuant to section 138A of FSMA. The application should seek to demonstrate how proportionately consolidating those undertakings is disproportionate to the risk carried by the firm.

2.3A ~~CRR Article 18(7) of the Groups Part of the PRA Rulebook requires~~ permits the PRA to allow or require a firm to use a method other than the equity method for valuing certain holdings where specific criteria are met. Where a parent institution does not wish to apply the equity method, but instead wishes to use another valuation method, it will be expected to make a formal application pursuant to s138A of FSMA. ~~The application should seek to demonstrate how the criteria set out in Article 18(7) are met.~~ The PRA may then be able to permit the use of a different method, such as the one used by the firm under its applicable accounting framework, ~~where the relevant criteria are met.~~ The PRA may also require a firm to use a different valuation method pursuant to section 55M or section 192C of FSMA if it

⁵ See section 2B of FSMA.

determines that the equity method is unduly burdensome or does not adequately reflect the risks of a holding.

2.3B CRR Article 18(8) permits the PRA to require the full or proportional consolidation of certain undertakings. The PRA would consider the use of its powers pursuant to s55M or s192C of FSMA under Article 18(8) of the Groups Part of the PRA Rulebook where:

(a) the undertaking is not a UK Solvency II firm, a third country branch undertaking, an insurance holding company or an undertaking within Article 4(1)(27)(k) of the CRR; and

(b) there is a substantial risk that the firm provides financial support to that subsidiary or undertaking in which it has a participation in stressed conditions, in the absence of, or in excess of any contractual obligations to provide such support, where an institution has a subsidiary or participation relationship with them and where there is 'substantial step-in risk'.⁶

This is consistent with the Basel Committee's guidelines on the 'Identification and management of step-in risk'.⁷ The PRA intends to exercise this power on a case-by-case basis where it assesses that there is evidence that such substantial step-in risk exists consistent with its Step-in Risk Supervisory Statement.⁸

2.3BA The PRA expects that a CRR consolidation entity or institution may only exclude an entity or entities from consolidation under Article 19(1) of the Groups Part of the PRA Rulebook where, consistent with Article 19(3), the balance sheet size of the entity being excluded, or the aggregate balance sheet size of the entities being excluded (where more than one entity is being excluded) is less than the relevant threshold. (The relevant threshold, as stated in Article 19(1) of the Groups Part of the PRA Rulebook, being the lower of £8.8 million and 1% of the total amount of assets and off-balance sheet items of the parent undertaking or the undertaking that holds the participation.)

Sub-consolidation

2.3C CRR Article 11(6) permits ~~t~~The PRA to ~~may~~ require an institution to comply with prudential requirements on a sub-consolidated basis, where it considers that it is justified by the specificities of the risk, or of the capital structure of an institution, or for the purposes of structural separation by exercising requirement powers upon it in accordance with s55M or a direction in accordance with s192C of FSMA. The PRA intends to use this approach, in particular, to require RFBs to comply with prudential requirements on a sub-consolidated basis. An additional circumstance in which the PRA envisages using this power on a case-

⁶ Defined in CRR Article 18(8)(b) of the Groups Part of the Rulebook as, 'a substantial risk that the institution decides to provide financial support to that undertaking in stressed conditions, in the absence of, or in excess of any contractual obligations to provide such support'.

⁷ Basel Committee on Banking Supervision, 'Guidelines: Identification and management of step-in risk', October 2017: <https://www.bis.org/bcbs/publ/d423.htm>.

⁸ This was consulted on in CP 23/23 (<https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/stepin-risk-consultation-paper>), and the policy statement (PS) is forthcoming.

by-case basis is where it has concerns about the impact of any subsidiary or subsidiaries in a third country on a UK firm.

Application of individual consolidation criteria

~~2.4 CRR Article 9(2) requires parent institutions to demonstrate fully to the PRA, as competent authority, that there are no material practical or legal impediments to the prompt transfer of own funds or repayment of liabilities when due by the subsidiary to its parent undertaking.~~

2.5 When assessing whether a parent institution has demonstrated that the criteria in paragraph 2.2C above are met, ~~When making this assessment,~~ the PRA will consider whether any minority interest may represent an impediment of any kind to the prompt transfer of own funds or repayment of liabilities from subsidiary undertaking to parent. The PRA expects that the parent institution should demonstrate that any minority interest in a subsidiary institution will not result in the potential blocking or delay of prompt transfer of own funds or repayment of liabilities.

~~2.6 It is possible for a firm to meet the condition in CRR Article 7(1)(d) but not meet the condition in CRR Article 9(2).~~

2.7 In addition, the PRA will consider the non-exhaustive list below when determining whether the ~~conditions~~ criteria in paragraphs 2.2B and 2.2C~~CRR Article 9(2)~~ are met:

- (a) the speed with which funds can be transferred or liabilities repaid to the firm and the simplicity of the method for the transfer or repayment;
- (b) whether there are any interests other than those of the firm in the subsidiary undertaking and what impact those other interests may have on the firm's control over the subsidiary undertaking and on the ability of the firm to require a transfer of funds or repayment of liabilities. As part of the PRA's overall assessment, it would consider one of the indicators to achieving prompt transfer as being ownership of 75% or more of the subsidiary undertaking;⁹
- (c) whether the prompt transfer of funds or repayment of liabilities to the firm might harm the reputation of the firm or its subsidiary undertakings;
- (d) whether there are any tax disadvantages for the firm or the subsidiary undertaking as a result of the transfer of funds or repayment of liabilities;
- (e) whether there are any exchange controls that may have an impact on the transfer of funds or repayment of liabilities;
- (f) whether there are assets in the subsidiary undertaking available either to be transferred or liquidated for the purposes of the transfer of funds or repayment of liabilities;

⁹ 75% or more shareholders can pass a special resolution.

- (g) whether any regulatory requirements affect the ability of the subsidiary undertaking to transfer funds or repay liabilities promptly;
- (h) whether the legal structure of the subsidiary undertaking prejudices the prompt transfer of funds or repayment of liabilities;
- (i) whether the contractual relationships of the subsidiary undertaking with the firm and other third parties prejudices the prompt transfer of funds or repayment of liabilities;
- (j) whether past and proposed flows of funds between the subsidiary undertaking and the firm demonstrate the ability to make prompt transfer of funds or repayment of liabilities; ~~and~~
- (k) whether past and proposed flows of funds between the subsidiary undertaking and the firm demonstrate the ability to make prompt transfer of funds or repayment of liabilities; ~~and~~
- (l) whether the degree of individual consolidation by the firm undermines the PRA's ability to assess the soundness of the firm as a legal entity; ~~and~~
- (m) whether the risk evaluation, measurement and control procedures of the parent undertaking cover the subsidiary;
- (n) whether, based on the firm's recovery plans and other relevant information, there are any impediments to the firm's ability to undertake recovery actions or to the implementation of the firm's preferred resolution strategy arising from the individual consolidation.

2.8 The PRA would expect a parent institution to provide the following when applying for individual consolidation under Article 9 of the Groups Part of the PRA Rulebook:

- (a) information on the balance sheet of the subsidiary and an explanation, where appropriate, of how it has evolved since the last application; and
- (b) a breakdown of the firm's capital and RWA (Risk Weighted Assets) with and without the Article 9 permission.

~~3. CRR Article 19(2) — entities excluded from the scope of prudential consolidation~~

~~Application process~~

~~3.1 Where a firm wishes to exclude entities from the scope of prudential consolidation, it will be expected to make a formal application to the PRA. This application should seek to articulate how one of the conditions set out in CRR Article 19(2) (a), (b) or (c) is met.~~

~~3.2 The PRA will assess applications to exclude entities from the scope of prudential consolidation under CRR Article 19(2) on a case-by-case basis. The PRA will only grant this treatment with respect to undertakings where one of the conditions in CRR Article 19(2) is~~

~~met. Even where a CRR Article 19(2) condition is met, the PRA will make its own judgment whether to permit this treatment.~~

~~Application of criteria~~

~~3.3 CRR Article 19(2) allows the consolidating supervisor to decide that an institution, financial institution or ancillary services undertaking, which is a subsidiary or in which a participation is held, need not be included in the consolidation in the following cases:~~

~~(a) where the undertaking concerned is situated in a third country where there are legal impediments to the transfer of necessary information; or~~

~~(b) where the undertaking concerned is of negligible interest only with respect to the objectives of monitoring credit institutions.~~

~~3.4 If several undertakings meet the criterion in (b) above, and are collectively of non-negligible interest with respect of the specified objectives, the PRA may not agree to exclude them all from the consolidation.~~

~~3.5 The PRA may ask a firm to provide information about the undertakings excluded from consolidation.~~

Draft for consultation

Annex – SS15/13 updates

This annex details the changes that have been made to this SS following its initial publication in December 2013:

2021

July 2021

Following publication of PS17/21 ‘Implementation of Basel standards’¹⁰, this SS was updated. Paragraph 2.3C was added to clarify that one instance in which the PRA may use its powers to impose requirements on a sub-consolidated basis is where the risks posed to a firm by a third country subsidiary or subsidiaries warrant such treatment as determined on a case-by-case basis.

This policy is effective from 1 January 2022.

January 2021

Following publication of PS29/20 ‘Capital Requirements Directive V’¹¹, this SS was updated. The material relating to the application process for firms to apply to use two IPU was deleted following the deletion of the IPU rules from the PRA Rulebook at the end of the EU Exit Transition Period. The revision deleted Chapter 4.

This policy is effective from 1 January 2021.

2020

December 2020

Following publication of PS26/20 ‘Capital Requirements Directive V’¹², this SS was updated. The changes set out the application process for firms to apply to use two IPUs. The statement has also been updated to reflect:

- the change in the PRA’s rules to require proportional consolidation where a firm has a relationship with an undertaking as set out in CRR Article 18(5);

¹⁰ July 2021: <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/february/implementation-of-basel-standards>.

¹¹ December 2020: <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/capital-requirements-directive-v>.

¹² December 2020: <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/capital-requirements-directive-v>.

- the PRA's approach to the discretion to require a valuation method other than the equity method for certain subsidiaries (CRR Article 18(7)); and
- the PRA's approach to the discretion to require full or proportional consolidation of certain undertakings where there is substantial step-in risk (CRR Article 18(8)).

These revisions are found in Chapter 2 and Chapter 4.

The PRA also made minor formatting changes throughout this SS to improve readability.

This policy is effective from 29 December 2020.

2016

July 2016

Following publication of PS20/16 'The implementation of ring-fencing: prudential requirements, intragroup arrangements and use of financial market infrastructures'¹³ which included final ring-fencing rules and Supervisory Statement 8/16 'Ring-fenced bodies (RFBs)', this SS was updated. Specifically, paragraph 1.3 has been updated to take into account SS8/16 and paragraph 2.2A has been added to set out expectations of the PRA's approach to applications by an RFB, or any other person that is a member of a group containing an RFB, for permission to use individual consolidation.

This policy is effective from 1 January 2019.

¹³ July 2016: [The implementation of ring-fencing: prudential requirements, intragroup arrangements and use of financial market infrastructures](#) | Bank of England.