

PRA RULEBOOK RELATED PARTIES INSTRUMENT 2014

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 138(2)G (Rule-making instruments) of the Act.

Pre-conditions to making

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

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

Commencement

- E. This instrument comes into force on 1 February 2014.

Citation

- F. This instrument may be cited as the PRA Rulebook Related Parties Instrument 2014.

By order of the Board of the Prudential Regulation Authority
29 January 2014

Annex A

PRA RULEBOOK – GLOSSARY

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

accepting deposits

means the *regulated activity* specified in article 5 of the *Regulated Activities Order* (Accepting deposits).

affiliated company

means (in relation to a *person*) an *undertaking* in the same *group* as that *person*.

body corporate

means any body corporate including a body corporate constituted under the law of a country or territory outside the *UK*.

director

means (in relation to any of the following (whether constituted in the *UK* or under the law of a country or territory outside it)):

- (a) an unincorporated association;
- (b) a *body corporate*;

any *person* appointed to direct its affairs, including a *person* who is a member of its *governing body* and (in accordance with section 417(1) of *FSMA*):

- (i) a *person* occupying in relation to it the position of a director (by whatever name called);
and
- (ii) a *person* in accordance with whose directions or instructions (not being advice given in a professional capacity) the directors of that body are accustomed to act.

governing body

means the board of *directors*, committee of management or other governing body of an unincorporated association or *body corporate*.

incoming firm

means an incoming firm within the meaning of section 193 of *FSMA*.

management body

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

overseas firm

means a *firm* which has its registered office (or, if it has no registered office, its head office) outside the *UK*.

Part 4A permission

means a permission given by the *FCA* or *PRA* under Part 4A of *FSMA* (Permission to carry on regulated activities), or having effect as if so given.

Regulated Activities Order

means the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544).

senior management

means those natural *persons* who exercise executive functions within a *firm* and who are responsible, and accountable to the *management body*, for the day-to-day management of the *firm*.

undertaking

means an undertaking within the meaning of section 1161(1) of the Companies Act 2006 (meaning of “undertaking” and related expressions).

Annex B

Part

RELATED PARTY TRANSACTION RISK

Chapter content

- 1 APPLICATION AND DEFINITIONS
- 2 RELATED PARTY TRANSACTION RISK

Links

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to:

- (1) a *UK bank*;
- (2) a *building society*; and
- (3) an *overseas firm* that:
 - (a) is not an *incoming firm*; and
 - (b) has a *Part 4A permission* that includes permission to carry out *accepting deposits*.

1.2 In this Part the following definitions shall apply:

close family member

means in relation to a natural *person* ("A"):

- (a) A's spouse or civil partner;
- (b) any other *person* with whom A lives as partner in an enduring family relationship;
- (c) A's children or step-children;
- (d) any children or step-children of a *person* within (b) (and who are not children or step-children of A) who live with A and have not attained the age of 18; and
- (e) A's parents.

related parties

means in relation to a *firm*:

- (a) any *person* that it *controls*;
- (b) its *affiliated companies*;
- (c) its and its *affiliated companies' controllers*;
- (d) its and its *affiliated companies' directors*;
- (e) its and its *affiliated companies' senior management*;
- (f) its and its *affiliated companies' key employees*;
- (g) *close family members* of any natural *person* listed in (a) to (f) above;
- (h) direct and related interests of any *person* listed in (a) to (g) above; and
- (i) any *person* that would fall into (a) to (h) above after the relevant *transaction* has occurred.

transaction

means any transaction or arrangement including:

- (a) any arrangement or circumstance that gives rise to or varies an on-balance sheet or off-balance sheet asset or liability (whether contingent or otherwise);
- (b) dealings such as service contracts, asset acquisitions and disposals, construction contracts, lease agreements, derivative transactions, borrowings and write-offs.

2 RELATED PARTY TRANSACTION RISK

- 2.1 A *firm* must enter into *transactions* with *related parties* at market value or on terms no more favourable than would be agreed if the *transaction* was not with a *related party*.
- 2.2 2.1 does not apply to beneficial terms that are part of an overall remuneration package such as favourable interest rates for employee loans.
- 2.3 A *firm* must establish, implement and maintain effective policies and procedures to identify, evaluate and manage risks arising out of *transactions* with its *related parties*.
- 2.4 In meeting 2.3, a *firm's* policies and procedures on *related party transactions* must:
 - (1) prevent a *related party* from taking part in the *firm's* decision making process in relation to any *transactions* with that *related party*;
 - (2) set a materiality threshold above which *transactions* with *related parties* receive prior approval from the *firm's management body*;
 - (3) ensure that the *firm* records and monitors the details and amounts of any *related party transactions* using an independent credit review or audit process; and
 - (4) only permit exceptions to those policies and procedures if reported to the *firm's senior management* or *management body* as appropriate.
- 2.5 A *firm* must provide the *PRA* with details on aggregate exposures to *related parties* if requested by the *PRA*. The details must be provided by the date set by the *PRA* at the time of the request.