

**PRA RULEBOOK: CRR FIRMS: ARRANGEMENTS, PROCESSES AND MECHANISMS
(CAPITAL REQUIREMENTS DIRECTIVE V) INSTRUMENT 2020**

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (The PRA’s general rules);
 - (2) section 137T (General supplementary powers; and
 - (3) section 192V (Rules imposing consolidated requirements).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Pre-conditions to making

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

PRA Rulebook: CRR Firms: Arrangements, Processes and Mechanisms (Capital Requirements Directive V) Instrument 2020

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

Commencement

- E. This instrument comes into force on 29 December 2020.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Arrangements, Processes and Mechanisms (Capital Requirements Directive V) Instrument 2020.

By order of the Prudential Regulation Committee

28 December 2020

Annex A

Amendments to the Group Risk Systems Part

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

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to a *CRR firm* that is a member of a *group* save that 2.3 applies to an *Article 109 undertaking*.

...

1.3 In this Part, the following definitions shall apply:

group

means, in relation to a *person* ("A"), A and any *person*:

...

(2) who has an *Article 12(4) 22(7) relationship* with A;

(3) who has an *Article 12(4) 22(7) relationship* with any *person* in (1);

...

...

2 GROUP SYSTEMS AND CONTROLS

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2.3 An *Article 109 undertaking firm* must comply with 2.1(2) in relation to any *UK consolidation group* or *non-EEA sub-group* of which it is a member, as well as in relation to its *group*.

[Note: Art 109(2) of the *CRD*]

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Annex B

Amendments to the Internal Capital Adequacy Assessment Part

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

1 APPLICATION AND DEFINITIONS

1.1 This Part applies to ~~every firm that is~~ a *CRR firm* ~~save that 14.4A to 14.10, 14.12, 14.12A, 14.13, 14.15 and 14.16 apply, as appropriate, to an Article 109 undertaking.~~

1.2 In this Part the following definitions shall apply:

...

group

means in relation to a *person* ("A"), A and any *person*:

...

(c) who has a ~~Article 12(1) 22(7)~~ relationship with A;

(d) who has a ~~Article 12(1) 22(7)~~ relationship with any *person* who falls into (a);

...

...

3 STRATEGIES, PROCESSES AND SYSTEMS

Overall Pillar 2 rule

3.1 A *firm* must have in place sound, effective and comprehensive strategies, processes and systems:

...

(3) to ensure that the *firm's own funds* can absorb potential losses resulting from stress scenarios, including those identified under the supervisory stress test.

Additional Notes

[Note: Art 73 (part) and Art 104b (part) of the *CRD*]

...

10 OPERATIONAL RISK

10.1 A *firm* must implement policies and processes to evaluate and manage the exposure to operational risk, including model risk and risks resulting from outsourcing and to cover low-

frequency high severity events. Without prejudice to the definition of *operational risk*, a firm must articulate what constitutes *operational risk* for the purposes of those policies and procedures.

[Note: Art 85(1) of the CRD]

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14 APPLICATION OF THIS PART ON AN INDIVIDUAL BASIS, A CONSOLIDATED BASIS AND A SUB-CONSOLIDATED BASIS

The ICAAP rules

...

14.4 ~~A firm controlled by a parent mixed financial holding company in a Member State or a parent mixed financial holding company in a Member State must comply with the ICAAP rules on the basis of the consolidated situation of that holding company, if the PRA is responsible for supervision of the firm on a consolidated basis under Article 111 of the CRD.~~[Deleted]

14.4A A PRA approved parent holding company or a PRA designated parent holding company must comply with the ICAAP rules on the basis of its consolidated situation and a PRA designated intermediate holding company or a PRA designated institution responsible for meeting CRR requirements on a consolidated basis must comply with the ICAAP rules on the basis of the consolidated situation of its parent financial holding company in a Member State or parent mixed financial holding company in a Member State.

14.4B A PRA designated institution controlled by a parent financial holding company in a Member State or a parent mixed financial holding company in a Member State must comply with the ICAAP rules on the basis of the consolidated situation of that holding company, if the PRA is responsible for supervision of the firm on a consolidated basis under Article 111 of the CRD.

[Note: Art 108(2) of the CRD]

14.5 A firm, a PRA approved intermediate holding company, a PRA designated intermediate holding company, a PRA designated parent holding company, or a PRA designated institution responsible for meeting CRR requirements on a sub-consolidated basis that is a subsidiary must apply the ICAAP rules on a sub-consolidated basis if the firm, or the parent undertaking where it is a financial holding company or mixed financial holding company, has an institution or financial institution or an asset management company as a subsidiary in a third country or holds a participation in such an undertaking.

[Note: Art 108(4) of the CRD]

14.6 If the ICAAP rules apply to ~~a firm~~ an Article 109 undertaking on a consolidated basis or on a sub-consolidated basis ~~the firm~~ that person must carry out consolidation to the same extent and in the same manner as it is required to comply with the obligations laid down in ~~Parts Two to Four and Part Seven~~ of the CRR on a consolidated basis or sub-consolidated basis.

14.7 For the purpose of the ICAAP rules as they apply on a consolidated basis or on a sub-consolidated basis:

- (1) the ~~firm~~ Article 109 undertaking must ensure that the consolidation group or sub-consolidation group has the processes, strategies and systems required by the overall Pillar 2 rule in 3.1;

...

- (3) the reference in the overall Pillar 2 rule in 3.1 to amounts and types of financial resources, *own funds* and internal capital (referred to in this *rule* as resources) must be read as being to the amounts and types that the ~~firm~~ Article 109 undertaking considers should be held by the members of the consolidation group or sub-consolidation group;

...

- (7) ~~a firm~~ an Article 109 undertaking must be able to explain how it has aggregated the risks referred to in the overall Pillar 2 rule in 3.1 and the financial resources, *own funds* and internal capital required by each member of the consolidation group or sub-consolidation group; and

- (8) in particular, to the extent that the transferability of resources affects the assessment in (2), ~~a firm~~ an Article 109 undertaking must be able to explain how it has satisfied itself that resources are transferable between members of the group in question in the stressed cases and the scenarios referred to in the general stress test and scenario analysis rule in 12.1.

14.8 ~~A firm~~ An Article 109 undertaking must allocate the total amount of financial resources, *own funds* and internal capital identified as necessary under the overall Pillar 2 rule in 3.1 (as applied on a consolidated basis or on a sub-consolidated basis) between different parts of the consolidation group or sub-consolidation group.

14.9 The ~~firm~~ Article 109 undertaking must carry out the allocation in 14.8 in a way that adequately reflects the nature, level and distribution of the risks to which the consolidation group or sub-consolidation group is subject.

14.10 ~~A firm~~ An Article 109 undertaking must also carry out the allocation in 14.8 in a way that:

- (a) takes into account the nature, level and distribution of the risks between all entities within the consolidated group or sub-consolidation group; and
- (b) ensures the amount allocated to each ~~firm~~ Article 109 undertaking adequately reflects the risks to which that ~~firm~~ Article 109 undertaking is exposed on an individual basis.

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Level of application of the overall financial adequacy rule

14.12 Where a firm, a PRA approved parent holding company, a PRA designated parent holding company, a PRA designated intermediate holding company or a PRA designated institution is responsible for meeting CRR requirements on a consolidated basis, ~~is a member of a consolidation group, the firm~~ it must ensure that the risk management processes and internal control mechanisms at the level of the consolidation group of which it is a member comply with the obligations meet the standards set out in the *risk control rules* on a consolidated basis (~~or a sub-consolidated basis~~).

14.12A Where a *firm*, a *PRA approved intermediate holding company*, a *PRA designated intermediate holding company*, a *PRA designated parent holding company* or a *PRA designated institution* is responsible for meeting *CRR* requirements on a *sub-consolidated basis*, it must ensure that the risk management processes and internal control mechanisms at the level of the *sub-consolidation group* of which it is a member meet the standards set out in the *risk control rules on a sub-consolidated basis*.

14.13 Compliance with the obligations referred to in 14.12 and 14.12A must enable the *consolidation group or sub-consolidation group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: Art 109(2) (part) of the *CRD*]

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14.15 The overall financial adequacy rule in 2.1 applies to an ~~*firm*~~ *Article 109 undertaking* on a *consolidated basis* if the *ICAAP rules* apply to it on a *consolidated basis* and applies to an ~~*firm*~~ *Article 109 undertaking* on a *sub-consolidated basis* if the *ICAAP rules* apply to it on a *sub-consolidated basis*.

14.16 When the overall financial adequacy rule in 2.1 applies on a *consolidated basis* or *sub-consolidated basis*, the ~~*firm*~~ *Article 109 undertaking* must ensure that at all times its *consolidation group or sub-consolidation group* maintains overall financial resources, including *own funds* and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that the liabilities of any members of its *consolidation group or sub-consolidation group* cannot be met as they fall due.

Annex C

Amendments to the Internal Liquidity Adequacy Assessment Part

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

1 APPLICATION AND DEFINITIONS

- 1.1 This Part applies to a *CRR firm* save that 14.2, 14.2A, 14.3, 14.6, 14.6A, 14.7 and 14.8 apply, as appropriate, to an Article 109 undertaking.

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14 APPLICATION OF THIS PART ON AN INDIVIDUAL OR DOMESTIC LIQUIDITY SUB-GROUP BASIS AND A CONSOLIDATED BASIS

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- 14.2 Where a *firm*, a *PRA approved parent holding company*, a *PRA designated parent holding company*, a *PRA designated intermediate holding company* or a *PRA designated institution* is a member of a *consolidation group*, ~~the firm~~ that person must ensure that the arrangements, processes and mechanisms at the level of the *consolidation group* of which it is a member comply with the obligations set out in 3 – 13 on a *consolidated basis*.

- 14.2A Where a *firm*, a *PRA approved intermediate holding company*, a *PRA designated intermediate holding company*, a *PRA designated parent holding company* or a *PRA designated institution* is a member of a *sub-consolidation group*, that person must ensure that the arrangements, processes and mechanisms at the level of the *sub-consolidation group* of which it is a member comply with the obligations set out in 3 – 13 on a *sub-consolidated basis*.

- 14.3 Compliance with 14.2 and 14.2A must enable the *consolidation group* to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: Art 109(2) (part) of the CRD]

...

- 14.6 A *PRA designated institution* that is a ~~A~~ *UK bank* or *building society* controlled by an *EEA parent financial holding company* or by an *EEA parent mixed financial holding company* must comply with this Part on the basis of the *consolidated situation* of that holding company if the *PRA* is responsible for supervision of the *UK bank* or *building society* on a *consolidated basis* under Article 111 of the *CRD*.

- 14.6A A *PRA approved parent holding company* or a *PRA designated parent holding company* must comply with this Part on the basis of its *consolidated situation* and a *PRA designated intermediate holding company* responsible for compliance with the *CRR* on a *consolidated basis* must comply with this Part on the basis of the *consolidated situation* of the *EEA parent financial holding company* or *EEA parent mixed financial holding company*.

- 14.7 *A PRA designated institution that is a UK designated investment firm controlled by an EEA parent financial holding company or by an EEA parent mixed financial holding company must comply with this Part on the basis of the consolidated situation of that holding company if:*
- (1) there is no *subsidiary* of the holding company which is a *credit institution* to which 14.6 applies; and
 - (2) the *PRA* is responsible for the supervision of the *UK designated investment firm* on a *consolidated basis* under Article 111 of the *CRD*.
- 14.8 If this Part applies to ~~a firm~~ *an Article 109 undertaking* on a *consolidated basis* or on a *sub-consolidated basis*, the *Article 109 undertaking* ~~firm~~ must carry out consolidation to the same extent and in the same manner as it is required to comply with the obligations laid down in Part Six of the *CRR* on a *consolidated basis* or *sub-consolidated basis*.

Annex D

Amendments to the Risk Control Part

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

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4 GROUP ARRANGEMENTS

- 4.1 Where an Article 109 undertaking firm is a member of a consolidation group or a sub-consolidation group, ~~the firm it~~ must ensure that the risk management processes and internal control mechanisms at the level of the consolidation group or sub-consolidation group of which it is a member comply with the obligations set out in 2.3, 2.7 and Chapter 3 on a consolidated basis or a sub-consolidated basis.
- 4.1A ~~If~~ Where this Part applies to a ~~firm~~ on a consolidated basis or on a sub-consolidated basis, ~~the firm~~ an Article 109 undertaking must carry out consolidation to the same extent and in the same manner as it is required to comply with the obligations laid down in Parts Two to Eight of the CRR on a consolidated basis or sub-consolidated basis.
- 4.2 Compliance with the obligations referred to in 4.1 must enable the consolidation group or sub-consolidation group to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: Art 109(2) of the CRD]

Annex E

Amendments to the Skills, Knowledge and Expertise Part

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

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6 GROUP ARRANGEMENTS

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- 6.1 Where an Article 109 undertaking ~~firm~~ is a member of a consolidation group or a sub-consolidation group, it ~~the firm~~ must ensure that the risk management processes and internal control mechanisms at the level of the consolidation group or sub-consolidation group of which it is a member comply with the obligations set out in 3.2 on a consolidated basis or a sub-consolidated basis.
- 6.1A ~~If~~ ~~Where~~ this Part applies to a ~~firm~~ on a consolidated basis or on a sub-consolidated basis, ~~the firm~~ an Article 109 undertaking must carry out consolidation to the same extent and in the same manner as it is required to comply with the obligations laid down in Parts Two to Eight of the CRR on a consolidated basis or a sub-consolidated basis.
- 6.2 Compliance with the obligations referred to in 6.1 must enable the consolidation group or sub-consolidation group to have arrangements, processes and mechanisms that are consistent and well integrated and that any data relevant to the purpose of supervision can be produced.

[Note: Art 109(2) of the CRD]