

**PRA RULEBOOK: CRR FIRMS AND NON-AUTHORISED PERSONS: RING-FENCED BODIES  
INSTRUMENT 2016**

**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);
  - (3) section 142H (Ring-fencing rules); and
  - (4) section 192JA (Rules applying to parent undertakings of ring-fenced bodies).
- B. The PRA also makes this instrument in exercise of the power under Article 13(3) of The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014.
- C. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.
- D. The PRA exercises the following powers in the Act to make those terms in the Glossary that are used in this instrument in rules applicable to parent undertakings of ring-fenced bodies:
- (1) section 192JA (Rules applying to parent undertakings of ring-fenced bodies); and
  - (2) section 137T (General supplementary powers).

**Pre-conditions to making**

- E. 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.

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- F. The PRA makes the rules in Annexes A to G to this instrument.

**Commencement**

- G. This instrument comes into force on 1 January 2019.

**Citation**

- H. This instrument may be cited as the PRA Rulebook: CRR Firms and Non-Authorised Persons: Ring-fenced Bodies Instrument 2016.

**By order of the Board of the Prudential Regulation Authority**

4 July 2016

**Annex A**

In this Annex, the text is all new and is not underlined.

**Part**

## **Ring-fenced Bodies**

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## 1 APPLICATION AND DEFINITIONS

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1.1 Unless otherwise stated, this Part applies to a *ring-fenced body*.

1.2 In this Part, the following definitions shall apply:

*arm's length policy*

means the policy established in accordance with 12.2.

*arm's length procedures*

means the procedures established in accordance with 12.2.

*close family tie*

means a relationship:

- (1) of marriage or *civil partnership*; or
- (2) which has the characteristics of a relationship of marriage or of *civil partnership*;  
or
- (3) between a *person* referred to in 1.3(2)(d) and his or her parent, sibling, child, grandparent or grandchild, including a step-relationship in each case.

*common equity tier 1 capital ratio*

has the meaning in Article 92(2)(a) of the *CRR*.

*collateral exception*

means:

- (1) in relation to an *excluded activity*, the exception provided for in Article 6(3)(b) of the *Excluded Activities and Prohibitions Order*; or
- (2) in relation to a *prohibition*, the exception provided for in Article 14(5) of the *Excluded Activities and Prohibitions Order*.

*collateral exceptions policy*

means a policy document setting out in detail how a *ring-fenced body* makes use of the *collateral exceptions* and which meets the requirements of 17.

*collateral exception transaction*

means a transaction entered into by making use of a *collateral exception*.

*conduit vehicle*

has the meaning in Article 1 of the *Excluded Activities and Prohibitions Order*.

*distribution*

has the meaning in section 829 of the Companies Act 2006.

*exception*

means:

- (1) the *hedging exception*;
- (2) the *liquid asset exception*; and
- (3) the *collateral exception*.

*exceptions policy*

means:

- (1) the *hedging exceptions policy*;
- (2) the *liquid asset exceptions policy*; and
- (3) the *collateral exceptions policy*.

*exception transaction*

means a transaction entered into in accordance with any of the following:

- (1) *hedging exception*;
- (2) *liquid asset exception*; and
- (3) *collateral exception*.

*Excluded Activities and Prohibitions Order*

means the Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014 (SI 2014/2080).

*extraordinary vacancy*

means a vacancy on the *governing body* of a *ring-fenced body* arising from the resignation, dismissal or death of an independent *non-executive director* before the expiry of his or her term of appointment as a *director*.

*group services entity*

in relation to a *ring-fenced body*, means an entity within the same *group* as the *ring-fenced body*, whose only business is to provide services or facilities to any other *person*.

*hedging exception*

means:

- (1) in relation to an *excluded activity*, the exception provided for in Article 6(1) of the *Excluded Activities and Prohibitions Order*; or
- (2) in relation to a *prohibition*, the exception provided for in Article 14(2) of the *Excluded Activities and Prohibitions Order*.

*hedging exceptions policy*

means a policy document setting out in detail how a *ring-fenced body* makes use of the *hedging exceptions* and which meets the requirements of 17.

*hedging exception transaction*

means a transaction entered into in accordance with a *hedging exception*.

*income-dependent*

means a state in which the *ring-fenced body* would be unable to continue to carry on *core activities* if income to the *ring-fenced body* or any member of the *sub-consolidation group* were to reduce as a result of the acts, omissions or insolvency of a member of the *ring-fenced body's group* that is not a *ring-fenced affiliate*.

*intragroup transaction*

has the meaning in Article 3 of Regulation (EU) No 648/2012.

*liquid asset exception*

means:

- (1) in relation to an *excluded activity*, the exception provided for in Article 6(3)(a) of the *Excluded Activities and Prohibitions Order*; or
- (2) in relation to a *prohibition*, the exception provided for in Article 18(b) of the *Excluded Activities and Prohibitions Order*.

*liquid asset exceptions policy*

means a policy document setting out in detail how a *ring-fenced body* makes use of the *liquid asset exceptions* and which meets the requirements of 17.

*liquid asset exception transaction*

means a transaction entered into in accordance with a *liquid asset exception*.

*permitted supplier*

means a *person* that provides services or facilities to any other *person* and that is:

- (1) a *group services entity*; or
- (2) a *ring-fenced affiliate*.

*prohibition*

means a prohibition imposed under the *Excluded Activities and Prohibitions Order*.

*relevant person*

means:

- (1) a *ring-fenced body*;

- (2) any other *firm* that is a member of a *sub-consolidation group*; or
- (3) a *ring-fenced holding company*.

*ring-fenced affiliate*

means:

- (1) in relation to a *ring-fenced body*, any member of the *sub-consolidation group* of which the *ring-fenced body* is a member, other than the *ring-fenced body* itself; and
- (2) in relation to a *relevant person*, any member of the *sub-consolidation group* of which the *relevant person* is a member, other than the *relevant person* itself.

*ring-fenced holding company*

means a body corporate falling within section 192JA(2) of *FSMA* that is the ultimate *parent undertaking* within a *sub-consolidation group*.

*ring-fencing obligation*

means any obligation, prohibition or other requirement imposed on a *ring-fenced body* by or under *FSMA* by virtue of it being a *ring-fenced body*, including any statutory instrument made under *FSMA* and any *ring-fencing rule*, but not including any *rule* made by *the FCA*.

*shared collateral*

means collateral on which both the *ring-fenced body* and a member of its *group* that is not a *ring-fenced affiliate* have a claim.

*specified factor*

means:

- (1) in relation to an *excluded activity*, any of the factors set out in Article 6(2) of the *Excluded Activities and Prohibitions Order*; or
- (2) in relation to a *prohibition*, any of the factors set out in Article 14(3) of the *Excluded Activities and Prohibitions Order*.

*sponsored structured finance vehicle*

has the meaning in Article 1 of the *Excluded Activities and Prohibitions Order*.

*sub-consolidation group*

means the *undertakings* included in the scope of consolidation as a result of a requirement imposed on a *ring-fenced body* under Article 11(5) of the *CRR*.

*tier 1 capital ratio*

has the meaning in Article 92(2)(b) of the *CRR*.

*total capital ratio*

has the meaning in Article 92(2)(c) of the *CRR*.

*transaction*

includes any contract, transaction, or arrangement, which may or may not contain contractual terms.

## 1.3 For the purposes of this Part:

- (1) a *director* is regarded as independent if he or she is not disqualified by virtue of falling within any of 1.3(2)(a) to (h).
- (2) a *director* is not regarded as independent if he or she:
  - (a) has been an *employee* of the *ring-fenced body* or of any other member of its *group* within the period of five years before his or her appointment as a *director* (but a non-executive *director* is not to be regarded as an *employee* for this purpose);
  - (b) has, or has had, within the period of three years before appointment, a material business relationship with the *ring-fenced body* or any other member of its *group* either directly, or as a partner, shareholder, *director* or as a member of *senior management* or equivalent of an *undertaking* that has such a relationship with the *ring-fenced body* or other member of its *group*, as the case may be;
  - (c) has received or receives fixed or variable *remuneration* from the *ring-fenced body* or any other member of its *group*, other than a *director's* fee or *remuneration* attributable to a period of service that concluded five years before his or her appointment as a *director*;
  - (d) has a *close family tie* with any of the following:
    - (i) an individual who provides or has provided professional or business advice (whether in his or her individual capacity or otherwise) to the *ring-fenced body* or any other member of its *group*;
    - (ii) a *director* of the *ring-fenced body* or of any other member of its *group*; or
    - (iii) a member of *senior management* or equivalent of the *ring-fenced body* or of any other member of its *group*;
  - (e) holds a directorship in any other *undertaking* that is not a member of the *ring-fenced body's* *group* of which any other *director* of the *ring-fenced body* is also a *director*;
  - (f) has a link, of a nature that might reasonably be expected to give rise to a conflict that is to be identified under 3.2, with any other *director* of the *ring-fenced body* through involvement in any other *undertaking* that is not a member of the *ring-fenced body's* *group*;
  - (g) can reasonably be identified as representing or otherwise associated with the interests of a particular shareholder or shareholders of a *parent undertaking* of the *ring-fenced body* where that shareholder is or those shareholders are able to exercise significant influence over the management of the *parent undertaking*; or
  - (h) has served on the *governing body* of the *ring-fenced body* or of any other member of its *group* for more than nine years from the date of first election.

- 1.4 Unless otherwise defined, any italicised expression used in this Part and in the *CRR* has the same meaning as in the *CRR*.

## 2 APPLICATION OF RULES WITHIN A SUB-CONSOLIDATION GROUP

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- 2.1 In this Chapter, “relevant rule” refers to each of the rules in:
- (1) 3.5;
  - (2) 9.1; and
  - (3) 11, 12, 13, 14, 15 and 16.
- 2.2 Subject to 2.3 and 2.4:
- (1) a *relevant person* that is not a *ring-fenced body* must comply with each relevant rule as if it were a *ring-fenced body*; and
  - (2) a *relevant person* must ensure each of its *ring-fenced affiliates* that is not a *relevant person* complies with each relevant rule as if it were a *ring-fenced body*.
- 2.3 In applying this Chapter to 11, the notice required under 11.1 must be provided only by a *relevant person*.
- 2.4 In applying this Chapter to 12, compliance by a *ring-fenced body* (RB) with 12.2 to 12.4 in relation to a *ring-fenced affiliate* (RA) that is not a *ring-fenced body* is sufficient to establish compliance by any *relevant person* that is a *ring-fenced affiliate* of RB with those *rules* in relation to RA.
- 2.5 Without prejudice to 2.2, a *ring-fenced body* that is required under Article 11(5) of the *CRR* to comply with obligations on a *sub-consolidated basis* must ensure that:
- (1) responsibility for the matters in 2.6 is allocated to:
    - (a) a single *ring-fenced body* in its *sub-consolidation group*; or
    - (b) the *ring-fenced holding company* but only if a *person* employed by it or an *officer* of it performs a *PRA senior management function* in relation to a *ring-fenced body* in the *sub-consolidation group*; and
  - (2) the allocation is documented and notified to the *PRA*.
- 2.6 The matters referred to in 2.5(1) are:
- (1) ensuring the performance by each *ring-fenced body* of its *ring-fencing obligations*; and
  - (2) ensuring the performance by each *relevant person* in the *sub-consolidation group* of its obligations under 2.2.
- 2.7 Without prejudice to 2.2, the *person* allocated with responsibility under 2.5(1) must:



- (1) discharge the responsibility; and
  - (2) document and keep updated the arrangements and processes that enable it to discharge the responsibility.
- 2.8 Without prejudice to 3.4, the *person* allocated with responsibility under 2.5(1) must be able to demonstrate to the *PRA*:
- (1) compliance with *ring-fencing obligations* by any *ring-fenced body* within the *sub-consolidation group*;
  - (2) compliance with relevant rules by any *ring-fenced affiliate*, other than a *ring-fenced body*, as if it were a *ring-fenced body*, subject to 2.3 and 2.4;
  - (3) compliance with 10.1 by any *ring-fenced affiliate* that is not a *ring-fenced body* but is a *CRR firm*; and
  - (4) the extent to which any *ring-fenced body* within the *sub-consolidation group* and its *ring-fenced affiliates* have acted, if they have chosen to do so, in accordance with any guidance given by the *PRA* relating to *ring-fenced bodies* or *ring-fenced affiliates*.

### 3 GENERAL RULES

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- 3.1 A *ring-fenced body* must, in carrying on its business, ensure that it is able to take decisions independently of other members of its *group*.
- 3.2 A *ring-fenced body* must establish and maintain arrangements to identify and manage any conflict between:
- (1) any duty a *director* or a member of *senior management* owes to the *ring-fenced body*; and
  - (2) any interest of the *director* or member of *senior management*.
- 3.3 A *ring-fenced body* must take all reasonable steps to identify and manage any conflict between its interests and those of one or more members of its *group*.
- 3.4 A *ring-fenced body* must be able to demonstrate to the *PRA*:
- (1) its compliance with every *ring-fencing obligation*; and
  - (2) the extent to which it has acted, if it has chosen to do so, in accordance with any guidance given by the *PRA* to *ring-fenced bodies* and which relates to the operation of the *ring-fencing obligations*.
- 3.5 A *ring-fenced body* must ensure, as far as reasonably practicable, it applies the same standards to the management of its:
- (1) exposures to any member of its *group* that is not a *ring-fenced affiliate* as it would to the management of its exposures to any *person* that is not a member of its *group*; and
  - (2) *transactions* with any member of its *group* that is not a *ring-fenced affiliate* as it would to the management of its *transactions* with any *person* that is not a member of its *group*,

to ensure that the carrying on of *core activities* is not adversely affected by the acts, omissions or insolvency of that other *group* member.

#### 4 BOARD COMPOSITION AND MEMBERSHIP

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- 4.1 A *ring-fenced body* must ensure that at least half of the members for the time being of its *governing body* are independent *non-executive directors*.
- 4.2 For the purposes of 4.1:
- (1) the chairperson of a *ring-fenced body's governing body* is not to be counted as one of the number of independent *non-executive directors* or as one of the total number of members for the time being of the *governing body*; and
  - (2) where an *extraordinary vacancy* arises which, if not filled, would cause the *ring-fenced body* to fail to comply with 4.1, the *ring-fenced body* must fill the vacancy as soon as reasonably possible after the vacancy has arisen, and will not be in breach of 4.1 while it is in the course of so doing.
- 4.3 A *ring-fenced body* must ensure that the *person* performing the *Chairman function*:
- (1) is an independent *non-executive director*; and
  - (2) does not chair the *governing body* of any other member of the *ring-fenced body's group*, other than a *ring-fenced affiliate*.
- 4.4 A *ring-fenced body* must ensure that no more than one-third of the members of its *governing body* are *employees* or *directors* of any other member of the *ring-fenced body's group*, other than of a *ring-fenced affiliate*.
- 4.5 A *ring-fenced body* must ensure that it publicly advertises every vacancy for an independent *non-executive director* so as to bring the existence of the vacancy to the notice of those members of the public who might reasonably be expected to seek nomination.
- 4.6 4.5 does not apply if an *extraordinary vacancy* arises in the office held by the *person* performing the *Chairman function* of a *ring-fenced body*.
- 4.7 A *ring-fenced body* must ensure that none of its *senior management* who is a member of its *governing body* is an executive member of the *governing body* of any other member of the *ring-fenced body's group*, other than a member that is:
- (1) a body corporate falling within section 192JA(2) of *FSMA*; or
  - (2) a *ring-fenced affiliate*.
- 4.8 For the purpose of 4.7, 'executive member' means a *person* who performs any executive function in relation to the relevant member of the *ring-fenced body's group*.

## 5 RISK MANAGEMENT

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- 5.1 A *ring-fenced body* must ensure that its risk committee includes a *person* performing the *Chairman of Risk Committee function*.
- 5.2 A *ring-fenced body* must ensure that the *person* performing the *Chairman of Risk Committee function* does not chair any committee whose functions include oversight of the risk function of any other member of *the ring-fenced body's group*, other than a *ring-fenced affiliate*.
- 5.3 A *ring-fenced body* must ensure that:
- (1) its risk management function has sufficient resources to perform its role, including the identification, monitoring and management of risk;
  - (2) those resources are at all times identifiable as performing the risk management function for the *ring-fenced body*; and
  - (3) its risk management function supports the ability of the *ring-fenced body* to comply with 3.1.
- 5.4 A *ring-fenced body* must ensure that a *person* performing the *Chief Risk function* for the *ring-fenced body* is not also a *person* performing the *Chief Risk function* or function equivalent to the *Chief Risk function* (howsoever designated) for any other member of the *ring-fenced body's group* or for the *group*, other than for a *ring-fenced affiliate* or for the *sub-consolidation group*.

## 6 INTERNAL AUDIT POLICY

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- 6.1 A *ring-fenced body* must ensure that its *audit committee* includes a *person* performing the *Chairman of Audit Committee function*.
- 6.2 A *ring-fenced body* must ensure that the *person* performing the *Chairman of Audit Committee function* does not chair any committee whose functions include oversight of the audit function of any other member of *the ring-fenced body's group*, other than a *ring-fenced affiliate*.
- 6.3 A *ring-fenced body* must ensure that:
- (1) its internal audit function has sufficient resources to perform its role;
  - (2) those resources are at all times identifiable as performing the internal audit function for the *ring-fenced body*; and
  - (3) its internal audit function supports the ability of the *ring-fenced body* to comply with 3.1.
- 6.4 A *ring-fenced body* must ensure that a *person* performing the *Head of Internal Audit function* for the *ring-fenced body*:
- (1) is not also a *person* performing the *Head of Internal Audit function* or function equivalent to the *Head of Internal Audit function* (howsoever designated) for any other member of the *ring-fenced body's group* or for the *group*, other than for a *ring-fenced affiliate* or for the *sub-consolidation group*; and

- (2) is able to have direct access to the *management body* of the *ring-fenced body* where he or she considers it necessary.

## 7 HUMAN RESOURCES POLICY

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- 7.1 A *ring-fenced body* must ensure that its nomination committee includes a chairperson.
- 7.2 A *ring-fenced body* must ensure that the chairperson of its nomination committee does not chair any committee whose functions include nomination for any other member of the *ring-fenced body's group*, other than a *ring-fenced affiliate*.
- 7.3 A *ring-fenced body* must ensure as far as reasonably practicable that, in carrying on its business, it does not depend on any *employee* who may cease to be available to undertake work for the *ring-fenced body* in the event of the insolvency of any other member of its *group* and that this is reflected in its human resources policy.

## 8 REMUNERATION POLICY

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- 8.1 A *ring-fenced body* must establish a *remuneration* committee that comprises only members of its *management body* who do not perform any executive function in relation to the *ring-fenced body*.
- 8.2 A *ring-fenced body* must ensure that its *remuneration* committee includes a *person* performing the *Chairman of Remuneration Committee function*.
- 8.3 A *ring-fenced body* must ensure that the *person* performing the *Chairman of Remuneration Committee function* does not chair any committee whose functions include *remuneration* for any other member of the *ring-fenced body's group*, other than for a *ring-fenced affiliate*.
- 8.4 When establishing, implementing and maintaining *remuneration* policies, practices and procedures for its *employees*, a *ring-fenced body* must ensure that these *remuneration* policies, practices and procedures:
- (1) are consistent with and promote the sound and effective risk management of the *ring-fenced body*;
  - (2) do not encourage risk-taking that exceeds the level of tolerated risk of the *ring-fenced body*;
  - (3) are in line with the business strategy, objectives, values and long-term interests of the *ring-fenced body*; and
  - (4) do not encourage a *ring-fenced body* to bear any risk that would undermine its ability to comply with any *ring-fencing obligation*.
- 8.5 Nothing in 8.4 restricts a *ring-fenced body* from enabling the receipt by its *employees* of *remuneration* in the form of shares or other instruments of another member of the *ring-fenced body's group*, provided that the receipt of such *remuneration* is in accordance with 8.4.

## 9 CONTINUITY OF PROVISION OF SERVICES

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- 9.1 Where a *ring-fenced body* receives services and accesses facilities that it requires on a regular basis from an entity in its *group*, it may do so, whether directly or indirectly, only where that entity is a *permitted supplier*.
- 9.2 A *ring-fenced body* must ensure the agreement and any related arrangement under which it receives services or accesses facilities it requires in relation to the carrying on of *core activities* does not permit any other party to terminate, suspend or materially alter the services or facilities or the agreement or arrangement as a result of an act, omission or deterioration in the financial circumstances of another entity within the same *group* as the *ring-fenced body*.
- 9.3 (1) 9.3(2) applies if the ability of a *permitted supplier* (PS1) that provides services or facilities referred to in 9.2 to a *ring-fenced body* is dependent upon the provision of services or facilities to PS1 by another *permitted supplier* (PS2), whether the provision of services or facilities to PS1 by PS2 is direct or indirect.
- (2) 9.2 does not prevent the *ring-fenced body* agreeing PS1 may suspend or alter the provision of those services or facilities to the extent it is prevented from providing those services or facilities as a result of a deterioration in the financial circumstances of PS2, provided:
- (a) the *ring-fenced body* takes all reasonable steps before and after entering into that agreement to reduce the probability and likely impact of such an alteration to the provision of those services or facilities; and
  - (b) the agreement requires PS1 to use its best efforts to eliminate or reduce the effect of any such suspension or alteration.

## 10 INTRAGROUP CREDIT VALUATION ADJUSTMENT RISK

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- 10.1 A *ring-fenced body* and a *ring-fenced affiliate* that is a *CRR firm* must include an *intragroup transaction* in its calculation of its *own funds* requirements for credit valuation adjustment risk in accordance with Part 3, Title VI of the *CRR* where the *intragroup transaction* is entered into with a member of its *group* that is not a *ring-fenced affiliate*.
- 10.2 A *ring-fenced body* that is required under Article 11(5) of the *CRR* to comply with obligations on a *sub-consolidated basis* must comply with 10.1 on that *sub-consolidated basis*.

**[Note: Art. 382(4)(b) of the CRR]**

## 11 DISTRIBUTIONS

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- 11.1 A *ring-fenced body* must not make a *distribution* to any entity in its *group* that is not a *ring-fenced affiliate* unless it has given reasonable notice to the *PRA* of its intention to make the payment.
- 11.2 When a *ring-fenced body* gives notice under 11.1 it must include the following:
- (1) the amount of the intended *distribution*;
  - (2) the date on which the *distribution* is intended to be paid;
  - (3) the current *common equity tier 1 capital ratio*, *tier 1 capital ratio* and *total capital ratio* held by each *ring-fenced body* in its *group*; and
  - (4) any relevant supporting information, including an assessment of any impact of the intended *distribution* on the current and forecast capital position of each *ring-fenced body* in its *group*.
- 11.3 The information in 11.2(3) and (4) must also be provided on a *sub-consolidated basis* in respect of any *ring-fenced body* that is required under Article 11(5) of the *CRR* to comply with obligations on a *sub-consolidated basis*.
- 11.4 The information in 11.2 must be approved by an appropriate *PRA approved person* who performs a *controlled function* in relation to a *firm* in the *sub-consolidation group* and that *PRA approved person* must be named in the notice.

## 12 ARM'S LENGTH TRANSACTIONS

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- 12.1 A *ring-fenced body* must enter into a *transaction* with a member of its *group* which is not a *ring-fenced affiliate* only on arm's length terms.
- 12.2 A *ring-fenced body* must establish, implement and maintain an effective policy and procedures to identify and evaluate *transactions* entered into with other members of its *group* which are not *ring-fenced affiliates* to enable compliance with 12.1.
- 12.3 A *ring-fenced body's arm's length policy* must at least:
- (1) establish robust means for identification, timely recording and monitoring of all *transactions* entered into with other *group* members which are not *ring-fenced affiliates*;
  - (2) specify how the terms of a *transaction* will be determined, including pricing and settlement;
  - (3) specify appropriate governance arrangements for amendments to the policy and procedures;
  - (4) specify processes for approval and reporting of exceptions to the policy and procedures; and
  - (5) include procedures for dispute resolution between the *ring-fenced body* and members of its *group* which are not *ring-fenced affiliates* with which it transacts.

- 12.4 (1) A *ring-fenced body's arm's length procedures* must include at least:
- (a) approval of the *arm's length policy* by its *governing body*;
  - (b) review by the *governing body* of the *arm's length policy* at least annually taking into account the report of the internal audit function under (e) and the reports under (c);
  - (c) the provision of internal reports to its *governing body* on the operation of the *arm's length policy* including the extent to which the *ring-fenced body's transactions* comply with its *arm's length policy*;
  - (d) assessment of the following matters by its internal audit function at least annually in relation to an appropriate subset of transactions:
    - (i) the extent to which the *arm's length policy* complies with the requirements of this Chapter;
    - (ii) the effectiveness of the *arm's length policy*; and
    - (iii) the effectiveness of the procedures established in compliance with this Chapter.
  - (e) provision of a report from the internal audit function to the *governing body* at least annually on its assessment of the matters in 12.4(1)(d).
- (2) A *ring-fenced body* must ensure the scope of its internal audit function's assessment of the matters in (1)(d) includes all subsets of transactions at least once every three years.

### 13 INCOME DEPENDENCE

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- 13.1 A *ring-fenced body* must not, as far as reasonably practicable, become *income-dependent* due to income generated from:
- (1) transactions entered into with members of its *group* that are not *ring-fenced affiliates*; or
  - (2) transactions entered into with a customer, or customers, where that income is contingent, or likely to be contingent, on services continuing to be provided to that customer, or customers, by members of the *ring-fenced body's group* that are not *ring-fenced affiliates*.

### 14 NETTING ARRANGEMENTS

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- 14.1 A *ring-fenced body* must not enter into a netting arrangement if the effect of the netting arrangement is to permit a *person*, other than a member of the *ring-fenced body's group*, to offset its liabilities to the *ring-fenced body* against its claims on any member of the *ring-fenced*

*body's group* that is not a *ring-fenced affiliate* in the event of default of any party to the netting arrangement.

## 15 AVAILABILITY OF SHARED COLLATERAL

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- 15.1 A *ring-fenced body* must ensure that its share of any *shared collateral* provided by its counterparties would not cease to be available to the *ring-fenced body* as a result of the acts, omissions or insolvency of, or actions taken in relation to, a member of the *ring-fenced body's group* that is not a *ring-fenced affiliate*.

## 16 ACCESS TO CENTRAL COUNTERPARTIES AND CENTRAL SECURITIES DEPOSITORIES

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- 16.1 This Chapter applies if a *ring-fenced body* accesses the services of:
- (1) a *central counterparty* whether as a *clearing member* or otherwise; or
  - (2) a central securities depository whether as a participant or otherwise.
- 16.2 In this Chapter:
- (1) central securities depository has the meaning set out in Article 2.1(1) of Regulation (EU) No 909/2014, and includes a 'securities settlement system' as defined in that regulation;
  - (2) participant has the meaning set out in Article 2.1(19) of Regulation (EU) No 909/2014; and
  - (3) for the avoidance of doubt:
    - (a) the definitions of *central counterparty* and *clearing member* apply for the purposes of this Chapter whether or not the *central counterparty* or *clearing member* is regulated by Regulation (EU) No. 648/2012, or is established in an *EEA state* or elsewhere; and
    - (b) the definitions of central securities depository and participant apply for the purposes of this Chapter whether or not the central securities depository or participant is regulated by Regulation (EU) No. 909/2014, or is established in an *EEA state* or elsewhere.
- 16.3 For the purposes of this Chapter, if a *ring-fenced body* accesses the services of a *central counterparty* or a central securities depository not established in an *EEA state* or any part of whose operations are not subject to the law of an *EEA state*, the *ring-fenced body* will be considered to comply with the *rules* in this Chapter if it has taken necessary steps to ensure that its positions, if applicable, and assets are identifiable separately from the positions, if applicable, and assets of any other *person* by measures that deliver outcomes comparable to those set out in the *rules* in this Chapter.
- 16.4 If a *ring-fenced body* accesses the services of a *central counterparty* as a *clearing member*, it must ensure the positions and assets held for its account are distinguished in accounts at the



*central counterparty* from the positions and assets held for the account of any other *clearing member* and of the *central counterparty*.

- 16.5 If a *ring-fenced body* accesses the services of a *central counterparty* through a *clearing member*, it must ensure the positions and assets held for its account are distinguished:
- (1) in accounts at the *central counterparty* from the positions and assets held for the account of the *clearing member* and either:
    - (a) the positions and assets held for the account of the *ring-fenced body* are distinguished in accounts at the *central counterparty* from the positions and assets held for the account of all other clients of that *clearing member*; or
    - (b) the value of assets required by the *central counterparty* as margin to cover the positions held for the account of all clients of that *clearing member* including the *ring-fenced body* within the account at the *central counterparty* is calculated on a gross basis, such that the value is at least equal to the sum of the margin amounts that would be required by the *central counterparty* for each individual client within that account if each individual client were a *clearing member*; and
  - (2) in accounts at the *clearing member* from the positions and assets held for the account of the *clearing member's* other clients and of the *clearing member*.
- 16.6 If a *ring-fenced body* accesses the services of a central securities depository as a participant, it must ensure any assets held for its account at the central securities depository are distinguished in accounts at the central securities depository from the assets held for the account of any other participant and of the central securities depository.
- 16.7 If a *ring-fenced body* accesses the services of a central securities depository through a participant, it must ensure any assets held for its account are distinguished:
- (1) in accounts at the central securities depository from the assets held for the account of the participant and of all other clients of that participant; and
  - (2) in accounts at the participant from the assets held for the account of the participant's other clients and of the participant.

## 17 POLICIES REGARDING USE OF EXCEPTIONS TO EXCLUDED ACTIVITIES AND PROHIBITIONS

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- 17.1 For each *exception* separately, a *ring-fenced body* must establish, implement and maintain an effective policy that sets out at least the following:
- (1) the types of *exception transactions* that are permitted to be entered into under the relevant *exceptions policy* including details on at least the following aspects:
    - (a) the specific types of instrument or contract which are permitted;
    - (b) the features of instruments or contracts which are permitted, including permitted underlying collateral where the instrument or contract references underlying collateral;

- (c) permitted counterparties or types of counterparties; and
  - (d) the permitted terms or maturities of instruments or contracts;
- (2) how the types of *exception transactions* that are permitted to be entered into and any related limit frameworks are integrated into the risk management framework of the *ring-fenced body* including its risk appetite;
- (3) how the *ring-fenced body* determines that the sole or main purpose of an *exception transaction* is:
- (a) for a *hedging exception transaction*, to limit the extent to which:
    - (i) the *ring-fenced body*,
    - (ii) any *subsidiary undertaking* of the *ring-fenced body*,
    - (iii) any *sponsored structured finance vehicle* of the *ring-fenced body*,
    - (iv) any *conduit vehicle* of the *ring-fenced body*, or
    - (v) any combination of the *undertakings* referred to in (i) to (iv)

will be adversely affected by the *specified factor*;
  - (b) for a *liquidity asset exception transaction*, to manage the liquidity of the *ring-fenced body*; and
  - (c) for a *collateral exception transaction*, to provide collateral in relation to *hedging exception transactions*;
- (4) which individual or committee within the *ring-fenced body* has day to day responsibility for approval and oversight for *exception transactions* including:
- (a) how, or in which circumstances, any responsibility is shared or delegated; and
  - (b) which *exception transactions* are escalated for approval, and the approval route including any *exception transactions* that are required to be subject to direct approval by the *governing body*, or a subcommittee of the *governing body* or other senior executive committees;
- (5) any differences in use of the *exception transactions* between the *trading book* and the non-trading book;
- (6) third party documentation that the *ring-fenced body* requires to be in place prior to execution of an *exception transaction*;
- (7) how the *ring-fenced body* identifies, manages and controls *exception transactions* separately from other transactions;
- (8) how the *ring-fenced body* considers the likely performance of *exception transactions* in stress scenarios (both market wide and idiosyncratic); and
- (9) a description of the internal reporting process, including significant internal reporting outputs, that the entity has put in place to monitor adherence to the *exceptions policies*.

- 17.2 A *ring-fenced body* must set out the policies in 17.1 in relation to the *hedging exceptions* separately for each *specified factor*.
- 17.3 In addition to 17.1, a *ring-fenced body* must set out in its *hedging exceptions policy* separately for each *specified factor*:
- (1) how the business of:
    - (a) the *ring-fenced body*;
    - (b) any *subsidiary undertaking* of the *ring-fenced body*;
    - (c) any *sponsored structured finance vehicle* of the *ring-fenced body*;
    - (d) any *conduit vehicle* of the *ring-fenced body*; or
    - (e) any combination of the *undertakings* referred to in (a) to (d)results in exposures to the *specified factor*;
  - (2) how the *ring-fenced body* separately identifies, monitors and controls those *hedging exception transactions* it enters into which relate to customer derivative transactions for the purpose of monitoring the position risk requirement as required by Article 12(1)(a) of the *Excluded Activities and Prohibitions Order*;
  - (3) how the *ring-fenced body* assesses the effectiveness of *hedging exception transactions* including what quantitative assessments are performed; and
  - (4) the policies of the *ring-fenced body* in relation to hedging of anticipated transactions or exposures, including the limits it places on *hedging exception transactions* which relate to anticipated transactions or exposures and the process it follows to identify, monitor, control, report and assess *hedging exception transactions* which relate to anticipated transactions or exposures separately from other *hedging exception transactions*.
- 17.4 A *ring-fenced body* must ensure its *exceptions policies* are lawful and act in accordance with its *exceptions policies* as long as these policies are lawful.
- 17.5 A *ring-fenced body* must ensure its *exceptions policies* are:
- (1) approved by the *governing body*; and
  - (2) reviewed by the *governing body* at least annually taking into account the reports under 17.7 and 17.8.
- 17.6 A *ring-fenced body* must put in place and implement procedures to operationalise its *exceptions policies* including internal reporting and oversight.
- 17.7 A *ring-fenced body* must ensure that its *governing body* receives internal reports on the operation of the *exceptions policies* at least annually, including:
- (1) transactions entered into under each of the *exceptions policies*; and
  - (2) the extent to which these transactions comply with the *exceptions policies*.

- 17.8 (1) A *ring-fenced body* must ensure that its internal audit function assesses at least annually the following matters in relation to an appropriate subset of *exceptions* and *specified factors* and reports its findings at least annually to its *governing body*:
- (a) the extent to which the *exceptions policies* comply with the requirements of this Chapter and with the *ring-fenced body's* statutory obligations;
  - (b) the effectiveness of the *exceptions policies*; and
  - (c) the effectiveness of the procedures established in compliance with this Chapter.
- (2) A *ring-fenced body* must ensure that its internal audit function assesses and includes in its reports under paragraph (1) all *exceptions* and *specified factors* at least once every three years.

## 18 APPLICATION OF CERTAIN PRA RULES TO RING-FENCED BODIES ON A SUB-CONSOLIDATED BASIS

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- 18.1 A *ring-fenced body* that is required under Article 11(5) of the *CRR* to comply with obligations on a *sub-consolidated basis* must comply with the following provisions of the *PRA Rulebook* on that *sub-consolidated basis*:
- (1) the *ICAAP rules* in the Internal Capital Adequacy Assessment Part;
  - (2) the *risk control rules* in the Internal Capital Adequacy Assessment Part;
  - (3) the overall financial adequacy *rule* in Internal Capital Adequacy Assessment 2.1;
  - (4) Internal Capital Adequacy Assessment 15;
  - (5) the Capital Buffers Part;
  - (6) the Internal Liquidity Adequacy Assessment Part;
  - (7) 2.1 (read with 2.2), 2.6, 2A.2, 5 and 6 of the General Organisational Requirements Part;
  - (8) 3.2 of the Skills, Knowledge and Expertise Part;
  - (9) 2.3, 2.7 and 3 of the Risk Control Part;
  - (10) 2.1(2) (read with 2.2) and 2.4 of the Group Risk Systems Part;
  - (11) the Remuneration Part;
  - (12) the Public Disclosure Part;
  - (13) the Benchmarking of Internal Approaches Part; and

(14) the Reporting Pillar 2 Part.

18.2 A *ring-fenced body* that is required under Article 11(5) of the *CRR* to comply with obligations on a *sub-consolidated basis* must comply with the obligations under the Capital Requirements (Country-by-Country Reporting) Regulations 2013 (SI 2013/3118) on that *sub-consolidated basis*. For the avoidance of doubt, the treatment provided for in Regulations 4 and 5 of those regulations is available (with the necessary changes) to the *ring-fenced body* in its seeking to comply with this *rule* on a *sub-consolidated basis*.

**[Note: Art. 71, 73-76, 78-96, 98, 123, 129, 130, 140-142 of the CRD.]**

## **19 APPLICATION FOR PERMISSION FOR INDIRECT ACCESS TO INTER-BANK PAYMENT SYSTEMS**

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19.1 The *PRA* directs that any *ring-fenced body* wishing to apply for permission under Article 13 of the *Excluded Activities and Prohibitions Order* must:

- (1) complete the relevant form on the *PRA*'s website;
- (2) ensure the application is accompanied by information specified in the relevant form;  
and
- (3) submit it in the manner set out in the relevant form.

## Externally defined glossary terms

<b>Term</b>	<b>Definition source</b>
<i>central counterparty</i>	Article 4(1)(34) CRR
<i>civil partnership</i>	Interpretation Act 1978 Schedule 1
<i>clearing member</i>	Article 300(3) CRR
<i>core activity</i>	S417 FSMA
<i>EEA state</i>	Interpretation Act 1978 Schedule 1
<i>excluded activity</i>	S417 FSMA
<i>the FCA</i>	S417 FSMA
<i>group</i>	S421 FSMA
<i>parent undertaking</i>	S420 FSMA
<i>person</i>	Interpretation Act 1978 Schedule 1
<i>ring-fenced body</i>	S417 FSMA
<i>ring-fencing rules</i>	S417 FSMA
<i>rule</i>	S417 FSMA
<i>sub-consolidated basis</i>	Article 4(1)(49) CRR
<i>subsidiary undertaking</i>	s420 FSMA
<i>trading book</i>	Article 4(1)(86) CRR

**Annex B****Amendments to the Glossary**

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

*audit committee*

means a committee established in accordance with Audit Committee 2.1.

*Chairman function*

has the meaning given in Senior Management Functions 4.2.

*Chairman of Audit Committee function*

has the meaning given in Senior Management Functions 4.4.

*Chairman of Remuneration Committee function*

has the meaning given in Senior Management Functions 4.5.

*Chairman of Risk Committee function*

has the meaning given in Senior Management Functions 4.3.

*Chief Risk function*

has the meaning given in Senior Management Functions 3.4.

*Head of Internal Audit function*

has the meaning given in Senior Management Functions 3.5.

*ICAAP rules*

means the *rules* in Chapter 3 (Strategies, processes and systems), Chapter 12 (Stress test and scenario analysis) and Chapter 13 (Documentation or risk assessments) of the Internal Capital Adequacy Assessment Part.

*risk control rules*

means the *rules* in Internal Capital Adequacy Assessment 4 to 11.

**Annex C**

**Amendments to the Audit Committee Part**

In this Annex, deleted text is struck through.

...

1.2 In this Part, the following definitions shall apply:

~~*audit committee*~~

~~means a committee established in accordance with 2.1.~~

...



Annex D

**Amendments to the Senior Management Functions Part**

In this Annex, deleted text is struck through.

...

1.2 In this Part, the following definitions shall apply:

~~*Chairman function*~~

~~has the meaning given in 4.2.~~

~~*Chairman of Audit Committee function*~~

~~has the meaning given in 4.4.~~

~~*Chairman of Remuneration Committee function*~~

~~has the meaning given in 4.5.~~

~~*Chairman of Risk Committee function*~~

~~has the meaning given in 4.3.~~

...

~~*Head of Internal Audit function*~~

~~has the meaning given in Senior Management Functions 3.5.~~

~~*Chief Risk function*~~

~~has the meaning given in Senior Management Functions 3.4.~~

...

**Annex E**

**Amendments to the Allocation of Responsibilities Part**

In this Annex, deleted text is struck through.

...

1.2 In this Part, the following definitions shall apply:

...

*~~Chairman function~~*

~~has the meaning given in 4.2.~~

*~~Chief Risk function~~*

~~has the meaning given in Senior Management Functions 3.4.~~

...

## Annex F

### Amendments to the Internal Capital Adequacy Assessment Part

In this Annex, deleted text is struck through.

...

1.2 In this Part, the following definitions shall apply:

...

~~ICAAP rules~~

~~means the rules in Chapter 3 (Strategies, processes and systems), Chapter 12 (Stress test and scenario analysis) and Chapter 13 (Documentation or risk assessments).~~

...

~~risk control rules~~

~~means the rules in Chapter 4 to Chapter 11 of this Part.~~

...

## Annex G

### Amendments to the Interpretation Part

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

#### 1 APPLICATION

1.1 Unless otherwise stated, this Part applies to ~~a firm~~ and a qualifying parent undertaking:

(1) a firm;

(2) a qualifying parent undertaking as defined in section 192B of FSMA; and

(3) a body corporate falling within section 192JA(2) of FSMA.

...