

HANDBOOK (RULEBOOK CONSEQUENTIALS NO. 2) INSTRUMENT 2015**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 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 the proposed rules and had regard to representations made.

Amendments

- D. The modules of the PRA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary	A
Senior Management Arrangements, Systems and Controls (SYSC)	B
Supervision (SUP)	C
Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)	D
General Provisions (GEN)	E
Fees Manual (FEES)	F
Conduct of Business Sourcebook (COBS)	G

Deletion

- E. Each of the following modules and sections of the PRA’s Handbook is deleted:

BSOCS (Building Societies sourcebook)
BSOG (The Building Societies Regulatory Guide)
SUP 16.10 (Verification of standing data)
SUP 18 (Transfers of business)
GEN 1 (Appropriate regulator approval and emergencies)
GEN 4 (Statutory status disclosure)

GEN 6 (Insurance against financial penalties)

Commencement

F. This instrument comes into force on 2 April 2015.

Citation

G. This instrument may be cited as the Handbook (Rulebook Consequentials No. 2) Instrument 2015.

By order of the Board of the Prudential Regulation Authority

30 March 2015

Annex A

Amendments to the Glossary

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

<i>appropriate regulator</i>	(1)	in <u>In</u> the <i>FCA Handbook</i> , the <i>FCA</i> ; and in the <i>PRA Handbook</i> , the <i>PRA</i> ;
	(2)	(a) ...
		(b) in SUP 18 "appropriate regulator" has the meaning given in section 103A of the Act. [deleted]
...		
<i>common platform firm</i>	(A)	In the <i>PRA Handbook</i> (except SYSC 4-9):
		...
	(AB)	<u>In the <i>PRA Handbook</i> (in SYSC 4-9), has the same meaning as in (A) except that it excludes <i>CRR firms</i>.</u>
...		
<i>competent employees rule</i>	(a)	For a <i>firm</i> which is not a <i>common platform firm</i> or a <i>CRR firm</i> , SYSC 3.1.6R.
	(b)	...
	(c)	<u>for a <i>CRR firm</i>, Skills, Knowledge and Expertise 2.1 of the <i>PRA Rulebook</i>.</u>
...		
<i>contingency funding plan</i>	(1)	...
	(2)	(in BIPRU 12 and BSOGS) a plan for dealing with liquidity crises as required by <i>BIPRU 12.4.10R</i> .
...		
<i>credit institution</i>	(A)	In the <i>PRA Handbook</i> :

	(1)	(except in REC); has the meaning in article 4(1)(1) of the <i>EU CRR</i> ;
	(a)	has the meaning in article 4(1)(1) of the <i>EU CRR</i> ; or [deleted]
		...
	(2)	(in REC and in SUP 11 (Controllers and close links) and SUP 16 (Reporting requirements)):
...		
<i>designated money market fund</i>		(in BIPRU 12 and BSOCS) a <i>collective investment scheme</i> authorised under the <i>UCITS Directive</i> or which is subject to supervision and, if applicable, authorised by an authority under the national law of an <i>EEA State</i> , and which satisfies the following conditions:
...		
<i>IPRU</i>		the Interim Prudential sourcebook, comprising <i>IPRU(BANK)</i> , <i>IPRU(BSOC)</i> , <i>IPRU(FSOC)</i> , <i>IPRU(INS)</i> and <i>IPRU(INV)</i> , or according to the context one of these Interim Prudential sourcebooks.
...		
<i>listed</i>	(A)	In the <i>PRA Handbook</i> :
	(1)	(except in LR , SUP 11 , <i>INSPRU</i> and <i>IPRU(INS)</i>) included in an official list.
...		
<i>PD</i>	(1)	...
	(2)	(in GENPRU , and BIPRU and BSOCS) <i>probability of default</i> .
...		
<i>Society</i>	(1)	(except in BSOCS) the The society incorporated by Lloyd's Act 1871 by the name of Lloyd's.
	(2)	(in BSOCS) a building society. [deleted]
...		

<i>subsidiary undertaking</i>	(1)	...
	(2)	...
	(3)	(in LR and BSOCs) as defined in section 1162 of the Companies Act 2006. [deleted]

Delete the following definitions altogether. The deleted text is not shown.

1986 Act

BSOCS

CIS administrator

CIS trustee

composite insurer

discretionary investment manager

early repayment charge

employee

firm type

independent expert

IPRU(BSOC)

non-discretionary investment manager

own account trading firm

qualifying money market fund

scheme report

SDL

society

wholesale only bank

Annex B

Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

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

1.1A Application

...

1.1A.1A G Chapters 4 to 9 are not applicable to *CRR firms*. *CRR firms* are subject to the rules in the General Organisational Requirements Part of the *PRA* Rulebook.

...

1 Annex 1 Detailed application of SYSC

...

Part 2	Application of the common platform requirements (SYSC 4 to 10)	
2.1	R	The common platform requirements apply to every firm apart from an insurer, a managing agent and the Society unless provided otherwise in a specific rule. [deleted]
<u>2.1A</u>	R	<u>The common platform organisational requirements apply to every firm apart from a <i>CRR firm</i>, an insurer, a managing agent and the Society unless provided otherwise in a specific rule.</u>
<u>2.1B</u>	R	<u>SYSC 10 applies to every firm apart from an insurer, a managing agent and the Society unless provided otherwise in a specific rule.</u>

...

Part 3	Tables summarising the application of the common platform requirements to different types of firm	
3.1	G	The common platform requirements apply in the following four ways (subject to the provisions in Part 2 of this Annex). [deleted]
<u>3.1A</u>	G	<u>The common platform requirements apply in accordance with Part 2 of this Annex and the provisions in 3.2BR, 3.2CR, 3.2DG, 3.2ER, 3.3AG and 3.4R.</u>
3.2	G	For a common platform firm, they apply in accordance with Column A in the table below. [deleted]
...		
<u>3.2C</u>	R	<u>For a common platform firm other than a <i>CRR firm</i>, Provision SYSC 4 to Provision SYSC 9 apply in accordance with Column A in the table below.</u>
<u>3.2D</u>	G	<u>SYSC 4 to 9 are not applicable to <i>CRR firms</i>. <i>CRR firms</i> are subject to the rules in the General Organisational Requirements, Skills, Knowledge and Expertise, Compliance</u>

		<u>and Internal Audit, Risk Control, Outsourcing and Record Keeping Parts of the PRA Rulebook.</u>
3.2E	R	<u>For a common platform firm, Provision SYSC 10 applies in accordance with Column A in the table below.</u>
...		
3.3	G	<u>For all other firms apart from insurers, managing agents, the Society and full-scope UK AIFMs of unauthorised AIFs, they apply in accordance with Column B in the table below. For these firms, where a rule is shown modified in Column B as 'Guidance', it should be read as guidance (as if "should" appeared in that rule instead of "must") and should be applied in a proportionate manner, taking into account the nature, scale and complexity of the firm's business. [deleted]</u>
3.3A	G	<u>For all other firms apart from CRR firms, insurers, managing agents, the Society and full-scope UK AIFMs of unauthorised AIFs, they apply in accordance with Column B in the table below. For these firms, where a rule is shown modified in Column B as 'Guidance', it should be read as guidance (as if "should" appeared in that rule instead of "must") and should be applied in a proportionate manner, taking into account the nature, scale and complexity of the firm's business.</u>
3.4	R	<u>For the purposes of Provision 4 to Provision 9 in the table below, the reference to:</u>

- (1) "common platform firm" in Column A must be read as "a common platform firm apart from a CRR firm"; and
- (2) "all other firms" in Column B must be read as "all other firms apart from CRR firms".

...

12.1 Application

...

12.1.13A R When applying SYSC 12.1.13R, CRR firms must read references to:

- (1) SYSC 4.1.1R and SYSC 4.1.2R as references to General Organisation Requirements 2.1 and 2.2 of the PRA Rulebook;
- (2) SYSC 4.1.7R as a reference to General Organisation Requirement 2.6 of the PRA Rulebook;
- (3) SYSC 4.3A as a reference to chapters 5 and 6 of the General Organisation Requirements Part of the PRA Rulebook;
- (4) SYSC 5.1.7R as a reference to Skills, Knowledge and Expertise 3.2 of the PRA Rulebook;
- (5) SYSC 7 as a reference to Chapters 2 and 3 of the Risk Control Part of the PRA Rulebook;

...

13.8 External events and other changes

...

13.8.4 G The high-level requirement for appropriate systems and controls at SYSC 3.1.1R applies at all times, including when a business continuity plan is invoked. However, the *appropriate regulator* recognises that, in an emergency, a *firm* may be unable to comply with a particular *rule* and the conditions for relief are outlined in GEN 1.3 (Emergency). ~~[deleted]~~

...

13.8.4A G The high level requirement for appropriate systems and controls at SYSC 3.1.1R applies at all times, including when a business continuity plan is invoked. However, the *appropriate regulator* recognises that, in an emergency, a *firm* may be unable to comply with a particular *rule* and the conditions for relief are outlined in Chapter 2 of the General Provisions Part of the PRA Rulebook.

...

19A.1 General application and purpose

...

19A.1.1 R (1) ~~The *Remuneration Code* applies to :- [deleted]~~

- (a) ~~a *building society*; [deleted]~~
- (b) ~~a *bank*; [deleted]~~
- (c) ~~an *investment firm*; [deleted]~~
- (d) ~~an *overseas firm* that; [deleted]~~
 - (i) ~~is not an *EEA firm*; [deleted]~~
 - (ii) ~~has its head office outside the *EEA*; and [deleted]~~
 - (iii) ~~would be a *firm* referred to in (a), (b) or (c) if it had been a *UK domestic firm*, had carried on all of its business in the *UK* and had obtained whatever authorisations for doing so as are required under the Act. [deleted]~~

(2) ~~In relation to a *firm* that falls under (1)(d), the *Remuneration Code* applies only in relation to activities carried on from an establishment in the United Kingdom. [deleted]~~

(3) ~~Otherwise, the *Remuneration Code* applies to a *firm* within (1) in the same way as SYSC 4.1.1R (General Requirements). [deleted]~~

...

19A.1.1B R (1) The *Remuneration Code* applies to :

- (a) a *building society*;
- (b) a *bank*;

- (c) an investment firm;
- (d) an overseas firm that:
 - (i) is not an EEA firm;
 - (ii) has its head office outside the EEA; and
 - (iii) would be a firm referred to in (a), (b) or (c) if it had been a UK domestic firm, had carried on all of its business in the UK and had obtained whatever authorisations for doing so as are required under the Act.

- (2) In relation to a firm that falls under (1)(d), the Remuneration Code applies only in relation to activities carried on from an establishment in the United Kingdom.
- (3) Otherwise, the Remuneration Code applies to a firm within (1) in the same way as SYSC 4.1.1R (General Requirements) or, in the case of a CRR firm, General Organisational Requirements 2.1 in the PRA Rulebook.

...

- 19A.1.2 G Part 2 of SYSC 1 Annex 1 provides for the application of SYSC 4.1.1R (General Requirements). In particular, and subject to the provisions on group risk systems and controls requirements in SYSC 12, this means that: [deleted]
- (1) in relation to what the Remuneration Code applies to, it: [deleted]
 - (a) applies in relation to regulated activities, activities that constitute dealing in investments as principal (disregarding the exclusion in article 15 of the Regulated Activities Order (Absence of holding out etc)), ancillary activities and (in relation to MiFID business) ancillary services; [deleted]
 - (b) applies with respect to the carrying on of unregulated activities in a prudential context; and [deleted]
 - (c) takes into account activities of other group members; and [deleted]
 - (2) in relation to where the Remuneration Code applies, it applies in relation to: [deleted]
 - (a) a firm's UK activities; [deleted]
 - (b) a firm's passported activities carried on from a branch in another EEA State; and [deleted]
 - (c) a UK domestic firm's activities wherever they are carried on, in a prudential context. [deleted]
- 19A.1.2A G Subject to the provisions on group risk systems and controls requirements in SYSC 12:
- (1) in relation to what the Remuneration Code applies to, it:
 - (a) applies in relation to regulated activities, activities that constitute dealing in investments as principal (disregarding the exclusion in article 15 of the Regulated Activities Order (Absence of holding out, etc)),

ancillary activities and (in relation to MiFID business) ancillary services:

(b) applies with respect to the carrying on of unregulated activities in a prudential context, and

(c) takes into account activities of other group members; and

(2) in relation to where the Remuneration Code applies, it applies in relation to:

(a) a firm's UK activities;

(b) a firm's passported activities carried on from a branch in another EEA State; and

(c) a UK domestic firm's activities wherever they are carried on, in a prudential context.

...

Purpose

- 19A.1.6 G (1) ~~The aim of the Remuneration Code is to ensure that firms have risk-focused remuneration policies, which are consistent with and promote effective risk management and do not expose them to excessive risk. It expands upon the general organisational requirements in SYSC 4. [deleted]~~
- (2) ~~The Remuneration Code implements the main provisions of the CRD which relate to remuneration. The Committee of European Banking Supervisors published Guidelines on Remuneration Policies and Practices on 10 December 2010. Provisions of the Capital Requirements (Amendment) Regulations 2012 (SI 2012/917) together with the European Banking Authority's Guidelines to article 22(3) and (5) of the Banking Consolidation Directive relating to the collection of remuneration benchmarking information and high earners information have been implemented through SUP 16 Annex 33AR and SUP 16 Annex 34AR. The Guidelines can be found at <http://www.eba.europa.eu/cobs/media/Publications/Standards%20and%20Guidelines/2012/EBA-GL-2012-04-GL-4-on-remuneration-benchmarking-exercise-.pdf> and <http://www.eba.europa.eu/cobs/media/Publications/Standards%20and%20Guidelines/2012/EBA-GL-2012-05-GL-5-on-remuneration-data-collection-exercise-.pdf>. [deleted]~~
- (3) [deleted]
- 19A.1.6A G (1) The aim of the Remuneration Code is to ensure that firms have risk-focused remuneration policies, which are consistent with and promote effective risk management and do not expose them to excessive risk. It expands upon the general organisational requirements in General Organisational Requirements 2.1 of the PRA Rulebook.
- (2) The Remuneration Code implements the main provisions of the CRD which relate to remuneration. The Committee of European Banking Supervisors published Guidelines on Remuneration Policies and Practices on 10 December 2010. Provisions of the Capital Requirements Regulations 2013 (SI 2013/3115) together with the European Banking Authority's Guidelines to article 75(1) and (3) of the CRD relating to the collection of remuneration benchmarking information and high earners information have been implemented through the Remuneration Reporting Requirements Part of the PRA Rulebook. The Guidelines can be found at <http://www.eba.europa.eu/-/eba-publishes-guidelines-to-streamline-data-collection-on-remuneration->

practices

...

19A.2 General requirement

...

- 19A.2.2 G (1) ~~If a firm's remuneration policy is not aligned with effective risk management it is likely that employees will have incentives to act in ways that might undermine effective risk management. [deleted]~~
- (2) ~~The Remuneration Code covers all aspects of remuneration that could have a bearing on effective risk management including salaries, bonuses, long-term incentive plans, options, hiring bonuses, severance packages and pension arrangements. In applying the Remuneration Code, a firm should have regard to applicable good practice on remuneration and corporate governance, such as guidelines on executive contracts and severance produced by the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF). In considering the risks arising from its remuneration policies, a firm will also need to take into account its statutory duties in relation to equal pay and non-discrimination. [deleted]~~
- (3) ~~As with other aspects of a firm's systems and controls, in accordance with SYSC 4.1.2R remuneration policies, procedures and practices must be comprehensive and proportionate to the nature, scale and complexity of the common platform firm's activities. What a firm must do in order to comply with the Remuneration Code will therefore vary. For example, while the Remuneration Code refers to a firm's remuneration committee and risk management function, it may be appropriate for the governing body of a smaller firm to act as the remuneration committee, and for the firm not to have a separate risk management function. [deleted]~~
- (4) ~~The principles in the Remuneration Code are used by the appropriate regulator to assess the quality of a firm's remuneration policies and whether they encourage excessive risk-taking by a firm's employees. [deleted]~~
- (5) ~~The appropriate regulator may also ask remuneration committees to provide the appropriate regulator with evidence of how well the firm's remuneration policies meet the Remuneration Code's principles, together with plans for improvement where there is a shortfall. The appropriate regulator also expects relevant firms to use the principles in assessing their exposure to risks arising from their remuneration policies as part of the internal capital adequacy assessment process (ICAAP). [deleted]~~
- (6) ~~The Remuneration Code is principally concerned with the risks created by the way remuneration arrangements are structured, not with the absolute amount of remuneration, which is generally a matter for firms' remuneration committees. [deleted]~~
- 19A.2.2A G (1) If a firm's remuneration policy is not aligned with effective risk management it is likely that employees will have incentives to act in ways that might undermine effective risk management.
- (2) The Remuneration Code covers all aspects of remuneration that could have a bearing on effective risk management including salaries, bonuses, long-term incentive plans, options, hiring bonuses, severance packages and pension arrangements. In applying the Remuneration Code, a firm should have regard to applicable good practice on remuneration and corporate governance, such as guidelines on executive contracts and severance

produced by the Association of British Insurers (ABI) and the National Association of Pension Funds (NAPF). In considering the risks arising from its remuneration policies, a firm will also need to take into account its statutory duties in relation to equal pay and non-discrimination.

- (3) As with other aspects of a firm's systems and controls, in accordance with General Organisational Requirement 2.2 of the PRA Rulebook, remuneration policies, procedures and practices must be comprehensive and proportionate to the nature, scale and complexity of the common platform firm's activities. What a firm must do in order to comply with the Remuneration Code will therefore vary. For example, while the Remuneration Code refers to a firm's remuneration committee and risk management function, it may be appropriate for the governing body of a smaller firm to act as the remuneration committee, and for the firm not to have a separate risk management function.
- (4) The principles in the Remuneration Code are used by the appropriate regulator to assess the quality of a firm's remuneration policies and whether they encourage excessive risk-taking by a firm's employees.
- (5) The appropriate regulator may also ask remuneration committees to provide the appropriate regulator with evidence of how well the firm's remuneration policies meet the Remuneration Code's principles, together with plans for improvement where there is a shortfall. The appropriate regulator also expects relevant firms to use the principles in assessing their exposure to risks arising from their remuneration policies as part of the internal capital adequacy assessment process (ICAAP).
- (6) The Remuneration Code is principally concerned with the risks created by the way remuneration arrangements are structured, not with the absolute amount of remuneration, which is generally a matter for firms' remuneration committees.

...

Record-keeping

19A.2.4 G ~~In line with the record-keeping requirements in SYSC 9, a firm should ensure that its remuneration policies, practices and procedures are clear and documented. Such policies, practices and procedures would include performance appraisal processes and decisions. [deleted]~~

19A.2.4A G In line with the record-keeping requirements in the Record Keeping Part of the PRA Rulebook, a firm should ensure that its remuneration policies, practices and procedures are clear and documented. Such policies, practices and procedures would include performance appraisal processes and decisions.

...

19A.3 Remuneration principles for banks, building societies and investment firms

...

- 19A.3.5 R ~~A firm must: [deleted]~~
- (1) ~~maintain a record of its Remuneration Code staff in accordance with the general record-keeping requirements (SYSC 9); and [deleted]~~
- (2) ~~take reasonable steps to ensure that its Remuneration Code staff understand the implications of their status as such, including the potential for~~

~~remuneration which does not comply with certain requirements of the Remuneration Code to be rendered void and recoverable by the firm.~~
[deleted]

- 19A.3.5A R A firm must:
- (1) maintain a record of its Remuneration Code staff in accordance with the general record-keeping requirements in the Record Keeping Part of the PRA Rulebook; and
 - (2) take reasonable steps to ensure that its Remuneration Code staff understand the implications of their status as such, including the potential for remuneration which does not comply with certain requirements of the Remuneration Code to be rendered void and recoverable by the firm.
- ...
- 19A.3.13 G (1) ~~A firm should be able to demonstrate that its decisions are consistent with an assessment of its financial condition and future prospects. In particular, practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain should be evaluated carefully and the governing body or remuneration committee (or both) should work closely with the firm's risk function in evaluating the incentives created by its remuneration system.~~ [deleted]
- (2) ~~The governing body and any remuneration committee are responsible for ensuring that the firm's remuneration policy complies with the Remuneration Code and where relevant should take into account relevant guidance, such as that issued by the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO).~~ [deleted]
 - (3) ~~The periodic review of the implementation of the remuneration policy should assess compliance with the Remuneration Code.~~ [deleted]
 - (4) ~~Guidance on what the supervisory function might involve is set out in SYSC 4.3.3G.~~ [deleted]
- 19A.3.13A G (1) A firm should be able to demonstrate that its decisions are consistent with an assessment of its financial condition and future prospects. In particular, practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain should be evaluated carefully and the governing body or remuneration committee (or both) should work closely with the firm's risk function in evaluating the incentives created by its remuneration system.
- (2) The governing body and any remuneration committee are responsible for ensuring that the firm's remuneration policy complies with the Remuneration Code and where relevant should take into account relevant guidance, such as that issued by the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors (IAIS) and the International Organization of Securities Commissions (IOSCO).
 - (3) The periodic review of the implementation of the remuneration policy should assess compliance with the Remuneration Code.
 - (4) Guidance on what the supervisory function might involve is set out in paragraph 2.8 of the PRA's Supervisory Statement: internal governance.

...

- 19A.3.17 G (1) ~~This Remuneration Principle is designed to manage the conflicts of interest which might arise if other business areas had undue influence over the remuneration of employees within control functions. Conflicts of interest can easily arise when employees are involved in the determination of remuneration for their own business area. Where these could arise they need to be managed by having in place independent roles for control functions (including, notably, risk management and compliance) and human resources. It is good practice to seek input from a firm's human resources function when setting remuneration for other business areas. [deleted]~~
- (2) ~~The need to avoid undue influence is particularly important where employees from the control functions are embedded in other business areas. This Remuneration Principle does not prevent the views of other business areas being sought as an appropriate part of the assessment process. [deleted]~~
- (3) ~~The appropriate regulator would generally expect the ratio of the potential variable component of remuneration to the fixed component of remuneration to be significantly lower for employees in risk management and compliance functions than for employees in other business areas whose potential bonus is a significant proportion of their remuneration. Firms should nevertheless ensure that the total remuneration package offered to those employees is sufficient to attract and retain staff with the skills, knowledge and expertise to discharge those functions. The requirement that the method of determining the remuneration of relevant persons involved in the compliance function must not compromise their objectivity or be likely to do so also applies (see SYSC 6.1.4R(4)). [deleted]~~

- 19A.3.17A G (1) This Remuneration Principle is designed to manage the conflicts of interest which might arise if other business areas had undue influence over the remuneration of employees within control functions. Conflicts of interest can easily arise when employees are involved in the determination of remuneration for their own business area. Where these could arise they need to be managed by having in place independent roles for control functions (including, notably, risk management and compliance) and human resources. It is good practice to seek input from a firm's human resources function when setting remuneration for other business areas.
- (2) The need to avoid undue influence is particularly important where employees from the control functions are embedded in other business areas. This Remuneration Principle does not prevent the views of other business areas being sought as an appropriate part of the assessment process.
- (3) The appropriate regulator would generally expect the ratio of the potential variable component of remuneration to the fixed component of remuneration to be significantly lower for employees in risk management and compliance functions than for employees in other business areas whose potential bonus is a significant proportion of their remuneration. Firms should nevertheless ensure that the total remuneration package offered to those employees is sufficient to attract and retain staff with the skills, knowledge and expertise to discharge those functions. The requirement that the method of determining the remuneration of relevant persons involved in the compliance function must not compromise their objectivity or be likely to do so also applies (see Compliance and Internal Audit 2.4(4) of the PRA Rulebook).

...

20.1 Application and purpose

...

- 20.1.4 G The reverse stress testing requirements are an integral component of a *firm's* business planning and risk management under SYSC and the Risk Control Part of the *PRA Rulebook*. For *BIPRU firms* as referred to in SYSC 20.1.1R (1)(a), this chapter amplifies ~~SYSC 7.1.1G to SYSC 7.1.8G on risk control~~ Risk Control in the *PRA Rulebook*. For insurers as referred to in SYSC 20.1.1R (1)(b), this chapter amplifies SYSC 14.1.17G to SYSC 14.1.25G on business planning and risk management.

...

21.1 Risk control: guidance on governance arrangements

- 21.1.1 G (1) ~~This chapter provides additional guidance on risk-centric governance arrangements for effective risk management. It expands upon the general organisational requirements in SYSC 2, SYSC 3, SYSC 4, SYSC 7 and FUND 3.7, and so applies to the same extent as SYSC 3.1.1R (for *insurers, managing agents and the Society*), SYSC 4.1.1R (for every other *firm*) and FUND 3.7 (for a *full-scope UK AIFM* of an authorised *AIF*). [deleted]~~
- (2) ~~*Firms* should, taking account of their size, nature and complexity, consider whether in order to fulfil the general organisational requirements in SYSC 2, SYSC 3, SYSC 4, SYSC 7 and (for a *full-scope UK AIFM* of an authorised *AIF*) FUND 3.7 their risk control arrangements should include: [deleted]~~
- (a) ~~appointing a Chief Risk Officer; and [deleted]~~
- (b) ~~establishing a governing body risk committee. [deleted]~~
- ~~The functions of a Chief Risk Officer and *governing body* risk committee are explained further in this section. [deleted]~~
- (3) ~~The *appropriate regulator* considers that *banks* and *insurers* that are included in the FTSE 100 Index are examples of the types of *firm* that should structure their risk control arrangements in this way. However, this *guidance* will also be relevant to some similar sized *firms* (whether or not *listed*) and some smaller *firms*, by virtue of their risk profile or complexity. [deleted]~~

- 21.1.1A G (1) This chapter provides additional guidance on risk-centric governance arrangements for effective risk management. It expands upon the general organisational requirements in SYSC 2, SYSC 3, SYSC 4, SYSC 7 and the General Organisational Requirements Part and the Risk Control Part of the *PRA Rulebook*, and so applies to the same extent as SYSC 3.1.1R (for *insurers, managing agents and the Society*), SYSC 4.1.1R and the General Organisational Requirements Part and the Risk Control Part of the *PRA Rulebook* (for *CRR firms*).
- (2) *Firms* should, taking account of their size, nature and complexity, consider whether in order to fulfil the general organisational requirements in SYSC 2, SYSC 3, SYSC 4, SYSC 7 and the General Organisational Requirements Part and the Risk Control Part of the *PRA Rulebook* and their risk control arrangements should include:
- (a) appointing a Chief Risk Officer; and
- (b) establishing a *governing body* risk committee.

The functions of a Chief Risk Officer and *governing body* risk committee are

explained further in this section.

- (3) The *appropriate regulator* considers that *banks* and *insurers* that are included in the FTSE 100 Index are examples of the types of *firm* that should structure their risk control arrangements in this way. However, this *guidance* will also be relevant to some similar sized *firms* (whether or not *listed*) and some smaller *firms*, by virtue of their risk profile or complexity.

Annex C

Amendments to the Supervision manual (SUP)

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

...

10B.9 Systems and controls function

...

10B.9.1 R ...

- (2) setting and controlling its risk exposure (see SYSC 3.2.10G, ~~and SYSC 7.1.6R~~ and, for CRR firms, Risk Control 2.5 of the PRA Rulebook); and.
- (3) adherence to internal systems and controls, procedures and policies (see SYSC 3.2.16G, ~~and SYSC 6.2~~ and, for CRR firms, Compliance and Internal Audit 3.1 of the PRA Rulebook).

...

10B.11 Application for approval and withdrawing an application for approval

...

10B.11.6 G ...

- (2) Usually this will be the *firm* that is employing the *PRA candidate* to perform the *PRA controlled function*. Where a *firm* has outsourced the performance of a *PRA controlled function*, the details of the outsourcing determine where responsibility lies and whom the *PRA* anticipates will submit *PRA-approved persons* application forms. SUP 10B.11.7G describes some common situations. The *firm* which is outsourcing is referred to as "A" and the *person* to whom the performance of the *PRA controlled function* has been outsourced, or which makes the arrangement for the *PRA controlled function* to be performed, is referred to as "B". In each situation, A must take reasonable care to ensure that, in accordance with section 59(2) of the Act, no *person* performs a *PRA controlled function* under an arrangement entered into by its contract—or in relation to the carrying on by A of a *regulated activity*, without approval from the *PRA*. See also SYSC 3.2.4G and SYSC 8.1.1R, ~~and, for CRR firms, Outsourcing 2.1 of the PRA Rulebook~~ and SYSC 13.9 for *insurers*.

...

10B.11.7A G The reference to "SYSC 8" in in the table above must be read as "SYSC 8 or, in the case of a CRR firm, the Outsourcing Part of the PRA Rulebook".

...

10B.14 How to apply for approval and give notifications

...

10B.14.4 G Where SUP 10B.14.1D (4) or the equivalent situation under SUP 10B.14.2R applies to a *firm*, ~~GEN 1.3.2R (Emergency) does~~ General Provisions 2.2 of the PRA Rulebook does not apply.

...

16.1 Application

...

16.1.3	R
		<i>SUP 16.10</i> <u>[FCA only]</u>	All categories of <i>firm</i> except:	Entire section
			(a) an <i>ICVC</i> ;	
			(b) a <i>UCITS</i> <i>qualifier</i> ;	
			(c) a <i>credit union</i> ; and	
			(d) a <i>dormant account fund operator</i> .	

...

16.3 General provisions on reporting

...

- SUP 16.3.2 G ~~This chapter has been split into the following sections, covering: [deleted]~~
- (1) ~~annual controllers reports (*SUP 16.4*); [deleted]~~
 - (2) ~~annual close links reports (*SUP 16.5*); [deleted]~~
 - (3) ~~compliance reports (*SUP 16.6*); [deleted]~~
 - (4) ~~[deleted]~~
 - (5) ~~persistence reports (*SUP 16.8*); [deleted]~~
 - (6) ~~annual appointed representatives reports (*SUP 16.9*); [deleted]~~
 - (7) ~~Verification of standing data (*SUP 16.10*); [deleted]~~
 - (8) ~~product sales data reporting (*SUP 16.11*); [deleted]~~
 - (9) ~~integrated regulatory reporting (*SUP 16.12*); [deleted]~~
 - (10) ~~reporting under the Payment Services Regulations (*SUP 16.13*); [deleted]~~
 - (11) ~~client money and asset return (*SUP 16.14*); [deleted]~~
 - (12) ~~reporting under the Electronic Money Regulations (*SUP 16.15*); [deleted]~~
 - (13) ~~prudent valuation reporting (*SUP 16.16*); [deleted]~~
 - (14) ~~remuneration reporting (*SUP 16.17*); [deleted]; and~~

(15) ~~AIFMD reporting (SUP 16.18) [deleted].~~

SUP 16.3.2A G This chapter has been split into the following sections, covering:

- (1) annual controllers reports (SUP 16.4);
- (2) annual close links reports (SUP 16.5);
- (3) compliance reports (SUP 16.6);
- (4) persistence reports (SUP 16.8);
- (5) annual appointed representatives reports (SUP 16.9);
- (6) product sales data reporting (SUP 16.11);
- (7) integrated regulatory reporting (SUP 16.12);
- (8) reporting under the Payment Services Regulations (SUP 16.13);
- (9) client money and asset return (SUP 16.14);
- (10) reporting under the Electronic Money Regulations (SUP 16.15).
- (11) prudent valuation reporting (SUP 16.16);
- (12) remuneration reporting (SUP 16.17); and
- (13) AIFMD reporting (SUP 16.18).

...

- 16.3.17 R (1) ~~A firm must notify the appropriate regulator if it changes its accounting reference date. [deleted]~~
- (2) ~~When a firm extends its accounting period, it must make the notification in (1) before the previous accounting reference date. [deleted]~~
- (3) ~~When a firm shortens its accounting period, it must make the notification in (1) before the new accounting reference date. [deleted]~~
- (4) ~~SUP 16.10.4AR to SUP 16.10.4CG (Requirement to check the accuracy of standing data and to report changes to the appropriate regulator) apply to any notification made under (1). [deleted]~~

- 16.3.17A R (1) A firm must notify the appropriate regulator if it changes its accounting reference date.
- (2) When a firm extends its accounting period, it must make the notification in (1) before the previous accounting reference date.
- (3) When a firm shortens its accounting period, it must make the notification in (1) before the new accounting reference date.
- (4) Notifications 5.3A and 5.5 (Core Information Requirements) apply to any notification made under (1).

...

TP 1 Transitional provisions

...

TP
1.2

(1)	(2) Material to which the transitional provision applies	(3)	(4) Transitional provision	(5) Transitional provision: dates in force	(6) Handbook provision: coming into force
...
14C <u>[FCA only]</u>	SUP 16.10.4	R	A <i>firm</i> whose <i>accounting reference date</i> falls between 1 April 2005 and 30 June 2005 (inclusive) need not comply with SUP 16.10.4R until its <i>accounting reference date</i> in	1 April 2005-30 June 2005	1 April 2005

Annex D

Amendments to the Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries (MIPRU)

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

2.3 Knowledge, ability and good repute

...

2.3.5 G ~~Firms are reminded that *Principle 3* requires *firms* to take reasonable care to organise and control their affairs responsibly and effectively. *Principle 3* is amplified by the *rule* which requires *firms* to take reasonable care to establish and maintain such systems and controls as are appropriate to its business (SYSC 3.1.1R and SYSC 4.1.1R). A *firm's* systems and controls should enable it to satisfy itself of the suitability of anyone who acts for it (SYSC 3.2.13G and SYSC 5.1.2G). This includes the assessment of an individual's honesty and competence. In addition, the *competent employees rule* (SYSC 3.1.6R and SYSC 5.1.1R) sets out a high-level competence requirement which every *firm* should follow.[deleted]~~

2.3.5A G Firms are reminded that *Principle 3* requires firms to take reasonable care to organise and control their affairs responsibly and effectively. *Principle 3* is amplified by the *rule* which requires *firms* to take reasonable care to establish and maintain such systems and controls as are appropriate to its business (SYSC 3.1.1R, SYSC 4.1.1R and, for *CRR firms*, General Organisational Requirement 2.1 of the *PRA* Rulebook). A *firm's* systems and controls should enable it to satisfy itself of the suitability of anyone who acts for it (SYSC 3.2.13G). This includes the assessment of an individual's honesty and competence. In addition, the *competent employees rule* (SYSC 3.1.6R, SYSC 5.1.1R Skills, Knowledge and Expertise 2.1 of the *PRA* Rulebook) sets out a high-level competence requirement which every firm should follow.

Annex E
General Provisions (GEN)

In this Annex new text is underlined.

...

TP1 Transitional provisions

...

GEN TP 1.3 (4) Transitional Provisions applying to GEN only

The references to “GEN 6.1” in the table above must be read as “GEN 6.1 and General Provisions 7 in the *PRA* Rulebook”.

Annex F

Amendments to the Fees manual (FEES)

In this Annex new text is underlined.

4.2 Obligation to pay periodic fees

...

4.2.10A R A *CRR firm* need not pay a periodic fee on the date on which it is due under the relevant provision in FEES 4.2.1R, if that date falls during a period during which circumstances of the sort set out in General Provisions 2.2 in the *PRA* Rulebook exist, and that *firm* has reasonable grounds to believe that those circumstances impair its ability to pay the fee, in which case the *firm* must pay it on or before the fifth *business day* after the end of that period.

Annex G

Amendments to the Conduct of Business Sourcebook (COBS)

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

20.2 Treating with-profits policyholders fairly

...

20.2.48 G A ~~retribution expert's~~ report should comply with the applicable rules on expert evidence. The scope and content of the report should be substantially similar to that of the report required of an *independent expert* under SUP 18.2 (Insurance business transfers), as if (where appropriate) a reference to:~~[deleted]~~

- (1) the '~~scheme report~~' was a reference to the '~~retribution expert's report~~'; ~~[deleted]~~
- (2) the '~~independent expert~~' was a reference to the '~~retribution expert~~'; and~~[deleted]~~
- (3) the '~~scheme~~' was a reference to the proposal for a '~~retribution~~'.~~[deleted]~~

20.2.48A G A *retribution expert's* report should comply with the applicable rules on expert evidence. The scope and content of the report should be substantially similar to that expected of the report of an independent expert as set out in the PRA's Statement of Policy: The Prudential Regulation Authority's approach to insurance business transfers, as if (where appropriate) a reference to:

- (1) the '*scheme report*' was a reference to the '*retribution expert's report*';
- (2) the '*independent expert*' was a reference to the '*retribution expert*'; and
- (3) the '*scheme*' was a reference to the proposal for a '*retribution*'.