

## Appendix 1 – Rules instruments

<b>1</b>	<b>Draft Glossary instrument</b>	<b>2</b>
<b>2</b>	<b>Draft General Organisational Requirements instrument</b>	<b>4</b>
<b>3</b>	<b>Draft Groups instrument</b>	<b>6</b>
<b>4</b>	<b>Draft Groups 2021 instrument</b>	<b>9</b>
<b>5</b>	<b>Draft Internal Capital Adequacy Assessment instrument</b>	<b>12</b>
<b>6</b>	<b>Draft Regulatory Reporting instrument</b>	<b>14</b>
<b>7</b>	<b>Draft Related Party Transaction Risk instrument</b>	<b>17</b>
<b>8</b>	<b>Draft Remuneration instrument</b>	<b>19</b>
<b>9</b>	<b>Draft Reporting Pillar 2 instrument</b>	<b>32</b>
<b>10</b>	<b>Amendments to FSA079</b>	<b>34</b>

## 1 Draft Glossary instrument

### PRA RULEBOOK: GLOSSARY (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); 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 instrument) 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: Non CRR Firms: Regulatory Reporting – (Branch Reporting) (Capital Requirements Directive V) Instrument 2020

- D. The PRA makes the rules in the Annex 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: Glossary (Capital Requirements Directive V) Instrument 2020.

#### By order of the Prudential Regulation Committee

[DATE]

## Annex

### Amendments to the Glossary

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

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Key function holder

(1) means any *person* who is responsible for discharging a *key function*;

(2) in the Regulatory Reporting Part, means an individual who has significant influence over the direction of the activities of the *branch*, but who is neither a member of the *management body* nor the CEO.

...

Draft for consultation

## 2 Draft General Organisational Requirements instrument

### **PRA RULEBOOK: CRR FIRMS: GENERAL ORGANISATIONAL REQUIREMENTS (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”):
- (3) section 137G (The PRA’s general rules); and
  - (4) 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 proposed rules and had regard to representations made.

### **PRA Rulebook: CRR Firms: General Organisational Requirements (Capital Requirements Directive V) Instrument 2020**

- D. The PRA makes the rules in the Annex 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: General Organisational Requirements (Capital Requirements Directive V) Instrument 2020

#### **By order of the Prudential Regulation Committee**

[DATE]

## Annex

### Amendments to the General Organisational Requirements Part

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

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#### 5 MANAGEMENT BODY

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5.2 A *firm* must ensure that the members of the *management body* of the *firm*:

...

(6) act with honesty, integrity and independence of mind to effectively assess and challenge the decisions of *senior management* where necessary and to effectively oversee and monitor management decision-making. Being a member of the management body of *affiliated companies* does not in itself constitute an obstacle to acting with independence of mind.

#### Additional Notes

[Note: Art. 91(1)-(2) and (7)-(8) of the ~~CRD~~CRD and Art. 9(1) and (4) of *MiFID II*]

...

Draft for consultation

### 3 Draft Groups instrument

#### **PRA RULEBOOK: CRR FIRMS: GROUPS (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).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) 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: Groups (Capital Requirements Directive V) Instrument 2020**

- D. The PRA makes the rules in the Annex to this instrument, amending the Groups Part of the Rulebook.

##### **Commencement**

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

##### **Citation**

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Groups (Capital Requirements Directive V) Instrument 2020.

**By order of the Prudential Regulation Committee**  
[DATE]

## Annex

### Amendments to the Groups Part

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

#### 1 APPLICATION AND DEFINITIONS

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...

1.2

...

##### intermediate EU parent undertaking

means

a parent undertaking with its head office in one of the EEA states.

....

#### 4 INTERMEDIATE PARENT UNDERTAKINGS

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4.1 (1) Subject to (2), this chapter applies to every *firm* that is an *institution* where both of the following tests are met:

(a) the firm belongs to a third country banking and investment group that includes the firm and at least one other institution in the EU; and

(b) the total value of the assets in the EU of the third country banking and investment group to which the firm belongs is equal to or greater than 40 billion euros, calculated in accordance with 4.3.

(2) This chapter shall not apply to a firm if it is a member of a third country banking and investment group operating through more than one institution in the EU that had total assets in the EU equal to or greater than 40 billion euros on 27 June 2019.

4.2 Firms referred to in 4.1 must have a single *intermediate EU parent undertaking* that is either:

(1) a credit institution authorised in accordance with Article 8 CRD;

(2) a financial holding company or mixed financial holding company approved in accordance with Article 21a CRD; or

(3) where none of the institutions subject to 4.1 is a credit institution, an investment firm that is authorised in accordance with Article 5.1 MiFID and is subject to BRRD.

4.3 The calculation in 4.1(1)(b) shall be as follows:

(1) the total value of the assets in the EU of the third country banking and investment group is the sum of:

(a) the total value of the assets of each institution in the EU belonging to the third country banking and investment group; and

(b) the total value of the assets of each branch of the third country banking and investment group authorised in the EU in accordance with CRD, MiFIDII or MiFIR.

(2) the total value of the assets of an *institution* shall be assessed:

(a) if the *institution* is at the head of a *consolidation group*, on the basis of its own consolidated situation; and otherwise

(b) on an individual basis.

(3) In making this calculation no asset or value of an asset shall be double counted.

Draft for consultation



## 4 Draft Groups 2021 instrument

### PRA RULEBOOK: CRR FIRMS: GROUPS (CAPITAL REQUIREMENTS DIRECTIVE V) INSTRUMENT 2021

#### 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).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) 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: Groups (Capital Requirements Directive V) Instrument 2021

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

#### Commencement

- E. This instrument comes into force on IP Completion Day, as defined in the European Union (Withdrawal Agreement) Act 2020.

#### Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Groups (Capital Requirements Directive V) Instrument 2021.

#### By order of the Prudential Regulation Committee

[DATE]

## Annex

### Amendments to the Groups Part

In this Annex, there is no new text and deleted text is struck through.

#### 1 APPLICATION AND DEFINITIONS

---

...

1.2

...

##### *intermediate EU parent undertaking*

means

~~a parent undertaking with its head office in one of the EEA states.~~

....

#### 4 INTERMEDIATE PARENT UNDERTAKINGS

---

4.1 (1) Subject to (2), this chapter applies to every ~~firm that is an institution~~ where both of the following tests are met:

~~(a) the firm belongs to a third country banking and investment group that includes the firm and at least one other institution in the EU; and~~

~~(b) the total value of the assets in the EU of the third country banking and investment group to which the firm belongs is equal to or greater than 40 billion euros, calculated in accordance with 4.3.~~

~~(2) This chapter shall not apply to a firm if it is a member of a third country banking and investment group operating through more than one institution in the EU that had total assets in the EU equal to or greater than 40 billion euros on 27 June 2019.~~

4.2 Firms referred to in 4.1 must have a single ~~intermediate EU parent undertaking~~ that is either:

~~(1) a credit institution authorised in accordance with Article 8 CRD; or~~

~~(2) a financial holding company or mixed financial holding company approved in accordance with Article 21a CRD; or~~

~~(3) where none of the institutions subject to 4.1 is a credit institution, an investment firm that is authorised in accordance with Article 5.1 MiFID and is subject to BRRD.~~

4.3 The calculation in 4.1 (1) (b) shall be as follows:

~~(1) the total value of the assets in the EU of the third country banking and investment group is the sum of:~~

~~(a) the total value of the assets of each institution in the EU belonging to the third country banking and investment group; and~~

~~(b) the total value of the assets of each branch of the third country banking and investment group authorised in the EU in accordance with CRD, MiFIDII or MiFIR.~~

~~\_\_\_\_\_ (2) the total value of the assets of an *institution* shall be assessed:~~

~~\_\_\_\_\_ (a) if the *institution* is at the head of a *consolidation group*, on the basis of its own  
\_\_\_\_\_ consolidated situation; and otherwise~~

~~\_\_\_\_\_ (b) on an individual basis.~~

~~\_\_\_\_\_ (3) In making this calculation no asset or value of an asset shall be double counted.~~

Draft for consultation

## 5 Draft Internal Capital Adequacy Assessment instrument

### **PRA RULEBOOK: CRR FIRMS: INTERNAL CAPITAL ADEQUACY ASSESSMENT (CAPITAL REQUIREMENTS DIRECTIVE V) 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); and
  - (2) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rulemaking instrument) 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: Internal Capital Adequacy Assessment (Capital Requirements Directive V) 2020**

- D. The PRA makes the rules in the Annex 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: Internal Capital Adequacy Assessment (Capital Requirements Directive V) 2020.

#### **By order of the Prudential Regulation Committee**

[DATE]

## Annex

### Amendments to the Internal Capital Adequacy Assessment Part

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

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### 3 STRATEGIES, PROCESSES AND SYSTEMS

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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

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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]**

...

## 6 Draft Regulatory Reporting instrument

### **PRA RULEBOOK: CRR FIRMS: NON CRR FIRMS: REGULATORY REPORTING – (BRANCH REPORTING) (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”):
- (3) section 137G (The PRA’s general rules); and
  - (4) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) 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: Non CRR Firms: Regulatory Reporting – (Branch Reporting) (Capital Requirements Directive V) Instrument 2020**

- D. The PRA makes the rules in the Annex 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: Non CRR Firms: Regulatory Reporting – (Branch Reporting) (Capital Requirements Directive V) Instrument 2020.

#### **By order of the Prudential Regulation Committee**

[DATE]

## Annex

### Amendments to the Regulatory Reporting Part

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

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#### 22 **Branch ~~Return~~ Reporting**

...

22.4 A third country firm that is a bank must report the following information to the PRA:

(1) information on the liquid assets available to the branch, in particular the availability of liquid assets in EEA state currencies;

(2) the own funds that are at the disposal of the branch;

(3) the deposit protection arrangements available to depositors in the branch;

(4) the risk management arrangements;

(5) the governance arrangements, including key function holders for the activities of the branch; and

(6) the recovery plans covering the branch.

[Note: Article 47 (1a) of the CRD]

22.5 A firm must report the information set out in 22.4 annually. The information must be reported within 7 months from the end of the firm's financial year.

[Note: Article 47 (1a) of the CRD]

22.6 A firm must submit the information set out in 22.4 by email to their usual supervisory contact at the PRA. If the firm has already submitted the information in the context of another data request in relation to the firm's financial year, the firm can refer to that submission instead.

<b>Externally defined glossary links</b>	
<b>Term</b>	<b>Definition source</b>
<i>own funds</i>	Article 4 (1) (118) CRR

Draft for consultation



## 7 Draft Related Party Transaction Risk instrument

### PRA RULEBOOK: CRR FIRMS: RELATED PARTY TRANSACTION RISK (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); 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 proposed rules and had regard to representations made.

#### PRA Rulebook: CRR Firms: Related Party Transaction Risk (Capital Requirements Directive V) Instrument 2020

- D. The PRA makes the rules in the Annex 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: Related Party Transaction Risk (Capital Requirements Directive V) Instrument 2020.

#### By order of the Prudential Regulation Committee

[DATE]

## Annex

### Amendments to the Related Party Transaction Risk Part

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

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#### 1 APPLICATION AND DEFINITIONS

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1.2 In this Part the following definitions shall apply:

...

*related parties*

means in relation to a firm:

...

(h) direct and related interests of any *person* listed in (a) to (g) above, which includes a commercial entity in which a member of the *management body* or any of their *close family members*:

(i) has a *qualifying holding* of 10% or more of capital or of voting rights;

(ii) exercises significant influence;

(iii) holds a senior management position; or

(iv) is a member of *management body*; and

...

#### Additional Notes

[Note: Art. 88(1) of the CRD]

...

#### 2 RELATED PARTY TRANSACTION RISK

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...

2.5 A firm must provide the *PRA* with details on ~~aggregate~~ exposures to *related parties* if requested by the *PRA*. The details must be provided by the date set by the *PRA* at the time of the request.

...

#### Additional Notes

[Note: Art. 88(1) of the CRD]

## 8 Draft Remuneration instrument

### **PRA RULEBOOK: CRR FIRMS: REMUNERATION (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”):
- (3) section 137G (The PRA’s general rules);
  - (4) section 137H (General rules about remuneration); and
  - (5) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) 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: Remuneration (Capital Requirements Directive V) Instrument 2020**

- D. The PRA makes the rules in Annexes A and B.

#### **Commencement**

- E. Annex A comes into force on 29 December 2020.
- F. Annex B comes into force immediately following IP completion day, as defined in the European Union (Withdrawal Agreement) Act 2020.

#### **Citation**

- G. This instrument may be cited as the PRA Rulebook: CRR Firms: Remuneration (Capital Requirements Directive V) Instrument 2020

#### **By order of the Prudential Regulation Committee**

[DATE]

## Annex A

### Amendments to the Remuneration Part

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

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#### 1 APPLICATION AND DEFINITIONS

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...

1.3 In this Part, the following definitions shall apply:

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##### Article 273a(3) method

means the method for calculating the size of a firm's on- and off-balance- sheet derivative business set out in Article 273(a)(3) of CRR amended by point (73) of CRR2.

##### average total assets

means the arithmetic mean of the firm's total assets over the four-year period immediately preceding the current financial year.

...

##### control functions

has the meaning provided in Article 3 of the Material Risk Takers Regulation.

...

##### CRR2

means Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019.

...

##### group

has the meaning in section 421 FSMA

...

##### higher paid material risk taker

means a material risk taker:

(a) whose annual variable remuneration exceeds 33% of their total remuneration, and

(b) whose total remuneration exceeds £500,000.

large institution

has the meaning provided in point 146 of Article 4 of the CRR.

...

managerial responsibility

has the meaning provided in Article 2 of the Material Risk Takers Regulation.

material business unit

has the meaning provided in Article 4 of the Material Risk Takers Regulation.

...

Material Risk Takers Regulation

means Commission Delegated Regulation (EU) No XXX/2020 of XXXX 2020 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards on the criteria to define managerial responsibility and control functions, material business unit and significant impact on their risk profile, and other categories of staff whose professional activities have a material impact on the institutions risk profile. ~~Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.~~

...

small CRR firm

means a CRR firm that satisfies both Condition 1 and Condition 2, where

(1) Condition 1 is that the firm is not a large institution and either:

- (a) has average total assets not exceeding €5 billion; or
- (b) the firm has average total assets exceeding €5 billion but not exceeding €15 billion;

and where (in the case of Condition 1(b)):

- (i) it is appropriate for the firm not to be required to comply with the rules specified in 5.3, taking into account the nature, scope, and complexity of its activities, its internal organisation and, if applicable, the characteristics of the group to which it belongs;
- (ii) the firm has a small trading book;
- (iii) the total value of the firm's derivative positions held with trading intent does not exceed 2 % of its total on- and off-balance-sheet assets and the total value of its overall derivative positions does not exceed 5 %, both calculated in accordance with the Article 273a(3) method; and

- (iv) the firm is not subject to any obligations, or is subject to simplified obligations, in relation to recovery and resolution planning;

and

(2) Condition 2 is that the firm is not part of a group containing another firm which:

- (a) is subject to this Part on an individual basis; and  
(b) has average total assets not exceeding €15 billion either on an individual, consolidated or sub-consolidated basis.

**[Note: Art. 94(3) and (4) of the CRD]**

significant impact on the relevant business unit's risk profile

has the meaning provided in Article 5 of the Material Risk Takers Regulation.

significant firm

means a firm which is significant in terms of its size, internal organisation and the nature, scope and complexity of its activities.

**[Note: Art. 94(1)(m) of the CRD]**

small third country CRR firm

means a third country CRR firm that satisfies both Condition 1 and Condition 2, where

(1) Condition 1 is that the branch operation of the third country CRR firm in the UK either:

- (a) has average total assets not exceeding €5 billion; or  
(b) has average total assets exceeding €5 billion but not exceeding €15 billion;

and where (in the case of Condition 1(b)):

- (i) it is appropriate for the third country CRR firm not to be required to comply with the rules specified in 5.2, taking into account the nature, scope, and complexity of the activities and internal organisation of its branch operation in the UK and, if applicable, the characteristics of the group to which it belongs.  
(ii) the firm's branch operation in the UK has a small trading book; and  
(iii) the total value of its branch operation in the UK's derivative positions held with trading intent does not exceed 2 % of its total on- and off-balance-sheet assets and the total value of its overall derivative

positions does not exceed 5 %, both calculated in accordance with the Article 273a(3) method.

and

(2) Condition 2 is that the *third country CRR firm* is not part of a *group* containing another *firm* which:

(a) is subject to this Part on an individual basis and

(b) has *average total assets* not exceeding €15 billion either on an individual basis, *consolidated or sub-consolidated basis.*

*small trading book*

means the size of the *firm's* (or for the purposes of a *small third country CRR firm*, the *branch operations in the UK of the firm*) on- and off-balance-sheet trading-book business is equal to or less than both:

(a) 5% of the *firm's* total assets; and

(b) €50 million

on the basis of the assessment provided in Article 94 of the *CRR*, as amended by point (48) of Article 1 of *CRR2*.

## **2 APPLICATION DATES AND TRANSITIONAL PROVISIONS**

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...

2.5 A *firm* must apply this Part to *remuneration* awarded in respect of a performance year starting on or after 29 December 2020.

2.6 A *firm* must apply this Part in accordance with 2.1 to 2.4 as it applied under those rules as of 28 December 2020 to *remuneration* awarded in respect of a performance year starting before 29 December 2020.

...

## **3 MATERIAL RISK TAKERS**

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3.1 A *firm* must, save where otherwise stated, apply the requirements of this Part in relation to a person (a “material risk taker”) who is:

(1) an *employee* of a *CRR firm* whose professional activities have a material impact on the *firm's* risk profile, including: ~~any *employee* who is deemed to have a material impact on the *firm's* risk profile in accordance with criteria set out in articles 3 to 5 of the *Material Risk Takers Regulation*; or~~

(a) all members of the *management body* and *senior management*;

- (b) employees with managerial responsibility over the firm's control functions or material business units;
  - (c) employees entitled to significant total remuneration in the preceding financial year, where:
    - (i) that total remuneration was equal to or greater than €500,000 and equal to or greater than the average remuneration awarded to the members of the firm's management body and senior management referred to in (a); and
    - (ii) the employee performs the professional activity within a material business unit and the activity is of a kind that has a significant impact on the relevant business unit's risk profile;
  - (d) employees whose professional activities are deemed to have a material impact on the firm's risk profile under Articles 6 and 7 of the Material Risk Takers Regulation; or
- (2) ~~Subject to 3.2, an employee of a third country CRR firm who would fall within 3.1(1) if it had applied in relation to him or her.~~

**[Note: Article 92 of the CRD and the Material Risk Takers Regulation]**

~~3.2 A third country CRR firm may deem an employee not to be a material risk taker where:~~

- ~~(1) the employee:~~
  - ~~(a) would meet any of the criteria in Article 4(1) of the Material Risk Takers Regulation;~~
  - ~~(b) would not meet any of the criteria in Article 3 of the Material Risk Takers Regulation; and~~
  - ~~(c) was awarded total remuneration of less than €750,000 in the preceding financial year; and~~
- ~~(2) the third country CRR firm determines that that the professional activities of the employee do not have a material impact on its risk profile on the grounds described in Article 7(2) of the Material Risk Takers Regulation.~~

~~[Deleted.]~~

**[Note: Material Risk Takers Regulation]**

~~3.3 Where a third country CRR firm deems an employee not to be a material risk taker as set out in 3.2, it must notify the PRA, applying exactly the approach described in Article 4(4) of the Material Risk Takers Regulation.~~

**[Note: Material Risk Takers Regulation]**

~~[Deleted.]~~

...



## 4 GROUPS

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4.1 ~~A firm must apply the requirements at group, parent undertaking and subsidiary undertaking levels, including those subsidiaries established in a country or territory which is not in an EEA State.~~

~~[Note: Art. 4(1)(16) of the CRR]~~

~~[Deleted.]~~

4.2 A firm that is a member of a group must:

(1A) comply with this Part on an individual basis and must comply, and ensure that the other members of the group comply, with the obligations set out in this Part on a consolidated basis or sub-consolidated basis including those members of the group established in a country or territory which is not in an EEA State;

(1) ensure that the risk management processes and internal control mechanisms of the other members of the group of which it is a member comply with the obligations set out in this Part on a consolidated basis or sub-consolidated basis including those members of the group established in a country or territory which is not in an EEA State; and

(2) ensure that compliance with (1A) and (1) enables the members of the group of which it is a member 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: Arts. 92(1) and 109 of the CRD CRD]~~

...

## 5 PROPORTIONALITY

---

5.1 A firm must comply with this Part in a way ~~and to the extent~~ that is appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities, when establishing and applying the total remuneration policies for material risk takers.

...

~~[Note: Art. 92(21) of the CRD]~~

5.3 12.2 and 15.15 to 15.19 do not apply to firm that is a small CRR firm or a small third country CRR firm.

[Note: Art 94(3) and (4) of the CRD.]

...

## 12. PENSION POLICY

---

12.1 A *firm* must ensure that:

- (1) its pension policy is in line with its business strategy, objectives, values and long-term interests;
- (2) when an *employee* leaves the *firm* before retirement, any discretionary pension benefits are held by the *firm* for a period of five years in the form of instruments referred to in 15.15; and
- (3) when an *employee* reaches retirement, discretionary pension benefits are paid to the *employee* in the form of instruments referred to in 15.15 and subject to a five-year retention period

12.2 A *firm* that is not a *small CRR firm* or a *small third country CRR firm* must ensure that:

- (1) when an *employee* leaves the *firm* before retirement, any discretionary pension benefits are held by the *firm* for a period of five years in the form of instruments referred to in 15.15; and
- (2) when an *employee* reaches retirement, discretionary pension benefits are paid to the *employee* in the form of instruments referred to in 15.15 and subject to a five-year retention period.

unless the annual variable *remuneration* of the *employee*:

- (A) does not exceed €50,000; and
- (B) does not represent more than one third of the *employee's* total annual *remuneration*.

## 15 REMUNERATION STRUCTURES

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15.-1 In this Chapter:

- (1) 15.1 to 15.14, 15.20(1), (2) and 15.21 to 15.23 apply to a *firm*.
- (2) 15.1 to 15.23 apply to a *firm* that is not a *small CRR firm* or a *small third country CRR firm*.
- (3) A *firm* is not required to apply 15.15 to 15.19 in respect of an *employee* whose annual variable *remuneration*:
  - (a) does not exceed €50,000; and
  - (b) does not represent more than one third of the *employee's* total annual *remuneration*.

.....

15.15 A *firm* must ensure that:

(1) a substantial portion, which is at least 50%, of any variable *remuneration* consists of an appropriate balance of:

- (a) ~~shares or equivalent ownership interests~~, subject to the legal structure of the *firm* concerned, equivalent ownership interests; or, subject to the legal structure of the *firm* concerned, share-linked instruments or equivalent non-cash instruments in the case of a non-listed *firm*; and

...

15.17 (1) Subject to (2), a *firm* must not award, pay or provide a variable *remuneration* component unless a substantial portion of it, which is at least 40%, is deferred over a period which is not less than:

- (a) in the case of a *material risk taker* who is not subject to (b) or (2) or (c), three ~~four~~ years, vesting no faster than on a pro-rata basis; or
- (b) in the case of a *material risk taker* who is not subject to (2) and does not perform a PRA senior management function, but is a member of the management body or senior management of a significant *firm*, five years, vesting no faster than on a pro-rata basis; ~~or~~

(2) A *firm* must not award, pay or provide a variable *remuneration* component to a *higher paid material risk taker* unless a substantial portion of it, which is at least 40%, is deferred over a period which is not less than:

- (a) in the case of a *higher paid material risk taker* who does not perform a PRA senior management function, but
- (i) who meets the criteria in 3.1(1)(a) to (c); or
- (ii) whose professional activities meet the qualitative criteria set out in Article 3 ~~6(1) to 3(9), 3 6(10 2) (but only by virtue of being responsible for a committee referred to therein), 3(13) or 3 6(15)~~
- five years, vesting no faster than on a pro-rata basis; or

- (b) in the case of a *higher paid material risk taker* who performs a PRA senior management function, seven years, with no vesting to take place until three years after award, and vesting no faster than on a pro-rata basis thereafter.

...

15.20 A *firm* must ensure that:

- (1) any variable *remuneration*, including a deferred portion, is paid or vests only if it is sustainable according to the financial situation of the *firm* as a whole, and justified on the basis of the performance of the *firm*, the business unit and the individual concerned;

- (2) any variable *remuneration* is subject to clawback, such that it is only awarded if an amount corresponding to it can be recovered from the individual by the firm if the recovery is justified on the basis of the circumstances described in 15.21(2) or in respect of a higher paid material risk taker, 15.23; and
- (3A) unless 15.20A applies, any variable *remuneration* is subject to a clawback period from the date on which the variable *remuneration* is awarded of the longer of:
- (a) the combined deferral and retention period applied by the *firm*; or
  - (b) in the case of:
    - (i) the deferred portion of variable *remuneration* of a *material risk taker* who is a member of the *management body* or *senior management* of a *significant firm*, six years.
    - (ii) the deferred portion of variable *remuneration* of a *material risk taker* who is not a member of the *management body* or *senior management* of a *significant firm*, where that deferral period was five years or more, five years plus six months.
    - (iii) the deferred portion of variable *remuneration* of a *material risk taker* who is not a member of the *management body* or *senior management* of a *significant firm*, where that deferral period was less than five years, five years:
    - (iv) an undeferred portion of variable *remuneration*, one year.
- ~~(3) any variable *remuneration* is subject to clawback for a period of at least 7 years from the date on which the variable *remuneration* is awarded;~~
- ~~(4) in the case of a *material risk taker* who performs a *PRA senior management function*, the *firm* can, by notice to the *employee* to be given no later than 7 years after the variable *remuneration* was awarded, extend the period during which variable *remuneration* is subject to clawback to at least 10 years from the date on which the variable *remuneration* is awarded, where:~~
- ~~(a) the *firm* has commenced an investigation into facts or events which it considers could potentially lead to the application of clawback were it not for the expiry of the clawback period; or~~
  - ~~(b) the *firm* has been notified by a regulatory authority (including an overseas regulatory authority) that an investigation has been commenced into facts or events which the *firm* considers could potentially lead to the application of clawback by the *firm* were it not for the expiry of the clawback period; and~~
- ~~(5) it considers on an ongoing basis whether to use the power in (4).~~

15.20A. In respect of a *higher paid material risk taker*, a *firm* must ensure that:

- (1) any variable *remuneration* is subject to a clawback period from the date on which the variable *remuneration* is awarded of the longer of
  - (a) the combined deferral and retention period applied by the *firm*; or

- (b) any variable remuneration is subject to clawback for a period of at least 7 years from the date on which the variable remuneration is awarded;
- (2) in the case of a higher paid material risk taker who performs a PRA senior management function, the firm can, by notice to the employee to be given no later than 7 years after the variable remuneration was awarded, extend the period during which variable remuneration is subject to clawback to at least 10 years from the date on which the variable remuneration is awarded, where:
- (a) the firm has commenced an investigation into facts or events which it considers could potentially lead to the application of clawback were it not for the expiry of the clawback period; or
- (b) the firm has been notified by a regulatory authority (including an overseas regulatory authority) that an investigation has been commenced into facts or events which the firm considers could potentially lead to the application of clawback by the firm were it not for the expiry of the clawback period: and
- (3) it considers on an ongoing basis whether to use the power in (2).

...

15.22 In respect of a higher paid material risk taker:

- (1) A firm should reduce unvested deferred variable remuneration when, as a minimum:

...

15.23 In respect of a higher paid material risk taker, a A-firm must make all reasonable efforts to recover an appropriate amount corresponding to some or all vested variable remuneration where either of the following circumstances arise during the period in which clawback applies (including any part of such period occurring after the relevant employment has ceased):

...

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## Annex B

### Amendments to the Remuneration Part

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

#### 1 APPLICATION AND DEFINITIONS

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...

1.3 In this Part, the following definitions shall apply:

...

##### *small CRR firm*

...

- (1) Condition 1 is that the *firm* is not a *large institution* and either:
- (a) has *average total assets* not exceeding ~~€5~~ £4 billion; or
  - (b) the *firm* has *average total assets* exceeding ~~€5~~ £4 billion but not exceeding ~~€15~~ £13 billion;

...

- (2) Condition 2 is that the *firm* is not part of a *group* containing another *firm* which:
- (a) ...
  - (b) has *average total assets* not exceeding ~~€15~~ £13 billion either on an individual, *consolidated* or *sub-consolidated* basis.

...

##### *small third country CRR firm*

...

- (1) Condition 1 is that the *branch* operation of the *third country CRR firm* in the *UK* either:
- (a) has *average total assets* not exceeding ~~€5~~ £4 billion; or
  - (b) has *average total assets* exceeding ~~€5~~ £4 billion but not exceeding ~~€15~~ £13 billion;

...

- (2) Condition 2 is that the *third country CRR firm* is not part of a *group* containing another *firm* which:
- (a) is subject to this Part on an individual basis and
  - (b) has *average total assets* not exceeding ~~€15~~ £13 billion either on an individual basis, *consolidated* or *sub-consolidated* basis.

...

### 3 MATERIAL RISK TAKERS

---

3.1 A *firm* must, save where otherwise stated, apply the requirements of this Part in relation to a *person* (a “material risk taker”) who is:

- (1) an *employee* of a *CRR firm* whose professional activities have a material impact on the *firm’s* risk profile, including:

...

- (c) *employees* entitled to significant total remuneration in the preceding financial year, where:

- (i) that total remuneration was equal to or greater than ~~€500,000~~ £440,000 and equal to or greater than the average *remuneration* awarded to the members of the *firm’s management body* and *senior management* referred to in (a); and

...

### 12. PENSION POLICY

---

...

12.2 A *firm* that is not a *small CRR firm* or a *small third country CRR firm* must ensure that

- (1) when an *employee* leaves the *firm* before retirement, any discretionary pension benefits are held by the *firm* for a period of five years in the form of instruments referred to in 15.15; and
- (2) when an *employee* reaches retirement, discretionary pension benefits are paid to the *employee* in the form of instruments referred to in 15.15 and subject to a five-year retention period.

unless the annual *variable remuneration* of the *employee*:

- (A) does not exceed ~~€50,000~~ £44,000; and

...

### 15 REMUNERATION STRUCTURES

---

15.1 In this Chapter:

...

- (3) A *firm* is not required to apply 15.15 to 15.19 in respect of an *employee* whose annual *variable remuneration*:

- (c) does not exceed ~~€50,000~~ £44,000; and

...

## 9 Draft Reporting Pillar 2 instrument

### **PRA RULEBOOK: CRR FIRMS: REPORTING PILLAR 2 (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); and
  - (2) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rulemaking instrument) 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: Reporting Pillar 2 (Capital Requirements Directive V) Instrument 2020**

- D. The PRA makes the rules in the Annex 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: Reporting Pillar 2 (Capital Requirements Directive V) Instrument 2020.

#### **By order of the Prudential Regulation Committee**

[DATE]



## Annex

### Amendments to the Reporting Pillar 2 Part

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

#### 4 DATA ITEMS

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...

4.7 FSA079 can be found ~~here~~ here.

...

Draft for consultation

## 10 Amendments to FSA079

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

### FSA079 Concentration Risk Additional Data Requirements

...

#### **Geographic (international) concentration risk**

	Geographic (International) Distribution by economic region All credit portfolios excl. mortgages under standardised approach	EAD	RWA
		010	020
320	United Kingdom		
330	North America		
340	South America, Latin America & Caribbean		
350	European (west) area		
360	Eastern Europe & Central Asia		
370	East Asia & Pacific		
380	South Asia		
390	Middle East & North Africa		
400	Sub-Saharan Africa		
410	Totals		

...

## FSA079 Pillar 2 Concentration risk additional data requirements

...

This information includes:

- *single name concentration risk*: the top 20 largest exposures as measured by exposure size, together with their respective EAD used for the calculation of regulatory capital requirements, RWAs and indicators for sovereign and central counterparty exposures;
- *sector concentration risk*: the total EAD used for the calculation of regulatory capital requirements, and the RWAs per defined sector; and
- ~~*geographic (international) concentration risk*: the total EAD used for the calculation of regulatory capital requirements, and the RWAs per defined economic region.~~

...

### Definitions

All definitions are in line with ITS on Supervisory Reporting, CRD IV and CRR II<sup>1</sup>, unless otherwise specified.

### Comments

Comment box is limited to 255 characters. Any additional information should be sent to the PRA via electronic means.

[June 2020]

<sup>1</sup> Capital Requirement Directive (2019/878) and Capital Requirements Regulation (2019/876).