

PRA sets out expectations for international banks

AT A GLANCE

July 2021

What's new?

- On 26 July the PRA published [SS5/21 International banks: The PRA's approach to branch and subsidiary supervision](#) and [PS 19/21](#) setting out its supervisory approach to PRA-authorised banks and designated investment firms that are headquartered outside of the UK or are part of a group based outside of the UK 'International Banks'.
- The PRA has largely confirmed the approach previously consulted on but has made a number of changes and clarifications in areas. These include the implementation of the requirements, information sharing, operational resilience and governance.
- The PRA expects firms to undertake a gap analysis of where they may not currently meet the expectations set out in the SS and share this with their supervisory team, with a plan for meeting the requirements.

What does this mean?

- In January 2021 the PRA consulted on its supervisory approach to international banks. The consultation aimed to provide firms with certainty on the PRA's overall supervisory approach in the context of changing post-Brexit operating models and a continued interest from international banks in operating in the UK.
- The PRA's consultation focused on information sharing and supervisory cooperation, governance and risk management, booking models and the robustness of group resolution strategies. A summary of the proposals can be found [here](#).
- The PRA has now confirmed its approach and highlighted a number of changes and clarifications to the consultation.
- Importantly the PRA has stated it will take a proportionate approach to **implementation of the requirements**. This means that where firms are not currently meeting the PRA's expectations they will be given time to do so. However firms must **undertake a gap analysis of the requirements** and provide their supervisory teams with an assessment of where they are not currently in line with them, including a plan and timeline for addressing any gaps.
- The PRA has also clarified that the requirements do not apply to EEA firms currently in the **Temporary Permission Regime (TPR)** but that they will once a firm is authorised. It is expected that the PRA will seek to have authorised the majority of TPR firms by the end of 2021.

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- The PRA also sets out its approach to **operational resilience**. For subsidiaries (which are in scope of the PRA/FCA operational resilience rules) this means ensuring that arrangements with other entities in the group support compliance with these rules.
 - For branches (which are not in scope of the operational resilience rules) the PRA will assess the host state regime (and a firm's compliance with it), including implementation of the BCBS operational resilience standards. The PRA also expects branches to identify their 'critical operations' as defined in the BCBS standards.
 - The PRA's expectations around **supervisory requests for information**, particularly on group risks, received considerable attention. In light of this the PRA has stated that it will take a tailored approach to information requests.
 - This means that the information the PRA requests will be proportionate to the firm's size and that in the first instance for smaller firms the PRA will ask for information on group wide risks from the home state supervisor. The PRA has also clarified that daily or weekly P&L reporting only relates to investment banking and trading activity for larger firms.
 - The PRA has also provided some guidance on circumstances in which they would expect an individual to be approved as a **Group Entity Senior Manager (SMF 7)**, while stressing the PRA assesses individuals on a case by case basis.
 - Examples of SMF 7 roles include group executives on a subsidiary board, global business heads operating as senior executives at a UK branch or subsidiary and individuals who combine global roles with key responsibilities in the UK.
 - On **booking arrangements** the PRA has clarified that its focus encompasses the front to back lifecycle of trading, including origination, execution, risk capture and transfer and settlement. The PRA expects firms with material trading activities to **undertake a self-assessment** of their compliance with the revised expectations within a 'reasonable timeframe'.
- ### What do firms need to do?
- The priority for firms is to assess the PRA's expectations and undertake an assessment of whether they are currently meeting them. Firms that believe they are compliant should be prepared to be challenged by supervisory teams. Firms that are not currently compliant should prepare a robust and specific plan for rectifying this. While the expectations do not currently apply to TPR firms, as they will once these firms are authorised means they would be advised to undertake a similar exercise.
 - Firms with material trading activities will also need to undertake a self-assessment of their compliance with the revised expectations around booking models. While supervisory teams are likely to indicate a timeframe for completion of this exercise, firms are unlikely to have a prolonged period to undertake the assessment, meaning an early start would be recommended.
 - Branches should be prepared to provide the PRA with their critical operations and proof of compliance with home state operational resilience requirements (where applicable).

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