

**HANDBOOK ADMINISTRATION INSTRUMENT (NO 3) 2014****Powers exercised by the Board of the Prudential Regulation Authority (PRA)**

- A. The Prudential Regulation Authority makes this instrument in the exercise of the following powers and related provisions in 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 power referred to above is specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

**Commencement**

- C. This instrument comes into force on 1 February 2014 except for Part II of Annex A and Annex B which shall come into force on 1 April 2014.

**Amendments**

- D. The rules in the modules of the PRA’s Handbook listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).
- E. The Prudential Regulation Authority gives as guidance each provision in the Annexes listed in column (2) that is marked with a G.

(1)	(2)
Glossary of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
Interim Prudential sourcebook for Insurers (IPRU (INS))	Annex C
Supervision manual (SUP)	Annex D

**Citation**

- E. This instrument may be cited as the Handbook Administration Instrument (No 3) 2014.

**By order of the Board of the Prudential Regulation Authority**  
29 January 2014

## Annex A

### Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking thorough indicates deleted text, unless otherwise stated.

*Editor's Note:*

*This Annex splits all definitions which are currently shown as 'shared by both the PRA and the FCA into two versions, one for each regulator, where these have not already been split by previous instruments. The PRA version will be shown under the heading provided for below. Where a definition has not been previously split, the same definition text will appear in respect of both versions except where the PRA version is amended by this instrument or by other instruments. For the time being both versions will continue to be shown in the Handbooks of both regulators.*

#### Part I – to come into force on 1 February 2014

In every definition in the Glossary currently badged with both “PRA” and “FCA” badges, the following text is inserted before the definition, if it has not already been inserted under a previous instrument:

(A) (in the PRA Handbook):

Amend the following as shown:

*ancillary stabilisation* ~~(as defined in Article 2 of the Buy back and Stabilisation Regulation) the exercise of an over-allotment facility or of a greenshoe option by investment firms or credit institutions, in the context of a significant distribution of relevant securities, exclusively for facilitating stabilisation activity.~~

...

*consumer credit activity* any one of the following activities carried on by a *licensee firm, payment service provider* or *electronic money issuer*:

- (a) ~~providing credit or otherwise being a creditor under a regulated consumer credit agreement;~~
- (b) ~~the bailment or (in Scotland) the hiring of goods or otherwise being an owner under a regulated consumer hire agreement;~~
- (c) ~~credit brokerage in so far as it is the effecting of introductions of:~~
  - (i) ~~individuals desiring to obtain credit to persons~~

- carrying on a consumer credit business; or
- (ii) individuals desiring to obtain goods on hire to persons carrying on a consumer hire business;
- (d) ~~in so far as they relate to regulated consumer credit agreements or regulated consumer hire agreements:~~
- (i) debt adjusting;
  - (ii) debt counselling;
  - (iii) debt collecting; or
  - (iv) debt administration;
- (e) the provision of credit information services; or
- (f) the operation of a credit reference agency;

where at the time of the act or omission complained of:

- (g) ~~the licensee firm, payment service provider or electronic money issuer was:~~
- (i) covered by a standard licence under the Consumer Credit Act 1974 (as amended); or
  - (ii) authorised to carry on an activity by virtue of section 34(A) of that Act; or
  - (iii) in accordance with regulation 26(2) of the *Payment Services Regulations* or regulation 31 of the *Electronic Money Regulations*, was not required to hold a licence for consumer credit business under section 21 of the Consumer Credit Act 1974; and
- (h) the activity was carried on in the course of a business of a type specified in accordance with section 226A(2)(e) of the Act;

and expressions used in the Consumer Credit Act 1974 (as amended) have the same meaning in this definition as they have in that Act.

...

*DTR* the Disclosure Rules and Transparency Rules sourcebook containing the *disclosure rules, transparency rules and corporate governance rules* and the rules relating to primary information providers.

...

*EEA firm* (in accordance with paragraph 5 of Schedule 3 to the Act (EEA Passport Rights)) any of the following, if it does not have its relevant

office in the *United Kingdom*:

(a) ...

...

(hh) an *AIFM* which is authorised (under article 8 6 of *AIFMD*) by its *Home State regulator*;

...

...

*fixed sum credit* ~~(in accordance with section 10(1)(b) of the Consumer Credit Act 1974) any facility under a contract, other than *running account credit*, by which the *customer* is enabled to receive credit (whether in one amount or by instalments).~~

...

*greenshoe option* ~~(as defined in Article 2 of the *Buy back and Stabilisation Regulation*) an option granted by the *offeror* in favour of the *investment firm(s)* or *credit institution(s)* involved in the *offer* for the purpose of covering *overallotments*, under the terms of which such firm(s) or institution(s) may purchase up to a certain amount of *relevant securities* at the offer price for a certain period of time after the *offer* of the relevant securities.~~

...

*individual client account* an account maintained by a *firm* at an *authorised central counterparty* for a *client* of the *firm* in respect of which the *authorised central counterparty* has agreed with the *firm* to provide *individual client segregation*.

...

*mineral expert's report* (in *LR*) a report prepared in accordance with the *ESMA recommendations*.

...

*offeror*

- (1) ~~(in MAR 1 (The Code of Market Conduct) and LR 5.2.10 R) an offeror as defined in the Takeover Code.~~
- (2) ~~(in MAR 2 (Buy backs and Stabilisation)) (as defined in Article 2 of the *Buy back and Stabilisation Regulation*) the prior holders of, or the entity issuing, the *relevant securities*).~~
- (3) ~~(in *LR*, *PR* and *FEES* provisions in relation to *PR*) a *person* who makes an *offer of transferable securities to the public*.~~

~~(in relation to a transaction in an *investment*) a transaction which is not *on-exchange*.~~

...

~~*omnibus client account*~~

~~an account maintained by a *firm* at an *authorised central counterparty* for more than one *client* of the *firm* in respect of which the *authorised central counterparty* has agreed with the *firm* to provide *omnibus client segregation*.~~

...

*prudential context*

(1) For the *FCA*, in relation to activities carried on by a *firm*, the context in which the activities have, or might reasonably be regarded as likely to have, a negative effect on:

...

(i) the "fit and proper" test in *threshold condition 5 2E and 3D* (Suitability); or

...

(2) For the *PRA*, in relation to activities carried on by a *firm*, the context in which the activities have, or might reasonably be regarded as likely to have, a negative effect on:

...

(i) the "fit and proper" test in *threshold condition 5 4E and 5E* (Suitability); or

...

...

~~*regulated consumer hire agreement*~~

~~in accordance with section 15 of the Consumer Credit Act 1974 (as amended) an agreement made by a person with an individual "the hirer" for the bailment or (in Scotland) the hiring of goods to the hirer, being an agreement which~~

~~(a) is not a hire purchase agreement, and~~

~~(b) is capable of subsisting for more than three months, and~~

~~(c) is not an exempt agreement;~~

~~and expressions used in that Act have the same meaning in this definition.~~

...

~~regulatory  
information service or  
RIS~~ either:

- (a) ~~a Regulated Information Service; or~~
- (b) ~~an incoming information society service that has its establishment in an EEA State other than the United Kingdom and that disseminates regulated information in accordance with the minimum standards set out in [article 12 of the TD implementing Directive].~~

...

~~restricted-use credit agreement~~ (in accordance with section 11 of the Consumer Credit Act 1974) an agreement:

- (a) ~~to finance a transaction between the customer and the firm, whether forming part of that agreement or not;~~
- (b) ~~to finance a transaction between the customer and a person (the 'supplier') other than the firm;~~
- (c) ~~to refinance any existing indebtedness of the customer's, whether to the firm or another person.~~

...

~~running-account credit~~ (in accordance with section 10(1)(a) of the Consumer Credit Act 1974) a facility under a contract by which the customer is enabled to receive from time to time (whether in his own person, or by another person) from the firm or a third party cash, goods and services (or any of them) to an amount or value such that, taking into account payments made by or to the credit of the customer, the credit limit (if any) is not at any time exceeded.

...

~~total charge for credit~~ the total of the charges (determined as at the date of making the contract) specified in as applying in relation to the secured lending but excluding the charges specified in.

...

## Part II – to come into force on 1 April 2014

*controller* (A) (in the PRA Handbook):

- (1) (in relation to a firm or other undertaking ("B"), other than a non-directive firm a person ("A") who (whether acting alone or

in concert):

- (a) holds 10% or more of the *shares* in B or in a *parent undertaking* ("P") of B;
  - (b) holds 10% or more of the *voting power* in B or in P; or
  - (c) holds *shares* or *voting power* in B or P as a result of which A is able to exercise significant influence over the management of B.
- (2) (in relation to a *non-directive firm* ("B")), other than a *firm* within (2A)), a *person* ("A") who (whether acting alone or in concert):
- (a) holds 20% or more of the *shares* in B or in a *parent undertaking* ("P") of B;
  - (b) holds 20% or more of the *voting power* in B or in P; or
  - (c) holds *shares* or *voting power* in B or P as a result of which A is able to exercise significant influence over the management of B.
- (3) for the purposes of calculations relating to (1) and (2), the holding of *shares* or *voting power* by a *person* ("A1") includes any *shares* or *voting power* held by another ("A2") if A1 and A2 are acting in concert.
- (4) *shares* and *voting power* that a *person* holds in a *firm* ("B") or in a *parent undertaking* of B ("P") are disregarded for the purposes of determining *control* in the following circumstances:
- (a) *shares* held for the sole purposes of clearing and settling within a short settlement cycle;
  - (b) *shares* held by a *custodian* or its nominee in its custodian capacity are disregarded, provided that the *custodian* or nominee is only able to exercise *voting power* attached to the *shares* in accordance with instructions given in writing;
  - (c) *shares* representing no more than 5% of the total voting power in B or P held by an *investment firm*, provided that:
    - (i) it holds the *shares* in the capacity of a *market maker* (as defined in article 4.1(8) of MIFID);
    - (ii) it is authorised by its *Home State regulator* under MIFID; and

- (iii) it does not intervene in the management of B or P nor exerts any influence on B or P to buy the shares or back the share price;
- (d) shares held by a credit institution or investment firm in its trading book are disregarded, provided that:
  - (i) the shares represent no more than 5% of the total voting power in B or P; and
  - (ii) the credit institution or investment firm ensures that the voting power is not used to intervene in the management of B or P;
- (e) shares held by a credit institution or an investment firm are disregarded, provided that:
  - (i) the shares are held as a result of performing the investment services and activities of:
    - (A) underwriting share issues; or
    - (B) placing shares on a firm commitment basis in accordance with Annex I, section A.6 of MIFID; and
  - (ii) the credit institution or investment firm:
    - (A) does not exercise voting power represented by the shares or otherwise intervene in the management of the issuer; and
    - (B) retains the holding for a period of less than one year;
- (f) where a management company and its parent undertaking both hold shares or voting power, each may disregard holdings of the other, provided that each exercises its voting power independently of the other;
- (g) but (f) does not apply if the management company:
  - (i) manages holdings for its parent undertaking or an undertaking in respect of which the parent undertaking is a controller;
  - (ii) has no discretion to exercise the voting power attached to such holdings; and
  - (iii) may only exercise the voting power in relation to such holdings under direct or indirect instruction



from:

(A) its parent undertaking; or

(B) an undertaking in respect of which the parent undertaking is a controller;

(h) where an investment firm and its parent undertaking both hold shares or voting power, the parent undertaking may disregard holdings managed by the investment firm on a client by client basis and the investment firm may disregard holdings of the parent undertaking, provided that the investment firm:

(i) has permission to provide portfolio management;

(ii) exercises its voting power independently from the parent undertaking; and

(iii) may only exercise the voting power under instructions given in writing, or has appropriate mechanisms in place for ensuring that individual portfolio management services are conducted independently of any other services.

(B) (in the FCA Handbook):

(1) ...

...

owner

(A) in the PRA Handbook:

(1) (in RCB) (as defined in Regulation 4 of the RCB Regulations) an owner which owns an asset pool and issues a guarantee to pay from that asset pool claims attaching to a regulated covered bond in the event of a failure of the issuer of that bond.

(B) in the FCA Handbook:

(1) ...

...

relevant date

(A) (in the PRA Handbook):

in MCOB 10 (Annual percentage rate)):

(a) (where a date is specified in or determinable under an agreement at the date of its making as the date on which the debtor is entitled to

require provision of anything which is the subject of the agreement) the earliest such date;

(b) (in any other case) the date of making the agreement

(B) (in the FCA Handbook):

(1) ...

...

security

(A) (in the PRA Handbook)

(in accordance with article 3(1) of the Regulated Activities Order (Interpretation)) any of the following investments specified in that Order:

(a) share (article 76);

(b) debenture (article 77);

(ba) alternative debenture (article 77A);

(c) government and public security (article 78);

(d) warrant (article 79);

(e) certificate representing certain securities (article 80);

(f) unit (article 81);

(g) stakeholder pension scheme (article 82(1));

(ga) personal pension scheme (article 82(2));

(h) rights to or interests in investments in (a) to (g) (article 89).

(B) (in the FCA Handbook):

(1) ...

...

transaction

(A) (in the PRA Handbook):

only the purchase and sale of a financial instrument. For the purposes of the MiFID Regulation, excluding Chapter II, this does not include:

(a) securities financing transactions; or

- (b) the exercise of options or covered warrants; or
- (c) primary market transactions (such as issuance allotment or subscription) in *financial instruments* falling within Article 4(1)(18)(a) and (b) of *MiFID*.

[Note: article 5 of the *MiFID Regulation*]

(B) (in the *FCA Handbook*):

(1) ...

...

## Annex B

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

In this Annex, underlining indicates new text and striking through indicates deleted text.

**1 Application and purpose**

...

**Part 3 Tables summarising the application of the common platform  
requirements to different types of firm**

...

<b>Provision SYSC 4</b>	<b>COLUMN A Application to a common platform firm other than to a UCITS investment firm</b>	<b>COLUMN A+ Application to a UCITS management company</b>	<b>COLUMN A++ Application to a full-scope UK AIFM of an authorised AIF</b>	<b>COLUMN B Application to all other firms apart from insurers, managing agents, the Society and full- scope UK AIFMs of unauthorised AIFs</b>
...				
SYSC 4.4.2G [FCA] [PRA]	...	...	...	Guidance only applying to the <i>firms</i> specified in SYSC 4.4.1R or <u>SYSC 4.4.1AR</u>
SYSC 4.4.3R [FCA] [PRA]	...	...	...	Rule only applying to the <i>firms</i> specified in SYSC 4.4.1R or <u>SYSC 4.4.1AR</u>
SYSC 4.4.4G [FCA] [PRA]	...	...	...	Guidance only applying to the <i>firms</i> specified in SYSC 4.4.1R or <u>SYSC 4.4.1AR</u>
SYSC	...	...	...	Rule only

4.4.5R [FCA] [PRA]				applying to the <i>firms</i> specified in SYSC 4.4.1R or <u>SYSC 4.4.1AR</u>
SYSC 4.4.6G [FCA] [PRA]	...	...	...	Guidance only applying to the <i>firms</i> specified in SYSC 4.4.1R or <u>SYSC 4.4.1AR</u>
...				

## 20 Reverse stress testing

### 20.1 Application and purpose

#### Application

20.1.1 R (1) SYSC 20 applies to:

(a) a *BIPRU firm* which is:

...

(iii) a *BIPRU designated investment firm* which meets any of the criteria set out in (2) on an individual basis, or in (3) on a consolidated basis: and

...

(2) Subject to (4), SYSC 20 applies to a *BIPRU designated investment firm* if:

...

(3) Subject to (4), where all of the *BIPRU designated investment firms* within the same *UK-consolidation group* or *non-EEA sub-group*, taken together as if they were one *firm*, meet any of the criteria in (2), SYSC 20 applies to each of those *BIPRU designated investment firms* as if it individually met the inclusion criteria in (2).

(4) Any *BIPRU designated investment firm* which is included within the scope of SYSC 20 in accordance with (2) or (3) in any given year will continue to be subject to SYSC 20 for the following two years irrespective of whether or not it continues to meet the inclusion criteria in any of those subsequent years.

## Annex C

## Amendments to the Interim Prudential sourcebook for Insurers (IPRU (INS))

In this Annex, underlining indicates new text and striking through indicates deleted text.

**Appendix 9.1** (rules 9.12 and 9.13)

...

*Instructions for completion of Form 1*

...

- 22        Where a direction under section ~~148-~~ 138A of the *Act* has been issued disapplying or modifying any of the provisions of the *Accounts and Statements Rules*, a note to *Form 1* explaining the effect of the order is usually required. The requirement for such a note would be specified in the direction itself. [Code 0101].

*Instructions for completion of Form 2*

...

- 25        Where a direction under section ~~148-~~ 138A of the *Act* has been issued disapplying or modifying any of the provisions of the *Accounts and Statements Rules*, a note to *Form 2* explaining the effect of the direction is usually required. The requirement for such a note would be specified in the direction itself. (Code 0201).

...

*Instructions for completion of Form 3*

- 67        Where a direction under section ~~148-~~ 138A of the *Act* has been issued to an *insurer* permitting it to take into account *implicit items* on *long-term insurance business*, that direction may specify that a note is to be included in the *return* explaining such items. That note must be included as a note to *Form 3* (Code 0312).

...

## Annex D

### Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text.

#### 13.8 Changes of details: provision of notices to the appropriate UK regulator

- 13.8.1 R (1) Where a *firm* is required to submit a notice of a change to a *branch* referred to in ... or a notice of a change to *cross border services* referred to in ... ~~SUP 13.7.13G~~ 13.7.13BG ... it must complete and submit that notice in accordance with the procedures set out in SUP 13.5 for notifying the establishing of a *branch* or the provision of *cross border services*.

...

#### 15.2 Purpose

...

- 15.2.4 G ~~Schedule 2 contains a consolidated summary of all the *notification rules* applicable to *firms* set out in the *Handbook*.~~ [deleted]

...

#### 16 Annex 19AR

This annex consists only of one or more forms. Forms are to be found through the following address:

*Mortgage ~~Lending Lenders~~ and ~~Administration~~ Administrators Return*  
(‘MLAR’) - Forms/sup/sup\_Chapter16\_annex19ar\_20130401.pdf

...

#### 16 Annex 19BG

**Notes for completion of the Mortgage Lending Lenders and Administration Administrators Return (‘MLAR’)**

...

#### 5. ...

...

#### 9. Specific Items

...

#### (ii) Foreign currencies

*Firms* should report in the currency of their annual audited accounts, where this is Sterling, Euro, US Dollars, Canadian ~~dollars~~ Dollars, Swedish Kroner, Swiss Francs or Yen. Where annual audited accounts are reported in a currency outside those specified above, please translate these values into an equivalent within the list using an appropriate rate of exchange at the reporting date, or where appropriate, at the rates of exchange fixed under the terms of any relevant currency hedging transaction, and that value used in the return. Please report in 000's thousands where stated on the return. *Firms* should apply the same accounting treatment as for their published accounts.