

Appendix 1.4

**PRA RULEBOOK: CRR FIRMS: REVERSE STRESS TESTING (AMENDMENT TO ICAA)
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);
 - (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: Reverse Stress Testing (Amendment to ICAA) Instrument 2015

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

Commencement

- E. This instrument comes into force on 3 August 2015.

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Reverse Stress Testing (Amendment to ICAA) Instrument 2015.

By order of the Board of the Prudential Regulation Authority
31 July 2015.

Annex

Amendments to the Internal Capital Adequacy Assessment Part

In this Annex new text is underlined.

Part

INTERNAL CAPITAL ADEQUACY ASSESSMENT

Chapter content

...

15 REVERSE STRESS TESTING

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1 APPLICATION AND DEFINITIONS

1.1 ...

1.2 In this Part, the following definitions shall apply:

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third country sub-group

means a group of *undertakings* identified in Article 22 of the *CRR* which are required to be supervised on a consolidated basis under Article 22 of the *CRR*.

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15 REVERSE STRESS TESTING

Application

15.1 This Chapter applies to a *CRR firm*.

Reverse stress testing

15.2 As part of its business planning and risk management obligations, including under the Risk Control Part of the *PRA* Rulebook, a *firm* must reverse stress test its business plan; that is, it must carry out stress tests and scenario analyses that test its business plan to failure. To that end, the *firm* must:

- (1) identify a range of adverse circumstances which would cause its business plan to become unviable and assess the likelihood that such events could crystallise; and
- (2) where those tests reveal a risk of business failure that is unacceptably high when considered against the firm's risk appetite or tolerance, adopt effective arrangements, processes, systems or other measures to prevent or mitigate that risk.

15.3 Where the firm is a member of:

- (1) a UK consolidation group; or
- (2) a third country sub-group;

it must conduct the reverse stress test on an individual basis as well as on a consolidated basis in relation to the UK consolidation group or the third country sub-group, as the case may be.

15.4 The design and results of a firm's reverse stress test must be documented and reviewed and approved at least annually by the firm's senior management or governing body. A firm must update its reverse stress test more frequently if it is appropriate to do so in the light of substantial changes in the market or in macroeconomic conditions.

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Part

INTERNAL CAPITAL ADEQUACY ASSESSMENT

Externally defined glossary terms

Term	Definition source
...	...
<u>investment</u>	<u>s22(4) FSMA</u>