

# Prudential Regulation Authority Annual Accounts for the period 21 November 2011 to 28 February 2013



BANK OF ENGLAND  
PRUDENTIAL REGULATION  
AUTHORITY







# Annual Accounts for the period 21 November 2011 to 28 February 2013

Prudential Regulation Authority

Presented to the Houses of Parliament pursuant to Section 23(3) of Schedule 1ZB of the Financial Services and Markets Act 2000, as amended by the Financial Services Act 2012

Ordered by the House of Commons to be printed on 4 June 2013

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## Prudential Regulation Authority Directors' Report for the period ended 28 February 2013

The Directors present their report and the audited financial statements of the Prudential Regulation Authority ('the Company') for the period from 21 November 2011 to 28 February 2013.

### Business review and principal activity

The Company was established as a wholly-owned subsidiary of the Bank of England ('the Bank') on 21 November 2011 as part of a wider reform of the United Kingdom regulatory framework.

The Company, as part of the Bank of England, became the United Kingdom's prudential regulator for banks, building societies and credit unions (collectively known as deposit-takers), insurers and major investment firms with effect 1 April 2013.

The Company's objective is to promote the safety and soundness of these firms, seeking to minimise the adverse effects that they can have on the stability of the United Kingdom financial system; and contribute to ensuring that insurance policyholders are appropriately protected.

The Company was incorporated at Companies House as the Prudential Regulation Authority Limited on 21 November 2011. Under Section 2A(1) of the Financial Services and Markets Act 2000 (FSMA), as amended by the Financial Services Act 2012, the Company's name was amended to the Prudential Regulation Authority.

### Directors

The Directors of the Company who served during the period were:

John Footman (appointed 21 November 2011, resigned 6 March 2013)

Graham Nicholson (appointed 21 November 2011, resigned 6 March 2013)

Sir Mervyn King (appointed 20 February 2013)

Andrew Bailey (appointed 20 February 2013)

Paul Tucker (appointed 20 February 2013)

Martin Wheatley (appointed 20 February 2013)

Iain Cornish (appointed 20 February 2013)

Rosalind Gilmore (appointed 20 February 2013)

Charles Randell (appointed 20 February 2013)

None of the Directors had a beneficial interest at any time during the financial period in the shares of the Company. The Directors' Report and accounts have been reviewed by the Audit and Risk Committee of the Bank.

John Footman was appointed Company Secretary on 21 February 2013.

### Review of the period from 21 November 2011 to 28 February 2013

The Company's regulatory responsibilities did not commence until legal cut over on 1 April 2013 hence there was no activity in relation to regulatory activity in the period.

The only activity during the period was the charging of costs from the Bank of England in relation to setting up and preparing the Company for its responsibilities.

As permitted by paragraph 31 of Schedule 1ZB of the FSMA, as amended by the Financial Services Act 2012, the Board has agreed to recover these costs from fee-payers over five years. The costs shown in the financial statements represent those incurred by the Bank of England from the inception of the transition programme to 28 February 2013. The remaining costs expected to be incurred by the Bank of England between 1 March 2013 and the end of the programme will be recharged to the Company in the financial year 2013/14.

An amount receivable from fee-payers and a corresponding amount payable to the Bank of England have been recognised on the balance sheet.

### Risk management

The Directors are responsible for the risk management and internal control systems of the Company. As a subsidiary of the Bank of England the Company falls under the governance and internal control systems operated by the Bank.

### Financial results

The Company's financial statements for the period 21 November 2011 to 28 February 2013 are presented on pages 4 to 9. The total assets of the Company stood at £64.7 million as at 28 February 2013, with £14.8 million of transition costs to be recovered from fee-payers during the financial year 2013/14.

### Political and charitable contributions

The Company made no political or charitable donations and did not incur any political expenditure during the period.

## Prudential Regulation Authority Directors' Report continued

### Disclosure of information to the Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

### Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Company law requires the Directors to prepare financial statements for each financial period. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and applicable law.

### Auditor

The Comptroller and Auditor General is responsible for auditing the Company's accounts, as specified under section 23(2) of Schedule 1ZB of FSMA, as amended by the Financial Services Act 2012. This is effective from 24 January 2013.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

By order of the Board

Andrew Bailey  
Director

20 May 2013



## The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Prudential Regulation Authority for the period ended 28 February 2013 under the Financial Services and Markets Act 2000. The financial statements comprise the Statement of Comprehensive Income, Balance Sheet, Statement of Cash Flows, Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

### Respective responsibilities of the directors and the auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services and Markets Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Prudential Regulation Authority Directors' Report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been

applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

### Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the company's affairs as at 28 February 2013 and of its results for the period then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

### Opinion on other matters

In my opinion, the information given in the Prudential Regulation Authority Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit.

### Report

I have no observations to make on these financial statements.

Amyas C E Morse  
Comptroller and Auditor General

21 May 2013

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

## Statement of Comprehensive Income for the period to 28 February 2013

	Note	For the period to 28 February 2013 £000
Other income	5	64,722
Other expense	6	(64,722)
<b>Operating profit</b>		–
Profit before income tax		–
Taxation	7	–
<b>Profit for the period</b>		–
<b>Total comprehensive income for the period</b>		–

### Statement of Changes in Equity for the period to 28 February 2013

There were no changes in equity during the period. The entire capital comprising 1 ordinary share of £1 was issued, fully paid by the Governor and Company of the Bank of England on 21 November 2011.

## Balance Sheet

### as at 28 February 2013

	Note	As at 28 February 2013 £000
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	8	–
Trade and other receivables	9	14,820
		14,820
<b>Non-current assets</b>		
Trade and other receivables	9	49,902
		49,902
<b>Total assets</b>		<b>64,722</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade and other payables	10	14,820
		14,820
<b>Non current liabilities</b>		
Trade and other payables	10	49,902
		49,902
<b>Total liabilities</b>		<b>64,722</b>
<b>Equity</b>	11	–
<b>Total liabilities and equity</b>		<b>64,722</b>

The financial statements were approved by the Board on 20 May 2013 and signed on its behalf by:

Andrew Bailey  
Director

Company Number: 07854923

The notes on pages 7 to 9 are an integral part of these financial statements.

Except as provided by section 22(1) of Schedule 1ZB of FSMA, as amended by the Financial Services Act 2012, the Company is exempt from the requirements of Part 16 of the Companies Act 2006.

## Statement of Cash Flows for the period to 28 February 2013

	Note	For the period to 28 February 2013 £000
<b>Cash flows from operating activities</b>		
Profit		–
Changes in working capital		
— Trade and other receivables	9	64,722
— Trade and other payables	10	(64,722)
<b>Cash generated from operations</b>		–
<b>Net increase in cash and cash equivalents</b>		–
Cash and cash equivalents at 21 November 2011	8	–
<b>Cash and cash equivalents at 28 February 2013</b>	8	–

The notes on pages 7 to 9 are an integral part of these financial statements.

# Notes to the Financial Statements

## 1 Basis of preparation

### Form of presentation of the financial statements

The financial statements comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Cash Flows, Statement of Changes in Equity and related notes.

The Company's financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards and interpretations of International Financial Reporting Interpretations Committee as adopted by the EU (together, 'adopted IFRS'). The financial statements have been prepared on a going-concern basis, under the historical cost convention and in accordance with Companies Act 2006, with the exception of the requirements of Part 16, and applicable accounting standards.

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied.

## 2 Accounting policies

The following principal accounting policies have been applied consistently in the preparation of the financial statements.

In addition the Company has considered the potential effect of forthcoming EU adopted standards which have not been adopted in the financial statements; none of these are expected to materially impact the Company.

### a) Functional and presentational currency

The financial statements are presented in sterling, which is the Company's functional and presentational currency.

### b) Financial assets

Financial assets are receivables from counterparties; they are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence the asset is impaired. The amount of loss is measured as the difference between the asset's carrying value and the present value of the estimated future cashflows.

#### *Transition costs*

During the year the Company has been charged by the Bank of England for the costs incurred in relation to setting up and preparing the Company for its responsibilities and the Board has agreed to recover these costs from fee-payers over five years. An amount receivable from fee-payers and a corresponding amount payable to the Bank of England have been recognised on the balance sheet.

### c) Cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, consisting of cash.

### d) Financial liabilities

Financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### e) Equity capital

The entire equity capital comprising one £1 ordinary share is held by the Governor and Company of the Bank of England.

## 3 Significant accounting estimates and judgements in applying accounting policies

The Company makes estimates and assumptions that affect the reported amounts of assets within the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## Notes to the Financial Statements continued

### 4 Administrative expenses

The Company did not trade during the period hence incurred no administrative expenses other than the set up costs incurred and charged by the Bank of England.

	2013 £000
<b>Audit fees:</b>	
Fees relating to current period	20

Audit fees have been recharged to the Company by the Bank of England and are included within transition costs.

No non-audit work was undertaken by the auditor.

### Directors' emoluments

The Directors have not received any emoluments from the Company in respect of their services to the Company during the period ended 28 February 2013.

### 5 Other income

	2013 £000
Transition cost recoveries from fee-payers	64,722
<b>Total</b>	<b>64,722</b>

Costs related to the transition to the new regulatory framework have been incurred by the Bank of England and charged to the PRA, these are recoverable from fee-payers.

### 6 Other expense

	2013 £000
Transition costs charged by Bank of England	64,722
<b>Total</b>	<b>64,722</b>

### 7 Taxation

The corporation tax charge during the period is £nil.

### 8 Cash and cash equivalents

A bank account is held at the Bank of England, the balance on the account at the end of the period was £1.

### 9 Trade and other receivables

	2013 £000
Trade receivables	64,722
<b>Total</b>	<b>64,722</b>
Current	14,820
Non-current	49,902

## 10 Trade and other payables

	2013 £000
Amounts due to the Bank of England	64,722
<b>Total</b>	<b>64,722</b>
Current	14,820
Non-current	49,902

## 11 Capital

The entire capital comprising of 1 authorised, issued and fully paid ordinary share of £1 is held by the Governor and Company of the Bank of England.

## 12 Related party transactions

The Company has related party transactions with its shareholder, the Bank of England.

### The Bank of England

At the 28 February 2013 £64.7 million of transition costs were due to the Bank of England.

### Key management

The Directors of the Company are considered to be the only key personnel as defined by IAS 24. The Directors have not received any emoluments in respect of their services to the Company during the period ended 28 February 2013.

## 13 Financial risk management

Credit risk is the risk of loss arising from the failure of a counterparty to meet its financial obligations to the PRA. The financial assets of the PRA are amounts receivable from fee-payers and are considered to be subject to low credit risk. Liquidity risk is the risk of encountering difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The PRA intends to settle the payables recognised using the recoveries from fee-payers, and are therefore considered to be subject to low liquidity risk.

## 14 Events after the reporting period

The financial statements were authorised for issue by the Board on 21 May 2013.

Prudential Regulation Authority  
8 Lothbury  
London  
EC2R 7HH

Company Number: 07854923













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