BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Modification by consent of the exclusion of loans under the Bounce Back Loan scheme from the calculation of the total exposure measure of the leverage ratio

Overview

The UK Government has introduced the Bounce Back Loan scheme (BBLS) in response to Covid-19 in which it guarantees in full loans from banks to small and medium-sized businesses. The Prudential Regulation Authority (PRA) is offering a modification by consent for banks subject to the Leverage Ratio Part of the PRA Rulebook to exclude loans under this scheme from the leverage ratio total exposure measure, if they choose to do so. It also permits firms to exclude loans made pursuant to schemes of a similar character which are 100% guaranteed by a government or central bank of an EEA state or the European Central Bank (ECB) provided that such loans do not exceed €60,000 per loan. The PRA will consider further modifications for substantively similar EEA schemes which do not meet these criteria on a case-by-case basis.

The Financial Policy Committee (FPC) has been consulted and supports this measure. In the current extraordinary economic circumstances, this measure will facilitate the use of a key government scheme to support small and medium-sized businesses. This would support the FPC's financial stability objective by removing a potential disincentive to lending to businesses, without sacrificing overall resilience. This action is also in line with the FPC's economic policy objective given it supports lending to the real economy and the preservation of the economy's productive capacity. The FPC continues to consider a robust leverage ratio, which incorporates a comprehensive measure of exposures, to be a critical element of the capital regime, in support of its financial stability mandate.

Scope

This statement is relevant to firms subject to the Leverage Ratio Part of the PRA Rulebook. Accordingly, firms which are subject to the Leverage Ratio Part on a consolidated basis will be permitted to exclude loans made pursuant to the BBLS or similar EEA schemes by entities in their consolidation group.

Implementation

Once a firm's request for modification by consent takes effect, it will be permitted to exclude exposures from the BBLS from its calculation of the leverage ratio total exposure measure. It will also be permitted to exclude loans made pursuant to schemes of a similar character which are 100% guaranteed by a government or central bank of an EEA state or the ECB provided that such loans do not exceed €60,000 per loan. The PRA will consider further modifications for substantively similar EEA schemes which do not meet these criteria on a case-by-case basis.

The Direction also includes modifications to Leverage Ratio Reporting and Public Disclosure rules that provide that the quarterly average figures, to be disclosed or reported for the quarter in which the modification first applied, shall reflect the modification as if it had applied on each day of the quarter.

A copy of the direction for the modification by consent is available on the Waivers and modification by consent webpage. If a firm wishes to take up this modification by consent, it should read the direction and contact the PRA's Authorisations division with a request for the modification at: PRA-Waivers@bankofengland.co.uk.

The PRA will confirm in writing whether the request has been granted and will publish the approved modification direction on the Financial Services Register.

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