



BANK OF ENGLAND

News release

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News Release - Adjustments to PRA's capital regime for UK banks and building societies

The Prudential Regulation Authority (PRA) has today announced that it will extend the capital offset for corporate lending which accompanies the Funding for Lending scheme (FLS). It will not extend the capital offset for household lending, which will end on 31 December 2013.

In June 2012, HM Treasury and the Bank of England announced a series of measures aimed at supporting additional lending to the real economy, including the FLS.

In September 2012, the Financial Services Authority issued a statement outlining temporary adjustments to its prudential framework to ensure that the capital firms were expected to hold above minimum requirements did not unduly constrain the provision of credit. This capital offset policy takes account of net new lending between end June 2012 and end December 2013. The policy is due to expire on 31 December 2013.

Normally, when a firm increases lending to the private sector, its minimum Pillar 1 capital requirements automatically increase. Under the capital offset policy, the PRA offsets any increase in minimum capital requirements resulting from net new lending to households and private non-financial corporations by reducing the amount of additional Pillar 2 capital buffer firms are expected to hold.

In April 2013, the Bank of England announced that it would extend the FLS to 30 January 2015. The PRA has decided to extend the capital offset for corporate lending, in line with the FLS extension, until 30 January 2015. Participating firms will be able to claim additional capital relief for net new lending to private non-financial corporations until 30 January 2015. The total amount of capital relief available to firms will be determined on a case-by-case basis. This aims to support lending to small and medium businesses.

However, having considered the views of the Financial Policy Committee, the PRA has decided that additional stimulus for lending to households is no longer required. It has therefore decided not to extend the temporary capital offset to net new lending to households so this will end as planned on 31 December 2013.