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News release

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The Financial Policy Committee's Framework for the Systemic Risk Buffer (SRB)

As part of the legislative package implementing the recommendations of the Independent Commission on Banking in the UK, the Financial Policy Committee (FPC) is required to produce a framework for a systemic risk buffer (SRB) for ring-fenced banks and large building societies.

The SRB is one of the elements of the overall capital framework for UK banks and building societies as set out by the FPC in its publication 'The framework of capital requirements for UK banks', which was published alongside the December 2015 Financial Stability Report.

The SRB will be applied to individual institutions by the Prudential Regulation Authority (PRA) and will be introduced, like the ring-fencing rules, from 2019.

Deputy Governor, Financial Stability, Jon Cunliffe said:

"These new rules will mean that large UK banks and building societies are more resilient to adverse shocks, enabling them to continue to lend to households and businesses even in times of stress. The financial crisis demonstrated the long-lasting damage that can be caused when large banks become distressed and have to cut back lending to the economy. These proposals are intended to reduce the risk of this happening again."

Summary of the proposals

It is proposed that those banks and building societies with total assets above £175bn will be set progressively higher SRB rates as total assets increase through defined buckets (see table below).
HM Government required the FPC to produce a framework for the SRB at rates between 0% and 3% of risk-weighted assets (RWAs). Under the FPC's proposals, ring-fenced bank sub-groups and large building societies in scope with total assets below £175bn will be subject to a 0% SRB.

Based on current information, under these proposals the FPC expects the largest ring-fenced bank in 2019 to have a 2.5% SRB. In line with the FPC's previous announcement on the leverage ratio framework, those institutions subject to the SRB will also be set a 3% minimum leverage ratio requirement, together with an additional leverage ratio buffer calculated at 35% of the applicable SRB rate. For example, an institution with an SRB rate of 1% would have an additional leverage ratio buffer of 0.35%.

As stated in the FPC's capital framework document in December, the proposed calibration is expected to add around an aggregate 0.5 percentage points of risk-weighted assets to equity requirements of the system in aggregate.

	Total Assets (£bns)	
Risk weighted SRB rate	**Lower threshold**	**Upper threshold**
0%	-	<175
1%	175	<320
1.5%	320	<465
2%	465	<610
2.5%	610	<755
3%	≥755	

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Notes to Editors:

1. The consultation will close on 22 April and the FPC intends to finalise the framework by 31 May 2016. The buffer will apply from 2019.
2. The consultation paper is available via the following link: http://www.bankofengland.co.uk/financialstability/Documents/fpc/srbf_cp.pdf