UK withdrawal from the EU: Changes before the end of the transition period

22 September 2020
Consultation Paper | CP13/20

UK withdrawal from the EU: Changes before the end of the transition period

September 2020

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Responses are requested by Tuesday 17 November 2020.

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1 Overview

1.1 The UK’s membership of the European Union (EU) came to an end on Friday 31 January 2020 following the ratification by the UK and the EU of the Withdrawal Agreement. Under the terms of the Withdrawal Agreement, the UK entered into a transition period during which EU law continues to apply to the UK. The transition period is due to last until 11pm on Thursday 31 December 2020, which is defined in UK law as ‘IP completion day’.

1.2 The UK’s withdrawal from the EU requires changes to be made to UK legislation to ensure that it remains functional. The European Union (Withdrawal) Act 2018 (the Act) converts directly applicable EU law (eg EU regulations) into UK law and preserves domestic law that relates to EU membership, including domestic law and regulators’ rules that were introduced to implement EU directives. This body of law is referred to as ‘retained EU law’.

1.3 During the transition period, EU law continues to apply in the UK in the same way as it applied prior to the UK’s withdrawal from the EU. This means that new EU legislation or changes to existing EU legislation made during the transition period will form part of the UK body of retained EU law.

1.4 The Act provides UK government ministers with powers to make changes to retained EU law so that it continues to operate effectively after the UK’s withdrawal from the EU – these processes are referred to as ‘onshoring’ or ‘nationalising the acquis’ (NtA). For example, changes may be required to provisions in retained EU law that have no practical application after the UK has left the EU; provide for reciprocal arrangements or rights between the UK and other EU Member States that are no longer in place or are no longer appropriate; or include EU references that are no longer appropriate. The 2018 Act refers to such provisions as ‘deficiencies’.

1.5 The government has delegated these powers to the Bank of England (Bank), as resolution authority and financial market infrastructure (FMI) competent authority, and the Prudential Regulation Authority (PRA), to fix deficiencies in rules and Binding Technical Standards (BTS) in their remits.

1.6 On Thursday 18 April 2019, the Bank and PRA published their amendments to financial services legislation under the Act. This included final EU Exit Instruments covering NtA changes to PRA and FMI rules, and BTS in the Bank’s and PRA’s remits.

1.7 Subsequently, in light of the further extension to the Article 50 period until Thursday 31 October 2019, on Thursday 25 July 2019 the Bank and PRA published some further draft amendments to financial services legislation that came into effect during this period. These amendments were subsequently not made final following the further extension to the Article 50 period until Friday 31 January 2020.

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1 Acquis is a shortened form of ‘acquis communautaire’, which refers to the cumulative body of European Community laws.
4 Article 50 of the Lisbon Treaty is the legal mechanism for a member state to withdraw from the EU.
The Bank’s and PRA’s made EU Exit Instruments were due to come into effect on ‘exit day’ (11pm on Friday 31 January 2020). However, the EU (Withdrawal Agreement) Act 2020 defers the coming into force of these EU Exit Instruments until IP completion day.

Before the end of the transition period, some further updates and amendments are needed to the Bank’s and PRA’s made EU Exit Instruments as a consequence of the transition period and the delay in the coming into force of these instruments from exit day to IP completion day. There is also additional EU legislation that applies before IP completion day and requires some further EU Exit Instruments to be made. This Consultation Paper (CP) contains:

- Section B: Bank and PRA consultation with proposals to fix deficiencies arising from the UK’s withdrawal from the EU and make consequential changes before the end of the transition period. Section B is split into three parts:
  - Part 1 sets out Bank and PRA proposals in relation to consequential changes required to existing Bank and PRA EU Exit Instruments to update references to exit day and a small number of changes in light of adaptations to relevant EU legislation made by the European Economic Area (EEA) Agreement.
  - Part 2 sets out the PRA’s proposals in relation to the PRA Rulebook and BTS that will, or are expected to, be retained in UK law.
  - Part 3 sets out the Bank’s (as FMI competent authority) proposals in relation to BTS that will be retained in UK law.

The CP follows the Bank’s and PRA’s previous consultations on amending financial services legislation under the Act. The Bank and PRA continue to follow the approach set out in CP25/18 ‘The Bank of England’s approach to amending financial services legislation under the European Union (Withdrawal) Act 2018’, subsequently published in Policy Statement (PS) 5/19 ‘The Bank of England’s amendments to financial services legislation under the European Union (Withdrawal) Act 2018’. This CP is relevant to all firms authorised and regulated by the PRA, including those that expect to have a deemed permission under the ‘temporary permissions regime’ (TPR) or Financial Services Contracts Regime (FSCR), or that seek to apply for PRA authorisation in the future. It is also relevant to FMIs recognised and supervised by the Bank, including those central counterparties (CCPs) that expect to have a deemed recognition under the ‘temporary recognition regime’ (TRR).

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6 See consultations published in October 2018, December 2018, April 2019, and July 2019 all available at: https://www.bankofengland.co.uk/eu-withdrawal.
9 As set out in the Financial Services Contracts (Transitional and Saving Provision) (EU Exit) Regulations 2019. See the Bank’s Financial Services Contracts Regime webpage for more information: https://www.bankofengland.co.uk/eu-withdrawal/financial-services-contracts-regime.
Background

1.12 As set out in CP25/18, HM Treasury has delegated powers, under the Act, to the PRA, Bank, Financial Conduct Authority (FCA), and Payment Systems Regulator (PSR) (collectively, ‘financial services regulators’) through the Financial Regulators’ Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018 (the Regulations). This gives the financial services regulators responsibility for fixing deficiencies in relevant BTS.\(^{10}\) The delegated powers can also be used by the financial services regulators to make amendments within their respective rules. The PRA and Bank cannot use the powers as the basis for policy changes unrelated to fixing deficiencies resulting from the UK’s withdrawal from the EU.

1.13 HM Treasury is responsible for addressing deficiencies in EU financial services regulations that are retained in UK law under the Act, apart from BTS. HM Treasury is also responsible for addressing deficiencies in primary and secondary UK financial services legislation that arise as a result of the UK’s withdrawal from the EU. The Act provides temporary powers for government to make subordinate legislation in the form of Statutory Instruments (SIs) to enable changes to be made to laws that would otherwise no longer operate effectively in light of the UK’s exit from the EU.

1.14 During the transition period, new EU legislation that applies before IP completion day will form part of retained EU law. HM Treasury will therefore continue the process of making SIs to make any necessary amendments. The Bank and PRA continues to work with HMT to provide technical input to the preparation of the SIs. The Bank and PRA continue to make or amend EU Exit Instruments as necessary to fix any deficiencies in PRA or Bank (FMI) rules, or in BTS in the PRA’s or Bank’s remit.

1.15 New EU regulations of relevance to the Bank and the PRA that are already applicable, or will apply before IP completion day, include amendments to the European Market Infrastructure Regulation (EU) (648/2012) (EMIR) by Regulation (EU) (2019/2099) (EMIR 2.2), and amendments to the Capital Requirements Regulation (EU) (575/2013) (CRR) by Regulation (EU) (2019/876) (CRR 2) and Regulation (EU) (2020/873) (CRR 2.1).

1.16 New directives, including amendments to the Capital Requirements Directive (2013/36/EU) (CRD) by Directive (EU) (2019/878) (CRD V), and amendments to the Bank Recovery and Resolution Directive (2014/59/EU) (BRRD) by Directive (EU) (2019/879) (BRRD II), are also due to become applicable on 28 December 2020 (before IP completion day). These will need to be transposed in the UK through legislation made by HMT and/or through regulators’ rules.

1.17 In certain instances deficiency fixes for new EU regulations and transposing legislation interact with existing regulators’ rules or require new BTS ‘fixing’ mandates for the Bank or PRA. Where consequential changes are necessary as a result of new EU legislation, the changes proposed to the PRA Rulebook and BTS in the Bank’s and PRA’s remit in this CP are consistent with changes that HM Treasury proposes to make to the relevant legislation, and should be read in conjunction with those changes.

1.18 The PRA is currently consulting on its proposed changes to PRA rules in order to implement elements of CRD V.\(^{11}\) The PRA has assessed that some of the proposed changes to PRA rules would need to be amended under the Act to ensure they remain operable after the end of the transition period. The consultation therefore included a draft EU Exit Rulebook Instrument, which includes the relevant NtA amendments under the Act. If the new rules are made before the end of the transition period.

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\(^{10}\) In addition to the power to address deficiencies, the Regulations also delegate to the financial services regulators an ongoing power to make and maintain BTS. These powers cannot be exercised until the end of the transition period.

\(^{11}\) July 2020, ‘Capital Requirements Directive V (CRD V)’: [https://www.bankofengland.co.uk/prudential-regulation/publication/2020/capital-requirements-directive-v](https://www.bankofengland.co.uk/prudential-regulation/publication/2020/capital-requirements-directive-v)
period, then these NtA amendments will be incorporated into the final PRA Rulebook (EU Exit) Instrument 2020.

1.19 The PRA will also need to make changes to its Rulebook in order to implement elements of BRRD II. The PRA will consult on its proposed changes to PRA rules as required as a result of BRRD II. Any consultation will also include a draft EU Exit Rulebook Instrument with the PRA’s proposed NtA amendments under the Act, to the extent that these are necessary.

1.20 This CP should be read in conjunction with CP25/18, which sets out the overall approach taken to NtA changes, and with PS5/19, which contains the majority of made EU Exit Instruments.12

1.21 As part of PS5/19, the Bank and PRA published a package of supervisory statements (SSs) on interpreting non-binding materials and a Statement of Policy (SoP) on Interpretation of EU Guidelines and Recommendations.13 These materials will become applicable at the end of the transition period (rather than at exit day as currently drafted). The approaches set out in these statements are not changing but the documents do require consequential updates to account for the transition period, for example to replace references to ‘exit day’ with ‘IP completion day’ and to add any new Guidelines that the UK has notified compliance with at the end of the transition period to the relevant annexes. Updated drafts of these statements are not included with this CP. The Bank and PRA intend to publish these updated materials before the end of the transition period.

Joint PRA/FCA BTS

1.22 The responsibility for some BTS is shared14 between the PRA and FCA. BTS 2016/179915 is one such shared BTS. The PRA’s CRR (No. 3) Instrument16 splits this BTS so that it now has two parts – Part 1 relating to FCA-only regulated firms and Part 2 relating to PRA-regulated (dual-regulated) firms. The proposals being consulted on in this CP will only affect Part 2, relating to PRA-regulated firms. The FCA proposed similar changes to Part 1 of the BTS in their September 201917 and September 2020 CPs.18

1.23 The PRA intends to update the provision on splitting BTS between the PRA and FCA in the CRR (No. 3) Instrument to capture BTS added to Part 4 of the Schedule to the Financial Regulators’ Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018 since the CRR (No. 3) Instrument was published on Thursday 18 April 2019.

1.24 In other cases, such as BTS 2016/225119, shared BTS are to remain joint; therefore, the changes proposed in this CP will affect both PRA-regulated and FCA-regulated firms.

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14 As specified in the Schedule to the Regulations.
16 The Technical Standards (Capital Requirements) (EU Exit) (No.3) Instrument 2019.
Structure of the CP

1.25 The rest of this CP is structured as follows:

Section A – Update on the temporary transitional power
- Chapter 2 sets out an update on the Bank’s and PRA’s intended use of the temporary transitional power

Part 1: Joint Bank and PRA consultation
Section B – Changes to rules and Binding Technical Standards
- Chapter 3 sets out consequential amendments required to BTS and the PRA Rulebook

Part 2: PRA consultation
Section B – Changes to rules and Binding Technical Standards
- Chapter 4 sets out the PRA’s proposals relating to further changes to the PRA Rulebook and BTS

The PRA’s obligations under the Regulations
- Chapter 5 sets out the PRA’s obligations under the Regulations (relevant to Chapter 3 and 4)

Part 3: Bank (as FMI competent authority) consultation
Section B – Changes to Binding Technical Standards
- Chapter 6 sets out the PRA’s proposals relating to further changes to the PRA Rulebook and BTS

The Bank’s obligations under the Regulations
- Chapter 7 sets out the Bank’s obligations under the Regulations (relevant to Chapter 3 and 6)

1.26 The appendices to this CP consist of:

Section A appendices
- Appendix 1: Draft PRA transitional direction
- Appendix 2: Draft Bank transitional direction

Section B appendices
PRA appendices
- Appendix 3: Draft amendments to SS2/19 ‘Approach to interpreting reporting and disclosure requirements and regulatory transactions forms after the UK’s withdrawal from the EU’
- Appendix 4: PRA Rulebook: (EU Exit) Instrument 2020
- Appendix 5: The PRA Technical Standards (Consequential Amendments) (EU Exit) Instrument 2020
- Appendix 6: The Technical Standards (Capital Requirements) (EU Exit) (No. 4) Instrument 2020
- Appendix 7: The Technical Standards (Solvency II Directive) (EU Exit) (No. 2) Instrument 2020
- Appendix 8: The Technical Standards (European Market Infrastructure) (EU Exit) (No. 5) Instrument 2020
- Appendix 9: The Technical Standards (Securitisation) (EU Exit) (No. 1) Instrument 2020
Bank (as FMI competent authority and resolution authority) appendices

- Appendix 10: The Bank Technical Standards (Consequential Amendments) (EU Exit) Instrument 2020
- Appendix 11: The Technical Standards (Bank Recovery and Resolution) (Amendment etc.) (EU Exit) (No. 3) Instrument 2020
- Appendix 12: The Technical Standards (Central Securities Depositories) (Amendment etc.) (EU Exit) (No. 2) Instrument 2020
- Appendix 13: The Technical Standards (European Market Infrastructure) (EU Exit (No. 4) Instrument 2020

Implementation

Section A

1.27 On Friday 22 March 2019, the ‘Financial Services and Markets Act 2000 (Amendment) (EU Exit) Regulations 2019’ Statutory Instrument (FSMA SI) was made law. This SI created a temporary transitional power for use by the UK’s financial services regulators to enable firms to adjust to changes made as a result of onshoring. HM Treasury has confirmed it is their intention to retain the temporary transitional power, and update its application so that it is available for use by the UK’s financial services regulators for a period of two years from the end of the transition period.

1.28 The Bank and PRA published near-final transitional directions and accompanying guidance setting out the intended use of the temporary transitional power on Thursday 28 February 2019. The Bank and PRA then subsequently published amended draft transitional directions on Thursday 25 July 2019. The Bank and PRA intend to make and publish final directions and guidance before the end of the transition period.

Section B

1.29 The Bank and PRA intend that the changes proposed in this CP would take effect on IP completion day. Further modifications to PRA and Bank rules and onshored BTS may be required to reflect any arrangements made between the UK and EU as part of their future relationship.

1.30 The draft PRA Rulebook (EU Exit) Instrument 2020 contained in Appendix 4 is intended to revoke and replace the previous PRA Rulebook (EU Exit) Instrument 2019. It therefore shows all proposed changes to the PRA Rulebook, including those made by the PRA Rulebook (EU Exit) Instrument 2019 (originally published as final on Thursday 18 April 2019). The changes made to the PRA Rulebook (EU Exit) Instrument 2019 are highlighted in yellow in Appendix 4.

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1.31 The CRR (No. 4) Instrument\textsuperscript{25} contained in Appendix 6 and the SII (No. 2) Instrument\textsuperscript{26} contained in Appendix 7 both contain amendments to BTS that the PRA has previously consulted on as part of the July 2019 CP\textsuperscript{27}. These amendments are included in the CRR (No. 4) Instrument and the SII (No. 2) Instrument published as part of this CP, however these amendments remain unchanged from those which were published in CP\textsuperscript{18/19}.

**Responses and next steps**

1.32 This consultation closes on Tuesday 17 November 2020. The PRA and Bank invite feedback on the proposals set out in this CP. Please address any comments or enquiries using the details provided in Chapter 5 (for PRA proposals set out in Section B: Part 1 and Part 2) and Chapter 7 (for Bank proposals set out in Section B: Part 1 and Part 3).

1.33 Responses to this CP will be shared with the FCA.

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\textsuperscript{25} The Technical Standards (Capital Requirements) (EU Exit) (No. 4) Instrument 2020.

\textsuperscript{26} The Technical Standards (Solvency II Directive) (EU Exit) (No. 2) Instrument 2020.

\textsuperscript{27} CP\textsuperscript{18/19} ‘UK withdrawal from the EU: Changes following extension of Article 50’, July 2019: https://www.bankofengland.co.uk/prudential-regulation/publication/2019/uk-withdrawal-from-the-eu-changes-following-extension-of-article-50.
2 Section A – Update on the temporary transitional power

The Bank’s and PRA’s intended use of the temporary transitional power

2.1 This chapter sets out an update to the Bank’s and PRA’s intended approach relating to the duration of the directions at the end of the transition period.

2.2 On Wednesday 25 March 2020, HM Treasury confirmed that it is their intention to retain the temporary transitional power, and update its application so that it is available for use by the UK’s financial services regulators for a maximum period of two years from the end of the transition period.28 The Bank and PRA subsequently confirmed on Thursday 30 April 2020 that they intend to use the temporary transitional power as previously communicated in relation to exit day, as explained further below.29

Background

2.3 In October 2018, the Bank and PRA consulted on the proposed approach to the temporary transitional power granted to the regulators (Bank, PRA, and FCA) under the FSMA SI. In February 2019, the Bank and PRA published near-final directions setting out the intended approach for the final directions. These had a fixed end date of Tuesday 30 June 2020.

2.4 In April 2019, the Bank and PRA communicated that, due to the extension of the Article 50 period, they would be considering the use of the transitional power.30 Subsequently, in July 2019, the Bank and PRA consulted on the proposed approach to the temporary transitional power in the event that the UK withdrew from the EU on Thursday 31 October 2019 with no Withdrawal Agreement.31 In this consultation, the Bank and PRA highlighted a number of updates that they intended to make for the final directions compared to the near-final versions published on Thursday 28 February 2019.32 This included an update to the duration of the transitional relief, with a proposed end date set at Thursday 31 December 2020.

2.5 The Bank and PRA also published guidance on the Bank and PRA transitional directions on Thursday 28 February 2019.33 This guidance continues to be of relevance to the draft directions included in this CP. The guidance will be updated and republished before the end of the transition period to reflect the changes to the directions described in this chapter where necessary.

Scope and Duration

2.6 As set out in CP25/18, the Bank and PRA intend to use the temporary transitional power in a broad way to effectively delay the application of the vast majority of relevant NTA changes to PRA-regulated firms’ and FMIs’ obligations, with a small number of limited exceptions. The rationale

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28 HM Treasury set out its intention to retain the temporary transitional power in its Written Ministerial Statement: https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Lords/2020-03-25/HLWS183/


of this approach is to help minimise operational risks for firms/FMIs that may arise at the end of the transition period when EU law ceases to apply in the UK. Only a limited number of additional exceptions to the temporary transitional power have been identified (see para 2.14) to those published as part of the February version of PSS/19. The relevant exclusions can be found in the PRA and Bank transitional directions in Appendix 1 and 2.

2.7 The current legislative position is that the maximum possible duration for which the temporary transitional power can be used is two years from exit day (Friday 31 January 2020). HM Treasury has confirmed that it will pass legislation to update the temporary transitional power so it will be available for up to two years after the end of the transition period. The maximum duration for which the temporary transitional power can be used will therefore remain the same.\(^3\)

2.8 Responses to CP25/18 asked that the period for transitional relief should be as long as possible. The Bank and PRA subsequently communicated its view that 15 months would provide an adequate timeframe for firms and FMIs to prepare and implement the totality of NtA changes. The FCA also set out the same view alongside its final direction published on Friday 29 March 2019.\(^3\)

2.9 It is the Bank’s and PRA’s view that a 15-month period for transitional relief remains an appropriate timeframe for firms and FMIs to adjust to NtA changes after the end of the transition period. Therefore, the new fixed end date of the directions would be Thursday 31 March 2022. This would provide for a transitional period of 15 months from the end of the transition period.

**Transitional period relating to credit ratings**

2.10 The near-final Bank and PRA directions and the February version of PSS/19 identified the use of EEA credit ratings as a policy area where the Bank and PRA intend to provide a shorter transitional period of 12 months. This is to align with the specific transitional provision provided for in the Credit Rating Agencies (Amendment, etc.) (EU Exit) Regulations 2019 (the CRA SI). The end date of this shorter transitional relief period in the CRA SI will move as a consequence of updating exit day to IP completion day. The Bank and PRA therefore intend to maintain the alignment with this 12-month period at the end of the transition period.

**Duration of transitional relief for firms in TPR and FSCR**

2.11 As set out in the February version of PSS/19, for firms in TPR and FSCR the transitional relief does not apply in most cases. For the limited number of provisions where transitional relief does apply, the Bank and PRA intend to continue the alignment of the maximum duration of TPR transitional relief with that of the overall Bank and PRA transitional relief.

2.12 The Bank and PRA intend to provide 15 months of transitional relief for two aspects of third-country branch requirements: i) bank branch profit and loss reporting; and ii) Solvency II reporting related to the branch Minimum Capital Requirement (MCR) and Solvency Capital Requirement (SCR) calculations.

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\(^3\) As provided for by the FSMA SI, the temporary transitional power can be used for a period of two years after exit day, and any transitional direction cannot have effect for more than two years after exit day. This will remain the case at the end of the transition period.

2.13 The Bank and PRA intend to keep the duration of other TPR transitional relief periods the same as set out in the February version of PS5/19, ie where a 3-month transitional period is set out, this will become 3 months after the end of the transition period.\textsuperscript{36} \textsuperscript{37}

**Updates to the transitional directions**

2.14 The Bank’s and PRA’s final transitional directions will be similar to the near-final directions that were published as part of the February version of PS5/19, and subsequently clarified in the July 2019 draft directions. A number of consequential amendments are required to the Bank and PRA’s transitional direction to amend references to exit day to IP completion day. A few further limited changes will be made. They are set out below and in the draft directions in Appendices 1 and 2.

2.15 Further changes to the final transitional directions may be required, dependent on the need for further specific exclusions from the temporary transitional power for NtA changes to CRD V and BRRD II derived legislation and rules once the final policies have been confirmed.

**Changes to the PRA transitional direction**

**Amendments to Paragraph 5 (1)(j)**

2.16 The PRA is consulting on its proposed amendments to External Credit Assessment Institutions (ECAI) mapping BTS (see para 4.10). These changes are intended to provide clarity to firms that they may continue to use ratings issued by the new UK CRA legal entities where the existing mappings currently only refer to the specific EU legal entity. The PRA intends to exclude these changes from the application of the transitional temporary power such that they are effective from the end of the transition period.

**Amendments to Paragraph 5 (1)(p)**

2.17 The PRA is consulting on proposed amendments relating to the symmetric adjustment of the equity risk capital charge (SAECC) under Solvency II (see para 4.4). These changes are intended to ensure that, for the purposes of calculating the symmetric adjustment, the applicable equity index is representative of the equities held by UK insurers. The PRA intends that these changes will take effect from the end of the transition period and so, for the avoidance of any doubt, intends to expressly exclude them from the application of the temporary transitional power.

**Amendments to Paragraph 10 (3)(d)-(e)**

2.18 The PRA intends to provide transitional relief to former passporting firms so that those firms will be allowed to benefit from transition relief upon the Remuneration Part of the PRA Rulebook commencing to apply to them. Paragraph 10 of the direction provides that:

- Where the PRA imposes stricter requirements than required under CRD, former passporting firms will not be required to comply with those stricter requirements until the beginning of the performance period following IP completion day for at least three months. In place of those stricter PRA requirements the firm must comply however with corresponding CRD requirements.

\textsuperscript{36} These include 3 months of transitional relief for status disclosure rules; 6 months for Solvency II qualitative reporting and; first performance year starting on or after the date falling 3 months after the end of the transition period for remuneration rules where they go beyond CRD IV.

\textsuperscript{37} Transitional relief does not apply to the TRR.
• Former passporting firms will not need to notify or seek new approvals from the PRA for the exclusion of Material Risk Takers in accordance with the Material Risk Taker Regulation in respect of the performance period in which IP completion day falls.

• Former passporting firms may comply with certain proportionality thresholds either in sterling (as proposed to apply from 1 January 2021 in CP 12/2038) or in the Euro thresholds specified by CRD V.

Part 1: Joint Bank and PRA consultation

3  Section B – Changes to rules and Binding Technical Standards

Updates and consequential amendments proposed to Bank and PRA EU Exit Instruments
3.1 This part sets out Bank (as FMI competent authority and resolution authority) and PRA proposals in relation to consequential amendments required to existing Bank and PRA EU Exit Instruments to update references to exit day. It also explains a small number of changes to existing Instruments in light of adaptations to relevant EU legislation made by the European Economic Area (EEA) Agreement.

Updating references to exit day and connected dates
3.2 Following the ratification of the Withdrawal Agreement, the UK entered into a transition period which is due to expire at 11pm on Thursday 31 December 2020. This date is defined in UK law as IP completion day. In light of the transition period, the EU (Withdrawal Agreement) Act 2020 delayed the entry into force of relevant EU Exit Instruments from exit day (Friday 31 January 2020) until IP completion day (11pm on Thursday 31 December 2020).

3.3 In addition, the Financial Services (Consequential Amendments) Regulations 2020\(^{39}\) amended references to exit day in those EU Exit SIs which are already in force\(^ {40}\) so that they take effect by reference to IP completion day. HM Treasury is expected to bring forward further legislation to update, where appropriate, remaining references to exit day to IP completion day and other connected dates in EU Exit SIs which are not already in force.

3.4 To ensure an operable legal and regulatory financial services framework at the end of the transition period, there are a number of consequential amendments required to update references to exit day to IP completion day in existing Bank and PRA EU Exit Instruments. It is not necessary to amend references to exit day which are contained within the commencement (entry into force) provisions of these Instruments, as they are to be read as having been updated to IP completion day in accordance with paragraph 1 of Schedule 5 to the EU (Withdrawal Agreement) Act 2020.

Changes relating to the EEA Agreement
3.5 The Financial Services Annex to the EEA Agreement applies EU financial services legislation to the EEA-European Free Trade Association (EFTA) countries (Norway, Iceland, and Liechtenstein) together with ‘adaptations’. These adaptations form part of retained EU law, where relevant. As a result, a small number of existing Bank and PRA EU Exit Instruments require minor technical amendments in order to reflect these adaptations. These technical amendments ensure consistency with the government’s general approach to onshoring, which is to treat EEA countries (the 27 EU Member States and three EEA-EFTA states) in the same way as other countries.

PRA proposals on updates and consequential amendments required to BTS and PRA Rulebook

BTS changes
3.6 The PRA has identified references to exit day in the following EU Exit Instruments, which it proposes to amend to IP completion day. These changes are contained in the draft PRA Technical Standards (Consequential Amendments) (EU Exit) Instrument 2020 in Appendix 5:

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\(^{40}\) Such as the Temporary Permissions Regime and the Temporary Recognition Regime SIs.
• The Technical Standards (Capital Requirements) (EU Exit) (No. 3) Instrument 2019;
• The Technical Standards (European Market Infrastructure) (EU Exit) (No. 3) Instrument 2019;
• The Technical Standards (Financial Conglomerates) (EU Exit) Instrument 2019;
• The Technical Standards (Bank Recovery And Resolution Directive) (EU Exit) (no.2) Instrument 2019; and

Update to the duration of transitional relief in BTS 2016/2251 on risk-mitigation techniques for over-the-counter (OTC) derivative contracts

3.7 To provide clarity the PRA has replicated the effect of the application of the general transitional power with specific amendments within the BTS on bilateral marging under the European Market Infrastructure Regulation (EMIR). Firms can therefore continue to rely on existing operational and legal arrangements for compliance with this BTS for the duration of the transitional relief.

3.8 In line with the proposals set out in this CP, in order to maintain alignment of the specific transitional provisions in the bilateral marging BTS with the general approach to the temporary transitional power, the PRA proposes to update the end date of the transitional relief to Thursday 31 March 2022 (from Tuesday 30 June 2020). This means that the total duration of the specific relief on bilateral marging remains unchanged (from that proposed in relation to exit day). These changes are contained in the draft PRA EMIR (No. 5) Instrument in Appendix 8.

3.9 The BTS also supplements transitional provisions provided for in the CRA SI (and the general use of the temporary transitional power with respect to credit ratings as set out above) to extend the transitional period for use of regulatory ratings to apply to non-financial firms. The PRA proposes to maintain alignment of the specific transitional period within the BTS with that of the CRA SI (ie 12 months).

3.10 The PRA is additionally consulting on its proposed corrections to BTS 2016/2251 on risk-mitigation techniques for OTC derivative contracts as the result of amendments to this BTS which are expected to be in force before the end of the transition period (see para 4.30).

BTS 241/2014 on own funds requirements for institutions

3.11 Article 4(2) and Article 5(2) of BTS 241/2014 sets out the list of entities that qualify as ‘cooperative societies’ and ‘savings institutions’ respectively. The PRA had previously deleted from the list the EU entities that qualify as cooperative societies and savings institutions in the CRR (No. 3) Instrument.

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44 The Technical Standards (Capital Requirements) (EU Exit) (No. 3) Instrument 2019.
Due to adaptations in the EEA Agreement, the PRA also intends to delete Liechtenstein and Norwegian entities from the list of entities that qualify as cooperative societies and savings institutions (consistent with the deletion of the relevant entities in the 27 EU Member States). The PRA therefore proposes to amend the CRR (No. 3) Instrument\textsuperscript{45} to delete paragraphs (t) and (u) of Article 4(2) and paragraphs (b) and (g) of Article 5(2) of BTS 241/2014 in respect of Liechtenstein and Norway. These changes are contained in the draft CRR (No. 4) Instrument\textsuperscript{46} in Appendix 6.

PRA Rulebook changes

The PRA has identified references to exit day in the following parts of the PRA Rulebook: (EU Exit) Instrument 2019, which it proposes to amend to IP completion day. These changes are incorporated into the draft PRA Rulebook (EU Exit) Instrument 2020, and can be viewed in Appendix 6 of this CP:

- annex A: Amendments to the Glossary;
- annex B: Amendments to the Interpretation Part;
- annex L: Amendments to the Compliance and Internal Audit Part;
- annex O: Amendments to the Contractual Recognition of Bail-In Part;
- annex Q: Amendments to the Credit Unions Part;
- annex R: Amendments to the Depositor Protection Part;
- annex U: Amendments to the Fees Part;
- annex AD: Amendments to the Group Supervision Part;
- annex AM: Amendments to the Insurance – Senior Managers Regime – Applications and Notifications Part;
- annex AQ: Amendments to the Insurance General Application Part;
- annex BC: Amendments to the Policyholder Protection Part;
- annex BR: Amendments to the Risk Control Part;
- annex BU: Amendments to the Senior Managers Regime – Applications and Notifications Part;
- annex CA: Amendments to the Transitional Measures Part; and
- annex CB: Amendments to the Undertakings in Difficulty Part.

Update to the duration of transitional relief for credit union investments

The PRA intends to change PRA rules to allow credit unions to hold pre-IP completion day EEA investments to maturity (to a maximum of 5 years). Any (non-UK) EEA investment made after IP completion day cannot have a maturity beyond the duration of transitional relief (ie until 31 March 2022). This follows the general approach in this CP to the consequential amendment of exit day to

\textsuperscript{45} The Technical Standards (Capital Requirements) (EU Exit) (No. 3) Instrument 2019.
\textsuperscript{46} The Technical Standards (Capital Requirements) (EU Exit) (No. 4) Instrument 2020.
IP completion day in PRA rules. The transitional relief for credit union investments had a fixed end date of Thursday 31 December 2020. The PRA proposes to shift this fixed end date to Thursday 31 March 2022, such that the total duration of the transitional relief remains unchanged (from that proposed in relation to exit day). The changes are contained in the draft PRA Rulebook (EU Exit) Instrument 2020 in appendix 6.

**Bank (as FMI competent authority) proposals on updates and consequential amendments required to BTS**

**BTS changes**

3.15 The Bank (as FMI competent authority) has identified references to exit day in the following EU Exit Instruments, which it proposes to amend to IP completion day. These changes are contained in the draft Bank Technical Standards (Consequential Amendments) (EU Exit) Instrument 2020 in Appendix 10:

- The Technical Standards (European Market Infrastructure) (EU Exit) (No. 1) Instrument 2019; and

**BTS 2015/2205, BTS 2016/592 and BTS 2016/1178 on the Clearing Obligation**

3.16 Due to adaptations in the EEA Agreement, the Bank intends to delete the extension of Articles 3(1) and 4(4) to OTC derivative contracts concluded between counterparties established in EFTA states and counterparties in EU Member States. Therefore, the Bank proposes to amend the EMIR (No. 2) Instrument⁴⁷ to delete from Articles 3(1) and 4(4) of BTS 2015/2205,⁴⁸ BTS 2016/592⁴⁹ and BTS 2016/1178⁵⁰ the adaptations made by the EEA Agreement. The changes are contained in the draft Bank EMIR (No. 4) Instrument⁵¹ in Appendix 13.

**Bank (as resolution authority) proposals on updates and consequential amendments required to BTS**

**BTS changes**

3.17 The Bank (as resolution authority) has identified references to exit day in the following EU Exit Instruments, which it proposes to amend to IP completion day:


- The draft Technical Standards (Bank Recovery and Resolution) (Amendment etc.) (EU Exit) (No. 3) Instrument 2019. These changes are contained in the draft BRRD (No. 3) Instrument 2019/348⁵² on simplified obligations which the Bank consulted on in CP32/18.⁵³ At that time, the Bank did not have the mandate from HM Treasury to make these amendments, and so these changes were not made previously. The correct mandate is now in place and accordingly the Bank intends to

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⁴⁷ The Technical Standards (European Market Infrastructure) (Amendment etc.) (EU Exit) (No. 2) Instrument 2019.
⁵¹ The Technical Standards (European Market Infrastructure) (Amendment etc.) (EU Exit) (No. 4) Instrument 2020.
make these changes before the end of the transition period. The Bank’s amendments to BTS 2019/348 are otherwise unchanged to those consulted on in CP32/18.
Part 2: PRA consultation

4  Section B – Changes to rules and Binding Technical Standards

Further proposed changes to PRA Rulebook and Binding Technical Standards

BTS changes

Amending BTS

4.1 There have been a number of new BTS of relevance to the PRA’s remit that have been adopted by the European Commission since July 2019, when the PRA last consulted on draft EU Exit Instruments. The vast majority of these new BTS have amended existing BTS and have not created additional deficiencies. New amending BTS in the PRA’s remit which have not required additional deficiency fixes include:

- BTS 2019/2028\(^5\) and BTS 2020/744\(^5\) which update the mapping of ECAIs’ credit ratings to credit quality steps for the purposes of the Standardised Approach to credit risk in the CRR and for the Solvency Capital Resources and Requirements in Solvency II. The PRA is additionally consulting on proposed amendments to these BTS to update the mappings to include reference to new UK Credit Rating Agency (CRA) legal entities where the existing mappings currently only refer to specific EU legal entities (see para 4.10);

- BTS 2020/125\(^5\) which specifies the list of diversified indices that are exempted from specific risk for the purposes of the Standardised Approach to market risk in the CRR;

- BTS 2019/2091\(^5\) which specifies the list of closely correlated currencies on which firms can apply a lower risk weight for calculating the capital requirements for foreign exchange risk for the purposes of the Standardised Approach to market risk in the CRR;

- BTS 2020/448\(^5\) which specifies the conditions under which Simple, Transparent and Standardised (STS) Securitisation Special Purpose Entities are exempt from posting collateral for non-centrally cleared OTC derivatives in EMIR. The PRA is additionally consulting on proposed amendments to BTS 2016/2251\(^5\) on risk-mitigation techniques for OTC derivative contracts (see para 3.7 and para 4.30); and

- BTS 2020/866\(^6\) which modifies the aggregation factor for additional valuation adjustments in relation to the prudent valuation of fair-valued financial instruments in response to Covid-19.

Amendments to reporting BTS

4.2 There are also two new amending BTS in the PRA’s remit in relation to supervisory reporting requirements. These are BTS 2020/429\(^6\) which includes the latest updates to COREP and FINREP reporting templates under the CRR, and BTS 2019/2103\(^6\) which includes the latest update to Solvency II reporting templates. The PRA has identified one deficiency in Article 1(1)(b) of Regulation 2020/429, which adds a new provision to Article 5(b)(1) of Regulation 680/2014 stating that:

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\(^6\) Commission Implementing Regulation (EU) 2020/744.

\(^5\) Commission Implementing Regulation (EU) 2020/125.


\(^6\) Commission Implementing Regulation (EU) 2020/429.

'Institutions shall be exempted from submitting those securitisation details where they are part of a group in the same country in which they are subject to own funds requirements'. The PRA proposes to delete the reference to ‘same country’ and clarify that the exemption applies to firms which are subject to own funds requirements ‘in the United Kingdom on a consolidated basis’.

4.3 The amendments that BTS 2020/429 and BTS 2019/2103 make to reporting templates and the related instructions are covered by Supervisory Statement (SS) 2/19 ‘PRA approach to interpreting reporting and disclosure requirements and regulatory transactions forms after the UK’s withdrawal from the EU’. The PRA proposes to make a number of minor updates to SS2/19 to remove EU-related references no longer relevant due to updates to the relevant reporting templates, and to make one further clarification (see para 4.33) and one correction. These updates are included in Appendix 3.

**BTS 2015/2016 on the symmetric adjustment of the equity risk capital charge under Solvency II**

4.4 Standard formula insurers must hold capital in respect of any equity assets on their balance sheet based on a prescribed capital charge set out in Article 106 of the Solvency II Directive and Article 172 of the Commission Delegated Regulation 2015/35 (CDR). The symmetric equity adjustment is a variable element of that capital charge. It reduces the capital charge if the specified equity index is lower than its average over the last three years and increases the charge if it is higher.

4.5 Article 172(1)(a) of the onshored CDR requires the equity index to measure the market price of a diversified portfolio of equities which is representative of the nature of equities typically held by insurance and reinsurance undertakings. The symmetric equity adjustment as currently specified in BTS 2015/2016 is based on an index determined by the European Insurance and Occupational Pensions Authority (EIOPA), which is predominantly weighted to the equity markets of EU countries, and has a smaller weighting to the UK equity market. Consequently, the PRA considers that the equity index as set out in BTS 2015/2016 is not representative of equities held by UK insurance and reinsurance undertakings and is therefore deficient.

4.6 The PRA therefore proposes, for the purposes of calculating the symmetric adjustment, to determine an equity index that is representative of the equities held by UK insurers. Specifically, the PRA proposes to determine the equity index according to the following approach, based on UK insurers’ equity holdings as at year-end 2019 as taken from QRT template S.06.02.01:

- The constituents of the PRA’s equity index would be chosen based on those countries to which UK insurers have at least 2.5% equity exposure, measured by aggregate market value expressed in Sterling.
- The weightings assigned to each of the constituent countries would reflect the proportion of UK insurers’ equity holdings by country. These weightings would be determined using the respective aggregate market values expressed in Sterling, and scaled up for holdings in countries omitted due to the 2.5% threshold mentioned above.
- Local currency equity price indices would be chosen to represent the equity markets of each of the countries included in the PRA index.
- UK insurers’ aggregate exposures to equities in Europe (excluding the UK) countries would be

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4.7 The PRA has assessed the potential impact of the proposed equity index and considers that it would lead to more appropriate symmetric equity adjustment calculations, and hence a more appropriate SCR for UK firms using the standard formula for equity risk.

4.8 The composition of the proposed equity index weights is set out in the table below.

<table>
<thead>
<tr>
<th>Example equity indices (price indices)</th>
<th>Proposed PRA weights</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTSE All Share Index</td>
<td>0.48</td>
</tr>
<tr>
<td>Nikkei 225</td>
<td>0.07</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>0.30</td>
</tr>
<tr>
<td>FTSE Developed Europe ex UK (local currency)</td>
<td>0.15</td>
</tr>
</tbody>
</table>

4.9 The composition of the equity index set out in BTS 2015/2016 is set out in the table below for comparison.

<table>
<thead>
<tr>
<th>Equity indices (price indices)</th>
<th>Weights set out in BTS 2015/2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEX</td>
<td>0.14</td>
</tr>
<tr>
<td>CAC40</td>
<td>0.14</td>
</tr>
<tr>
<td>DAX</td>
<td>0.14</td>
</tr>
<tr>
<td>FTSE All Share Index</td>
<td>0.14</td>
</tr>
<tr>
<td>FTSE MIB Index</td>
<td>0.08</td>
</tr>
<tr>
<td>IBEX 35</td>
<td>0.08</td>
</tr>
<tr>
<td>Nikkei 225</td>
<td>0.02</td>
</tr>
<tr>
<td>OMX Stockholm 30 Index</td>
<td>0.08</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>0.08</td>
</tr>
<tr>
<td>SMI</td>
<td>0.02</td>
</tr>
<tr>
<td>WIG 30</td>
<td>0.08</td>
</tr>
</tbody>
</table>

**BTS mapping external credit rating agencies’ credit rating to credit quality steps**

4.10 UK regulated entities may use credit ratings for regulatory purposes if they are issued or endorsed by registered UK CRAs. In order for firms to use credit ratings under the CRR and Solvency II, the relevant UK CRA must have its credit rating categories mapped to credit quality steps. There are three BTS in the PRA’s remit that map External Credit Assessment Intuitions’ credit ratings to credit quality steps. These are:
• BTS 2016/1799\textsuperscript{65} for the purposes of the Standardised Approach to credit risk in the CRR;

• BTS 2016/1800\textsuperscript{66} for the purposes of Solvency Capital Requirements calculations in Solvency II;

• BTS 2016/1801\textsuperscript{67} for the purposes of the CRR provisions relating to securitisation exposures.

4.11 BTS 2016/1799 and BTS 2016/1801 for the CRR are shared with the FCA. These BTS have been split by CRR (No.3) Instrument,\textsuperscript{68} resulting in separate parts for the FCA and PRA respectively. Each regulator can only make amendments to its own part.

4.12 Some CRA groups are setting up new UK legal entities. As a result, the FCA intends to change its parts of BTS 2016/1799 and BTS 2016/1801 to include these new UK legal entities where the existing mappings refer only to specific EU legal entities. The mappings themselves do not require updating, because the new UK entities in question use the same credit rating methodologies as the rest of their groups. The FCA consulted on its proposed amendments to its parts of BTS 2016/1799 and BTS 2016/1801 in its September 2019 QCP,\textsuperscript{69} and is currently consulting on further updates to this BTS in its September 2020 QCP.\textsuperscript{70}

4.13 The PRA proposes to update the three mapping BTS in its remit, to align with the FCA’s changes, by adding the new UK CRA legal entities where the existing mappings currently refer only to specific EU legal entities. These changes are to ensure consistency with the FCA’s part of the CRR BTS. Changing the Solvency II BTS also ensures consistency between the banking, investment and insurance sectors.

Expected BTS changes

4.14 There are a number of BTS that are expected to be adopted by the EU Commission before the end of the transition period. If these BTS are adopted and become applicable before the end of the transition period, they will form part of the UK body of retained EU law. Where BTS are expected to be applicable by the end of the transition period, the PRA is consulting on its proposed amendments to the published draft text. In the event a BTS is adopted with significant changes by the EU Commission, compared to the published draft, the PRA will adjust the proposed changes accordingly to ensure that the UK continues to have a functioning financial services regulatory regime. In the event a BTS is not adopted and applicable by the end of the transition period, the PRA will provide an update on its expected approach.

New market risk BTS as part of the Fundamental Review of the Trading Book

4.15 There are three new BTS expected to come into force before the end of the transition period as part of the implementation of the Internal Model Approach under the Fundamental Review of the Trading Book (FRTB) in CRR2. These three BTS have been submitted by the European Banking Authority (EBA) to the EU Commission, and are awaiting adoption:

(i) BTS on risk factors modellability, which prescribes the criteria for risk factors to be modellable under the Internal Model Approach;

\textsuperscript{65} Commission Implementing Regulation (EU) 2016/1799.

\textsuperscript{66} Commission Implementing Regulation (EU) 2016/1800.

\textsuperscript{67} Commission Implementing Regulation (EU) 2016/1801.

\textsuperscript{68} The Technical Standards (Capital Requirements) (EU Exit) (No. 3) Instrument 2019.


(ii) BTS on backtesting and profit and loss attribution (PLA) test requirements, which prescribes the two Internal Model Approach tests on backtesting and PLA requirements; and

(iii) BTS on liquidity horizons, which prescribes the criteria for mapping risk factors to the liquidity horizons specified in CRR2 under the Internal Model Approach.

4.16 The PRA has not identified any deficiencies in the EBA’s draft text for the BTS on backtesting and PLA test requirements.

4.17 The PRA has identified one minor deficiency in the EBA’s draft text for the BTS on risk factors modellability in Article 2(5) which contains references to two definitions in the Market in Financial Instruments Directive (MiFID) for data reporting service providers and multilateral systems. As these definitions refer to terms defined in EU directives, the PRA proposes to amend these definitions to reference the relevant UK implementing definitions in the Data Reporting Services Regulations and the Market in Financial Instruments Regulations respectively.

4.18 The PRA has also identified one deficiency in the BTS on liquidity horizons. This BTS specifies that large market capitalisation equities are those with market capitalisation greater than €1.75 billion, or all EU equities included in BTS 2016/164671 regardless of actual market capitalisations. Here the PRA proposes to update the BTS by replacing the word ‘Union’ with ‘United Kingdom’ in Article 7(b) of the BTS. This will have the effect of only referring to the equities in the UK indices as listed in onshored BTS 2016/1646.

**New Securitisation BTS**

4.19 The PRA expects a new Securitisation BTS in relation to risk retention to be in force before the end of the transition period. This BTS has been submitted by the EBA to the EU Commission, and is awaiting adoption. The retention of a material net economic interest aims to align interests between the parties respectively transferring and assuming the credit risk of the securitised exposures, reducing the risk of moral hazard. This BTS clarifies expectations, and when an exposure to a securitisation is deemed to occur in relation to certain specific instances.

4.20 The PRA has identified a number of minor deficiencies in the EBA’s draft BTS. There are two references to the ‘Union’ in Article 14; the PRA proposes to delete one and change the other to refer to the United Kingdom. There is also one reference to MiFID Article 4(2), which the PRA proposes to replace with a description of how relevant firms must treat client funds. The PRA also proposes to add onshored definitions for third-country, UK parent institution, financial holding company, and for mixed financial holding company to Article 1 of the draft BTS.

4.21 This BTS is split between PRA and FCA. As it would repeal BTS 625/201472 the PRA proposed to delete the onshoring amendments previously made to that BTS in the CRR (No. 3) Instrument.73

4.22 The FCA is additionally consulting on a new Securitisation Disclosure BTS, which is owned jointly with the PRA.74 The BTS specifies the information that the originator, sponsor, and securitisation special purpose entity must disclose to investors, the competent authority, and upon request to potential investors.

73 The Technical Standards (Capital Requirements) (EU Exit) (No. 3) Instrument 2019.
New Remuneration BTS

4.23 The PRA expects a new Remuneration BTS to be in force before the end of the transition period. The EBA’s draft BTS identifies categories of staff whose professional activities have a material impact on the risk profile of firms, referred to as material risk takers (MRTs). The draft BTS also defines certain terms used in relation to MRT identification in CRD and in the PRA Rulebook following the transposition of CRD V.

4.24 The EBA’s draft BTS also repeals BTS 604/2014\(^{75}\) for PRA-regulated credit institutions. The BTS remains in force for FCA solo-regulated investment firms. The PRA notes that the BTS, as currently drafted by the EBA, would not repeal BTS 604/2014 in relation to PRA designated investment firms. Once the final BTS text is adopted by the Commission, the PRA will consider whether additional onshoring changes are required to ensure that PRA designated investment firms are not simultaneously subject to the new BTS and BTS 604/2014. The PRA’s intention is that PRA designated investment firms should be subject to the new BTS only (provided that they apply before the end of the transition period).

4.25 There is a reference to Member States in Article 11, which the PRA proposes to amend to refer to the United Kingdom. There are 19 references to CRD (Directive 2013/36/EU), which in most cases the PRA proposes to replace with reference to the relevant definition in the Remuneration Part of the PRA Rulebook and in some cases delete. Article 4(b) refers to the definition of core business line in point (36) of paragraph 1 of Article 2 of BRRD (Directive 2014/59/EU). The PRA proposes to spell out the BRRD definition of core business line in the BTS.

4.26 In the BTS, there are three criteria based on minimum monetary thresholds denominated in EUR:

- Article 6(3) – €5 million: The nominal amount of a transaction that generates credit risk exposures. An employee is an MRT if they have the authority to take, approve, or veto decisions on such credit risk exposures, or if they are a voting member of a committee which has such authority.

- Article 7(1)(a) – €750,000: The individual’s total remuneration awarded in or for the preceding financial year. An employee is an MRT if they receive a total remuneration equal or greater than the threshold, unless the PRA approves an exclusion.

- Article 7(4) – €1 million: The individual’s total remuneration awarded in or for the preceding financial year. As above, but the PRA may approve an exclusion only in exceptional circumstances.

4.27 The PRA proposes to set these thresholds in Sterling after the end of the transition period, in line with the approach proposed for remuneration thresholds in the Remuneration Part of the PRA Rulebook and SS2/17, currently under consultation as part of the PRA’s proposed changes to PRA rules in order to implement elements of CRD V.

4.28 The PRA considers that this would promote the safety and soundness of regulated firms by ensuring an equally stringent but more stable set of criteria for the identification of individual MRTs, irrespective of fluctuations in the exchange rate. This also establishes a coherent regime given the PRA proposals to convert remuneration thresholds to Sterling in the PRA Rulebook. To inform its view of the appropriate Sterling thresholds, the PRA has used the average of daily GBP/EUR spot exchange rates over a 12-month period prior to Friday 10 July 2020: £1 = €1.14, rounded to the

nearest integer. This is the same exchange rate proposed for the EUR thresholds in the Remuneration Part of the PRA Rulebook and SS2/17.

4.29 The PRA’s proposals are outlined in the table below.

<table>
<thead>
<tr>
<th>Threshold</th>
<th>Individual authority on decisions regarding credit risk exposures of a nominal amount per transaction Art. 6(3)</th>
<th>Individual total remuneration Art. 7(1)(a)</th>
<th>Individual total remuneration Art. 7(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRD V (EUR)</td>
<td>€5 million</td>
<td>€750,000</td>
<td>€1 million</td>
</tr>
<tr>
<td>Proposed (GBP)</td>
<td>£4.5 million</td>
<td>£660,000</td>
<td>£880,000</td>
</tr>
</tbody>
</table>

Amendments to BTS 2016/2251 on risk-mitigation techniques for OTC derivative contracts

4.30 The PRA expects a number of pending amendments to BTS 2016/2251\(^\text{76}\) in relation to risk-mitigation techniques for OTC derivative contracts to be in force before the end of the transition period.

4.31 The draft amending BTS extends the initial margin implementation phase-in timelines, and delays application of the rules to physically settled foreign exchange (FX) forward and swap contracts with end users, intragroup contracts, and equity option contracts.

4.32 The PRA has identified a number of deficiencies in the EBA’s draft amendments. There are further amendments needed to previous onshored BTS to reflect the draft amendments as proposed by the EBA. In particular:

- Articles 36(1)(d)–(e): Extension to the implementation phase-in period. In line with the Basel Committee on Banking Supervision and the International Organization of Securities Commissions, the European Supervisory Authorities (ESAs) have proposed to delay the 2020 implementation phase-in period, and introduced an additional implementation phase. As outlined in CP26/18,\(^\text{77}\) due to the operation of the Act, Article 36(1)(d)–(e) (the 2019/2020 phases) would not have been onshored in April 2019. Given the subsequent agreement of the transition period, Article 36(1)(d)–(e) would be onshored at IP completion day. However, the proposed ESA amendments update timelines and thresholds beyond the expiry of the transition period, so are not onshored as a matter of course under the Act. The PRA will update the proposed approach post-transition period in due course.

- Articles 36(2)–(3) and Article 37(3)(a): The ESAs have proposed amendments to the provisions in Articles 36 and 37 which provide derogations for certain intragroup transactions. HMT has separately legislated for a temporary UK regime for intragroup transactions in Part 5 of The Over the Counter Derivatives, Central Counterparties and Trade Repositories (Amendment, etc., and Transitional Provision) (EU Exit) Regulations 2019. Consistent with the PRA’s policy.

\(^{76}\) Commission Delegated Regulation (EU) 2016/2251.

approach in PSS/19 the PRA proposes to continue to delete the derogations in Articles 36 and 37.

- Article 31a: Physically settled FX forwards and swaps. The proposed 2020 ESA amendment updates a 2017 BTS amendment to the scope of FX contracts (which was ultimately not adopted). The 2020 amendment broadens the exemption for physically settled FX forwards and swaps. This provision will be onshored.

Amendments to BTS 2016/2070 on reporting for benchmarking

4.33 The PRA additionally expects amendments to BTS 2016/2070\(^7\) in relation to benchmarking portfolios, reporting templates, and reporting instructions to be made applicable before the end of the transition period. The EBA has submitted its draft amendments to BTS 2016/2070 in relation to benchmarking portfolios, reporting templates, and reporting instructions to the EU Commission. These amendments will require firms to complete and submit new IFRS 9 (Financial Instruments) data templates to the PRA on an annual basis. The four new IFRS 9 templates include a requirement for detailed counterparty level information in relation to probability of default, loss given default, and expected loss, as well as comparisons to internal ratings-based (IRB) results. The proposed amendments also make some minor revisions to existing reporting requirements in relation to credit risk IRB templates.

4.34 The existing expectations set out in SS2/19 for how firms should interpret EU references in templates and instructions remain relevant for the amended and new benchmarking templates. However, the PRA proposes to add one further clarification to SS2/19 (alongside the other changes mentioned in para 4.2), which is required to reflect a distinctive element of the new IFRS 9 benchmarking instructions. The PRA is consulting on its proposed updates to SS2/19, which are included in Appendix 3.

PRA Rulebook changes

4.35 There are additionally a number of small amendments required to the PRA Rulebook. These proposed changes are set out below.

Amendments to Mortgage Reporting rules

4.36 The PRA has identified two minor deficiencies in the Mortgage Reporting Part of the PRA Rulebook, as a result of new rules to increase the data that mortgage lenders and administrators are required to submit via the Product Sales Data Return and the Mortgage Lending and Administration Return.

4.37 The PRA therefore proposes to make two minor amendments to these rules. These changes are to reflect the end of the UK passporting regime for EEA firms at the end of the transition period, and the consequential deletion of the definition of ‘incoming EEA firm’ from the Glossary and other parts of the PRA Rulebook. The PRA’s proposed changes are to clarify the amended scope of these new rule requirements at the end of the transition period by removing the redundant exemption for EEA firms with permissions for cross border services only.

Amendments to PRA Depositor Protection and Contractual Recognition of Bail-In rules

4.38 The PRA proposes to make an amendment to the definition of ‘micro, small and medium-sized enterprise’ in the Depositor Protection and Contractual Recognition of Bail-In Parts of the PRA Rulebook to clarify that the calculation of the relevant turnover criteria in the definition takes into account all provisions in the Annex to Commission Recommendation 2003/361/EC, including any

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\(^7\) Commission Implementing Regulation (EU) 2016/2070.
relevant data from partner enterprises or linked enterprises in accordance with Article 3 of that Annex. This amendment supersedes the earlier proposed amendment to the definitions of ‘enterprise’ and ‘micro, small and medium-sized enterprise’ in the Depositor Protection Part.

Amendments to the Fees Part of the PRA Rulebook Instrument

4.39 In CP4/20, the PRA proposed to simplify PRA rules on the fees payable by firms submitting variation of permission (VoP) applications, so that a fee is only payable for the most complex and resource-intensive applications. This policy was subsequently confirmed in PS16/20.79 Consequentially, the PRA proposes to delete the relevant EU Exit amendments to Fees rule 4.6A in relation to VoPs from the PRA Rulebook (EU Exit) Instrument 2020 to reflect updates made to the rules in PS16/20.

Amendments to the Transitional Measures Part of the PRA Rulebook Instrument

4.40 The PRA proposes to make a minor clarification to Rule 5.1 of the Transitional Measures Part of the PRA Rulebook (EU Exit) Instrument in relation to transitional provisions for the calculation of ‘Standard formula: The basic SCR’, to reflect that the UK is no longer an EEA State.

Amendments to the Glossary Part of the PRA Rulebook Instrument

4.41 The PRA proposes to make a minor correction to the amendments to the definition of ‘relevant risk-free interest rate term structure’ in the Glossary of the PRA Rulebook to replace ‘Solvency II Regulations’ with ‘Solvency 2 Regulations’.

4.42 The previous PRA Rulebook (EU Exit) Instrument 2019 also made amendments to the definition of “State Aid” in the Glossary of the PRA Rulebook. These amendments have not been included in the draft PRA Rulebook (EU Exit) Instrument 2020 in light of HM Government’s recent announcement80 on the approach to subsidy control after the transition period. The PRA will consider what further changes may be required to this definition in light of this announcement.

NtA changes to new rules

4.43 Subsequent to the publication of CP25/18 and CP26/18 in October 2018, a second version of any proposed rules, which includes the necessary changes under the Act, has also been part of relevant PRA CPs.81 Where final rules are made before the end of the transition period, they do not include the NtA changes. Instead, the relevant NtA changes consulted on in these CPs will be made as part of the final PRA Rulebook (EU Exit) Instrument 2020 before the end of the transition period.

Further possible changes to BTS and PRA rules

4.44 Additional changes may be required to BTS and PRA Rulebook EU Exit Instruments once any additional SIs amending new Level 1 EU legislation have been made. It is also possible that additional, directly applicable, EU legislation is adopted before the end of the transition period. The PRA will prioritise making all relevant amendments that it has the mandates for before the end of the transition period. It may not be possible to consult on all changes in advance of them being made. In any such cases, the PRA intends to continue to follow the overall approach set out in CP25/18 and used for previous onshoring changes. For instance, the PRA cannot use its powers under the Act as the basis for policy changes unrelated to the UK’s withdrawal from the EU.

80 See HM Government’s Written Ministerial Statement made on 9 September 2020: https://questions-statements.parliament.uk/written-statements/detail/2020-09-09/HCWS443.
5 The PRA’s obligations under the Regulations

5.1 HM Treasury has delegated a power, under Section 8 of the Act, to the PRA to make changes to PRA rules and relevant BTS. As such, similar restrictions that apply to the power in Section 8 of the Act also apply to the PRA’s delegated power. Different constraints will exist in relation to the temporary transitional power as highlighted in Chapter 4 of CP25/18.

5.2 In accordance with those restrictions, the PRA considers that all changes proposed to rules and BTS in this CP are appropriate to prevent, remedy, or mitigate any:

(i) failure of the relevant PRA rules or BTS to operate effectively; or

(ii) other deficiency in the relevant PRA rules or BTS, arising from the UK’s withdrawal from the EU.

5.3 The types of changes that fall within the scope of ‘deficiency’ are listed in Section 8(2) of the Act. This list is exhaustive, ie all amendments must address deficiencies of these types or make consequential, supplementary, transitory, or transitional provision in connection with them.

5.4 The PRA also confirms that the proposed rule and BTS changes made under the Act do not:

(i) impose or increase taxation or fees;

(ii) make retrospective provision;

(iii) create a criminal offence which is capable of leading to imprisonment of more than two years;

(iv) establish a public authority;

(v) result in the transfer of a function of an EU authority to a UK authority;

(vi) confer any power to legislate by means of orders, rules, regulations, or any other subordinate instrument; or

(vii) amend any legislation other than the relevant BTS.

Equality and diversity

5.5 The PRA has performed an assessment of the policy proposals and does not consider that the proposals give rise to equality and diversity implications.

Next steps

5.6 The PRA invites feedback on the proposals set out in this paper by Tuesday 17 November 2020. Please provide those comments by email to CP13_20@bankofengland.co.uk.

5.7 Alternatively you may provide comments by post to:

Nationalising the Acquis
Bank of England
Threadneedle Street
London
EC2R 8AH
Part 3: Bank (as FMI competent authority) consultation

6 Section B – Changes to Binding Technical Standards

Further proposed changes to Binding Technical Standards

BTS changes

Amendments to BTS 2017/392 on authorisation, supervisory, and operational requirements for central securities depositories (CSDs)

6.1 Article 95(3) sets out the transitional measures for CSDs to provide certain information listed in Article 41 and Article 42(1) to the competent authority as from the date of entry into force of the delegated acts adopted by the Commission, pursuant to Articles 6(5) and 7(15) of the EU CSDR, which relate to the settlement discipline regime (SDR BTS).

6.2 The CSDR (No.1) Instrument\(^{82}\) amended Article 95(3) to the effect that CSDs shall provide the information specified from Sunday 13 September 2020. This was the original date for the coming into force of the SDR BTS as proposed by ESMA. However, ESMA has now postponed this date such that the SDR will come into force at a date that falls after the end of the transition period, meaning that it will not automatically apply in the UK. HMT has publicly confirmed that it will not be taking action to adopt the EU SDR regime. On this basis, a further fix (ie deletion) is required to reflect that Article 95(3) does not form part of the domestic law on or after the end of the transition period.

6.3 Consequently, the relevant information required by Article 95(3) and referred to in certain provisions of Article 41 and Article 42(1) will also be deleted, as they do not form part of the domestic law on or after the end of the transition period.

Amendments to BTS 2015/2205, BTS 2016/592 and BTS 2016/1178 on the Clearing Obligation

6.4 BTS 2015/2205,\(^{83}\) BTS 2016/592,\(^{84}\) and BTS 2016/1178\(^{85}\) have been updated by the EU Commission since March 2019. The changes to these BTS did not create any additional deficiencies in the existing EMIR (No.2) Instrument.\(^{86}\) However, updates to the relevant provisions in the existing Instrument are required to reflect the latest texts.

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\(^{82}\) The Technical Standards (Central Securities Depositories) (Amendment etc.) (EU Exit) (No. 1) Instrument 2019
\(^{84}\) Commission Delegated Regulation (EU) 2016/592.
\(^{85}\) Commission Delegated Regulation (EU) 2016/1178.
\(^{86}\) The Technical Standards (European Market Infrastructure) (EU Exit) (No. 2) Instrument 2019.
7 The Bank’s obligations under the Regulations

7.1 HM Treasury has delegated powers, under Section 8 of the Act, to the Bank to make changes to relevant BTS. As such, similar restrictions that apply to the power in Section 8 of the Act also apply to the Bank’s delegated powers.

7.2 In accordance with those restrictions, the Bank considers that all changes proposed in this CP are appropriate to prevent, remedy, or mitigate any:

(i) failure of the relevant BTS to operate effectively, or

(ii) other deficiency in the relevant BTS, arising from the UK’s withdrawal from the EU.

7.3 The types of changes that fall within the scope of ‘deficiency’ are listed in Section 8(2) of the Act. This list is exhaustive, ie all amendments must address deficiencies of these types or make consequential, supplementary, transitory, or transitional provision in connection with them.

7.4 The Bank also confirms that the proposals do not:

(i) impose or increase taxation or fees;

(ii) make retrospective provision;

(iii) create a criminal offence which is capable of leading to imprisonment of more than two years;

(iv) establish a public authority;

(v) result in the transfer of a function of an EU authority to a UK authority;

(vi) confer any power to legislate by means of orders, rules, regulations, or any other subordinate instrument; or

(vii) amend any legislation other than the relevant BTS.

Equality and diversity

7.5 The Bank does not consider that the proposals give rise to equality and diversity implications.

Next steps

7.6 The Bank invites feedback on the proposals set out in this paper by Tuesday 17 November 2020. Please provide those comments by email to the address below:

CP13_20@bankofengland.co.uk

7.7 Alternatively you may provide comments by post to:

Nationalising the Acquis
Bank of England
Threadneedle Street

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The Bank expects HM Treasury to introduce legislation giving it responsibility for making onshoring changes to these BTS in due course.
### Appendices

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