



Consultation Paper | CP3/22

Occasional Consultation Paper- March 2022

March 2022





BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

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Responses are requested by Tuesday 10 May 2022.

The PRA prefers and comments or enquiries to be sent by email to:

OCP.Responses@bankofengland.co.uk

Alternatively, please address any comments or enquiries to:

Policy Delivery Team (MG07)
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

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1 Overview

1.1 This Consultation Paper (CP) sets out the Prudential Regulation Authority's (PRA) proposals to make minor amendments to UK Technical Standards (UKTS), PRA rules, supervisory statements (SS), Legacy Supervisory Statements (LSS), and a Statement of Policy (SoP).

1.2 The chapters in this CP are relevant to different types of firms, as follows:

- Chapter 2– all UK Solvency II firms, including the Society of Lloyd's and its managing agents, hereafter referred to as 'UK insurers'.
- Chapter 3 – Capital Requirements Regulation (CRR) firms and CRR consolidation entities on an individual, consolidated, and where relevant, sub-consolidated basis (CRR Consolidation Entities). For the purposes of the application of the requirements on a consolidated basis, references to 'firms' include CRR consolidation entities.
- Chapter 4 (a) – banks, building societies, and PRA-designated investment firms.
- Chapter 4 (b) – Capital Requirements Regulation (CRR) firms and CRR Consolidation Entities. For the purposes of the application of the requirements on a consolidated basis, references to 'firms' include CRR consolidation entities.
- Chapter 4 (c) – banks, building societies, and PRA-designated investment firms.
- Chapter 5 – Capital Requirements Regulation (CRR) firms, CRR Consolidation Entities, and UK insurers.
- Chapter 6 – banks, building societies, and PRA-designated investment firms.
- Chapter 7 – banks, building societies, and PRA-designated investment firms.
- Chapter 8 - Capital Requirements Regulation (CRR) firms and CRR Consolidation Entities. For the purposes of the application of the requirements on a consolidated basis, references to 'firms' include CRR consolidation entities.

1.3 The chapters contained in this CP, the policy material they propose to change, and the appendices containing the draft amended policy, are listed in the table below.

Chapter	Policy Material	Appendix
2. The PRA's approach to Solvency II technical information – minor updates	Statement of Policy 'The PRA's approach to the publication of Solvency II technical information'	1
3. Leverage Ratio: Minor amendment to SS45/15	SS45/15 'The UK leverage ratio framework'	2
4. Amendments consequential on CRR Rules	Draft PRA Rulebook: (CRR 2 and other Consequential) Modification Instrument 2022 Draft PRA Standards Instrument: the Technical Standards (Consequential Amendments) Instrument 2022	3

5. Deletion of non-relevant policy material	SS3/13 'Capital and leverage ratios for major UK banks and building societies'	4
	SS4/13 'Solvency II: applying EIOPA's preparatory guidelines to PRA-authorized firms'	5
	SS29/15 'CRD IV: Interim LCR reporting'	6
	Legacy SS4/13 'Liquidity and capital regime for UK banks and building societies: adjustments in relation to FPC statement'	7
	Legacy SS6/13 'Pension obligation risk: treatment in the Internal Capital Adequacy Assessment Process (ICAAP) for banks and building societies'	8
	Statement of Policy 'Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK's withdrawal from the EU'	9
6. Consequential amendments to the PRA Rulebook and UK Technical Standards (UKTS) arising from the introduction of the Investment Firms Prudential Regime (IFPR)	Investment Firms Prudential Regime Amendment Instrument 2022	10
	Draft PRA Standards Instrument: The technical standards (Investment Firms' Prudential Regime Consequential Amendments)	11
7. Amendments to Pillar 3 Liquidity disclosure template and instructions	Template UK LIQ2: Net Stable Funding Ratio	12
	Instructions on Template UK LIQ2 on disclosure of Net Stable Funding Ratio (NSFR)	13
8. CRR Rule Administration Instrument	Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR) Part of the PRA Rulebook; and Counterparty Credit Risk (CRR) Part of the PRA Rulebook; and Leverage Ratio (CRR) Part of the PRA Rulebook	14

The PRA's statutory obligations

1.4 In carrying out its policy making functions, the PRA is required to comply with several legal obligations. The PRA has a statutory duty under the Financial Services and Markets Act 2000 (FSMA)¹ to consult when introducing new rules (FSMA s138J), or new standards instruments (FSMA s138S). The PRA has a public law duty to consult widely where it would be fair to do so.

1.5 The PRA fulfils its statutory obligations and public law duties by providing the following in relation to the proposed policy:

- (i) (i) a cost benefit analysis;

¹ Section 138J of FSMA.

- (ii) (ii) **compatibility with the PRA's objectives:** an explanation of the PRA's reasons for considering that making the proposed rules is compatible with the PRA's duty to act in a way that advances its general objectives,² insurance objective (if applicable),³ and secondary competition objective;⁴
- (iii) (iii) **FSMA regulatory principles:** an explanation of the ways in which having regard to the regulatory principles has affected the proposed rules;⁵
- (iv) (iv) **CRR rules:** in addition to the above, FSMA requires the PRA to 'have regard' to several further matters when making CRR rules.⁶ It also requires the PRA to explain how the new 'have regards' have affected its proposed rules.⁷ Furthermore, when making CRR rules, the PRA is required to 'consider, and consult the Treasury about, the likely effect of the rules on relevant equivalence decisions';
- (v) (v) **impact on mutuals:** a statement as to whether the impact of the proposed rules will be significantly different to mutuals than to other persons;⁸
- (vi) (vi) **HM Treasury recommendation letter:** the Prudential Regulation Committee (PRC) should have regard to aspects of the Government's economic policy as recommended by HM Treasury; and⁹
- (vii) (vii) **equality and diversity:** the PRA is also required by the Equality Act 2010¹⁰ to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

1.6 Appendix 15 lists the statutory obligations applicable to the PRA's policy development process. The analysis in each chapter of this CP explains how each proposal has had regard to the matters listed in paragraph 1.5, including an explanation of the ways in which having regard to these matters has affected the proposals.

1.7 The PRA has consulted with the Financial Conduct Authority (FCA), and HM Treasury with regard to CRR Rules, on the proposals in this OCP.

Implementation

1.8 Pending consideration of the responses to this consultation, the proposed implementation date for the changes resulting from this CP is Thursday 28 July 2022.

Responses and next steps

1.9 This consultation closes on Tuesday 10 May 2022. The PRA invites responses on the proposals set out in this consultation. Please address any comments or enquiries to OCP.Responses@bankofengland.co.uk. Please indicate in your response if you believe any of the proposals in this consultation paper are likely to impact persons who share protected characteristics

² Section 2B of FSMA.

³ Section 2C of FSMA.

⁴ Section 2H(1) of FSMA.

⁵ Sections 2H(2) and 3B of FSMA.

⁶ Section 144C(1) of FSMA.

⁷ Section 144D of FSMA.

⁸ Section 138K of FSMA.

⁹ Section 30B of the Bank of England Act 1998.

¹⁰ Section 149.

under the Equality Act 2010, and if so, please explain which groups and what the impact on such groups might be.

1.10 References related to the UK's membership of the EU in the proposals covered by this CP have been updated as part of these proposals to reflect the UK's withdrawal from the EU. Unless otherwise stated, any remaining references to EU or EU derived legislation refer to the version of that legislation which forms part of retained EU law.¹¹

2 The PRA's approach to Solvency II technical information – minor updates

2.1 In this chapter, the PRA proposes an amendment to its approach to fulfilling its obligation to publish technical information (TI) necessary for the valuation of insurance liabilities for each relevant currency and some clarifications in its approach.¹¹ The proposals would be made effective through an update to the Statement of Policy (SoP), 'The PRA's approach to the publication of Solvency II technical information.'¹²

2.2 This chapter is relevant to all UK Solvency II firms, including the Society of Lloyd's and its managing agents, hereafter referred to as 'UK insurers'.

Proposals

PRA relevant currencies

2.3 The SoP (paragraph 3.3) explains that the PRA chooses PRA relevant currencies using two criteria; (i) by materiality, and (ii) currencies in which UK insurers have Volatility Adjustment (VA) and Matching Adjustment (MA) authorisations. The SoP currently states that the PRA would remove a currency from the list of PRA relevant currencies if it fell outside the above two criteria for three consecutive years. The intent behind the three year condition was to ensure relative stability of the list of the relevant currencies over time (ie. that a currency would not be frequently added and then removed from the list simply on the basis of temporary fluctuations in exposures or financial markets).

2.4 The PRA considers that it remains appropriate that a currency should not be removed from the list of PRA relevant currencies on the basis of the first criterion (materiality) unless it fails for three consecutive years. This is to ensure that the PRA continues to publish SII TI that covers the most material currencies, and that the list remains stable over a number of years. However, the PRA considers that this approach is not appropriate for currencies which no longer meet the second criterion (VA and MA authorisations) only. Therefore, the PRA proposes to update the SoP to state that the three year condition will only apply to the materiality criterion. The amended SoP will confirm that the PRA will provide at least three months' notice before adding or removing a currency from the list of PRA relevant currencies.

Calculation of the long-term average spread (LTAS)

2.5 The PRA proposes to provide a clarification in the SoP about its approach used to calculate the long term average spread (LTAS) for government bonds. Specifically, the PRA may interpolate the government bond spread data for maturities where there isn't reliable financial market data for that government bond. The PRA would consider EIOPA's published conclusions in this area.

Assessment of the depth, liquidity, and transparency of the markets

2.6 In October 2021, the PRA published the outcomes of the annual deep, liquid and transparent assessments (DLTAs) for the nine PRA relevant currencies. These DLTAs considered the swap

¹¹ Regulation 4B of the Solvency 2 Regulations 2015/575.

¹² <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/the-pras-approach-to-publication-of-sii-technical-information>

markets for eight currencies and the Japanese government bond market. The PRA proposes to clarify in the SoP that where a swap market for a currency is insufficiently active, the PRA will focus its DLTA on government bond data for that currency.¹³

2.7 It is also necessary to determine other DLT parameters, such as for the basic risk free rates (RFRs) for certain non-relevant currencies which are used to calculate the internal rate of return for the government bond portfolios used in the VA for relevant currencies. For example, paragraph 3.9 of the SoP explains how the PRA calculates the VA reference portfolios (RPs) using the market value of assets reported in the Quantitative Reporting Templates of European Economic Area firms and (UK) parent undertakings (as defined in the Solvency II Regulations 2015). Currently, Polish Zloty (PLN) government bonds comprise a small weighting in the EUR VA representative portfolio of government bonds. Therefore the basic RFR for PLN is necessary to calculate the EUR VA. The PRA proposes to clarify in the SoP that it will follow the same approach as for non-GBP relevant currencies. This means it will make use of externally published DLT data and analysis, including that published by EIOPA and the International Association of Insurance Supervisors (IAIS), to contribute to its own assessment of the government bond or swap markets for these non-relevant currencies.

2.8 Paragraph 3.6H of the SoP currently refers to ‘the granular country level EIOPA DLT assessment used for the aggregated composition of the EUR VA reference portfolio’. The PRA proposes to delete this paragraph, since this assessment would now be included in the updated paragraphs 3.6ZB and 3.6G of the amended SoP.

2.9 The PRA will also update the terminology throughout the SoP from the ‘future’ to ‘present’ tense to reflect that, as the transition period has now ended, the PRA now implements the approach in the SoP to publish the Solvency II TI. The PRA also proposes to delete paragraph 3.7 since this described the PRA’s approach to calculate the VA for a short period at the end of the TP and is no longer relevant.

The PRA’s statutory obligations

Cost benefit analysis

2.10 The PRA considers that the benefits of the proposals, in terms of the cost savings, are proportionate to the costs to firms. The PRA considers that the first proposal may lead to a currency ceasing to be a PRA relevant currency sooner than it otherwise would have. This may cause an inconvenience for a firm which has technical provisions in a currency which is removed from the list of PRA relevant currencies. However, in that scenario, the firm may be able to implement one of the alternative options discussed in paragraph 3.6 of the SoP and Policy Statement 24/20 (para 2.38).¹⁴ As such, the PRA expects that this proposed amendment would not result in significant additional costs to firms. Removing a currency from the list of PRA relevant currencies earlier will lead to cost savings for the PRA.

2.11 The other proposed clarifications will enhance the transparency of the PRA’s approach to produce the TI and not lead to any additional cost on firms.

Impact on mutuals

2.12 The PRA considers that the impact of the proposed changes on mutuals would be no different from the impact on other firms.

¹³ Article 44 of the onshored Solvency II Delegated Regulation requires a government bond rate from DLT markets to be used for each currency and maturity where interest rate swap rates are not available from DLT markets.

¹⁴ PS24/20: Solvency II technical information: The PRA’s proposed approach to the publication at the end of the transition period <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/solvency-ii-technical-information>

Equality and diversity

2.13 The PRA considers that the proposals do not give rise to equality and diversity implications.

PRA objectives and 'have regards'

PRA objectives

2.14 The PRA has a statutory obligation from the end of the EU Exit transition period to publish TI to enable UK insurers to calculate technical provisions. The proposals in this OCP refine and clarify the PRA's approach to fulfil this obligation.

2.15 The PRA has primary statutory objectives to promote the safety and soundness of firms and ensure that policyholders are appropriately protected. The PRA considers that the proposals set out in this chapter are consistent with this objective since the TI is necessary for the valuation of insurance liabilities for each relevant currency.

2.16 When discharging its general function in a way that advances its primary objectives, the PRA has, as a secondary objective, a duty to facilitate effective competition in the markets for services provided by PRA-authorized persons. The PRA considers that the proposals in this chapter would not have an impact on effective competition due to the low materiality of the changes.

Have regards

2.17 In developing these proposals, the PRA has had regard to the FSMA regulatory principles, the aspects of the Government's economic policy set out in the HMT Recommendations letter. The following factors, to which the PRA is required to have regard, were significant in the PRA's analysis of the proposals outlined in this chapter:

- (i) The principle that regulators use their resources in the most efficient and economical way: Each additional currency for which the PRA publishes TI increases the PRA's operational expenses. Therefore, publishing TI for a currency which is both immaterial and no longer covered within a MA or VA authorisation would not be an efficient use of PRA resource.
- (ii) The principle is that the PRA should exercise its functions as transparently as possible: Updating the SoP would enhance the transparency of the PRA's approach to produce the TI.

2.18 The PRA has had regard to other factors as required, as explained in paragraphs 1.4 and 1.5 and Appendix 15, but they were not significant in the PRA's analysis of the proposal.

3 Leverage Ratio: Minor amendment to SS45/15

3.1 In this chapter, the PRA sets out its proposals to remediate a small inconsistency in relation to the leverage ratio framework.

3.2 The proposal in this chapter would result in amendments to Supervisory Statement (SS) 45/15 'The UK leverage ratio framework' (Appendix 2).

3.3 This chapter is relevant to all Capital Requirements Regulation (CRR) firms and CRR consolidation entities on an individual, consolidated, and where relevant, sub-consolidated basis. For the purposes of the application of the requirements on a consolidated basis, references to 'firms' include CRR consolidation entities.

Proposals

Minor amendment to SS45/15 'The UK leverage ratio framework'

3.4 The PRA finalised changes to the leverage ratio framework in Policy Statement (PS)21/21 'The UK leverage ratio framework'. The changes included making approved holding companies responsible for ensuring compliance with leverage ratio requirements on a consolidated basis.¹⁵ At the time, the PRA stated it would make consequential amendments to the leverage ratio model requirements in due course, and in time to reflect changes taking effect on Saturday 1 January 2021.

3.5 The PRA published updated additional leverage ratio buffer (ALRB) model requirements on Friday 10 December 2021.¹⁶ With effect from Saturday 1 January 2022, approved holding companies that are the parents of G-SII groups to which the UK leverage ratio framework applies have been set an ALRB via a PRA direction under section 192C of the Financial Services and Market Act 2000 (FSMA). The Direction includes an ALRB based on the G-SII buffer and the associated reporting and disclosure requirements.

3.6 The PRA proposes to make a minor consequential amendment to paragraph 2.3 of SS45/15 'The UK leverage ratio framework' to reflect the fact that ALRB model requirements and related reporting and disclosure requirements are applied to approved holding companies via section 192C of the FSMA, as well as to CRR firms via section 55M of the FSMA (see Appendix 15).

3.7 The PRA considers this proposal would provide increased clarity and completeness to the policy material laid out in SS45/15, but that it does not change existing policy as set out in PS21/21 'The UK leverage ratio framework'. The PRA considers that its proposed approach would improve transparency.

The PRA's statutory obligations

Cost benefit analysis

3.8 The PRA considers that the benefits of making the proposed amendment to SS45/15 are proportionate to the costs. The benefits arise from avoiding costs to firms of any potential misinterpretation of the UK leverage ratio framework. The proposed amendment would not result in additional costs to firms or to CRR consolidation entities, as the PRA has already implemented updated ALRB requirements for the relevant entities. This change simply adds a reference to the

¹⁵ PS21/21 The UK leverage ratio framework <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/june/changes-to-the-uk-leverage-ratio-framework>

¹⁶ Additional Leverage Ratio Buffer Model Requirements <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/vreq-additional-leverage-buffers-model-requirements>

updated policy in SS45/15, to provide clarity and completeness to firms and CRR consolidation entities on how these requirements apply to them.

Impact on mutuals

3.9 The PRA does not expect this proposal to have a different impact on mutuals compared to other firms because the proposal does not change existing policy.

Equality and diversity

3.10 The PRA considers that this proposal does not give rise to equality and diversity implications because it does not change existing policy.

PRA objectives and ‘have regards’

PRA objectives

3.11 The PRA considers that ensuring the clarity and completeness of its policy material helps firms understand and comply with PRA rules and provides confidence to firms in following those policies, which contributes to the PRA’s statutory objective to promote the safety and soundness of PRA-authorized firms.

3.12 The PRA does not expect this proposal would have any significant impact on its secondary competition objective, as it does not change existing policy.

Have regards

3.13 In developing these proposals, the PRA has had regard to the FSMA regulatory principles, the aspects of the Government’s economic policy set out in the HMT Recommendations letter. The following factors, to which the PRA is required to have regard, were significant in the PRA’s analysis of the proposals outlined in this chapter:

- (i) **Regulators should exercise their functions as transparently as possible.** The aim of this proposal is to ensure the correctness and/or completeness of the PRA’s policy material, and therefore to make the PRA’s requirements and expectations as transparent and clear as possible.

3.14 The PRA has had regard to other factors as required, as explained in paragraphs 1.4 and 1.5 and Appendix 15, but they were not significant in the PRA’s analysis of the proposal.

4 Amendments consequential on CRR Rules

(a) Consequential modification to Part 2 (PRA) BTS 1152/2014

4.1 In this section of chapter 4, the PRA proposes a consequential modification to Part 2 (PRA) BTS 1152/2014 on the identification of the geographical location of the relevant credit exposures for calculating institution-specific countercyclical capital buffer rates. The proposed consequential modification would provide that references to Part 3 of CRR in Part 2 (PRA) BTS 1152/2014 should be read as including reference to CRR rules, referred to in the proposed modification, in the Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR) and Counterparty Credit Risk (CRR) Parts of the PRA Rulebook.

4.2 The proposals in this chapter would result in a modification to Part 2 (PRA) BTS 1152/2014.

4.3 This chapter is relevant to banks, building societies, and PRA-designated investment firms.

Proposals

Consequential modification to Part 2 (PRA) BTS 1152/2014

4.4 Part 2 (PRA) BTS 1152/2014 refers to several divisions of Part Three of CRR, which contains provisions of CRR that have been deleted in CRR2 without any CRR rules that fall within the legal meaning of ‘corresponding CRR rules’.

4.5 As the PRA’s policy intention is to include the CRR rules referred to in the proposed modification within scope of cross-references to Part 3 CRR in Part 2 (PRA) BTS 1152/2014, the PRA proposes to draft a modification to include references to CRR rules referred to in the proposed modification in:

- the Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR) Part of the PRA Rulebook; and
- the Counterparty Credit Risk (CRR) Part of the PRA Rulebook.

4.6 The PRA considers that its proposed approach to the geographical location of the relevant credit exposures for calculating institution-specific countercyclical capital buffer rates would advance its primary objective, facilitates effective competition and provide further clarity to firms with respect to how to interpret references to Part 3 CRR in Part 2 (PRA) BTS 1152/2014.

The PRA’s statutory obligations

Cost benefit analysis

4.7 The PRA considers that these proposals would not generate additional costs to firms in complying with the BTS. The benefit for firms from the proposed modification would be further clarity with respect to how to interpret references to Part 3 of CRR in Part 2 (PRA) BTS 1152/2014. Part 2 (PRA) BTS 1152/2014 already applies to relevant firms, and the proposed change would not create new obligations.

4.8 The proposed modification to the BTS is intended to be a clarification, and the regulatory requirement for relevant firms to apply requirements to calculate institution-specific countercyclical capital buffer rates would not change as a result of the proposed modification.

Impact on mutuals

4.9 FSMA requires the PRA to assess whether, in its opinion, the impact of the proposed technical standard on mutuals will be significantly different from the impact on other firms, and if so, details of the difference. The PRA considers that the impact of the proposed modification to the Part (2) PRA BTS 1152/2014 on mutuals is expected to be no different from the impact on other firms.

Equality and diversity

4.10 The PRA considers that the proposed modification to Part 2 (PRA) BTS 1152/2014 does not give rise to equality and diversity implications.

PRA objectives and ‘have regards’

PRA objectives

4.11 The PRA has a statutory objective to promote the safety and soundness of PRA-authorized persons. This proposal is intended to give banks, building societies, and PRA-designated investment firms’ further clarity as to the geographical location of the relevant credit exposures for calculating institution-specific countercyclical capital buffer rates, thereby advancing the PRA’s objectives of promoting the safety and soundness of firms.

4.12 The PRA has assessed whether this proposal facilitates effective competition. The PRA considers that this proposal would not have a significant impact on effective competition.

Have regards

4.13 In developing these proposals, the PRA has had regard to the FSMA regulatory principles, the aspects of the Government’s economic policy set out in the HMT Recommendations letter. The following factors, to which the PRA is required to have regard, were significant in the PRA’s analysis of the modification to PRA (BTS) 1152/2014 proposals outlined in this chapter:

- (i) **The need to use the resources of the PRA in the most efficient and economical way:** The PRA considers that the proposed change is minor, would provide further clarity to the firms and ensure that firms submit the appropriate information as required by the PRA. Hence, improving the efficiency of the use of PRA resources; and
- (ii) **The principle that the PRA should exercise its functions as transparently as possible:** The PRA considers that the proposals in this section of chapter 4 are compatible with this principle as they seek to provide further clarity to firms as to the geographical location of the relevant credit exposures for calculating institution-specific countercyclical capital buffer rates.

4.14 The PRA has had regard to other factors as required, as explained in paragraphs 1.4 & 1.5 and Appendix 15, but they were not significant in the PRA’s analysis of the proposal.

Applicable FSMA procedural provisions when making technical standards

4.15 Section 138S FSMA applies certain consultation and procedural provisions to the making of PRA technical standards as they apply to the making of PRA rules. The PRA would apply the relevant sections of FSMA cited in section 138S(2), as modified where relevant, to the making of this modification to Part 2 (PRA) BTS 1152/2014 as the sections would be applicable to the making of PRA rules.

(b) Reporting and Disclosure

4.16 In this section of chapter 4, the PRA proposes changes to reporting requirements and one relevant UK Technical Standard (UKTS) following the implementation of Basel standards.¹⁷ The PRA also proposes minor formatting corrections to rule references in the PRA rulebook.

4.17 The proposals in this chapter would result in consequential amendments to the following parts of the PRA Rulebook:

- (i) the Reporting (CRR) Part of the PRA Rulebook (Appendix 3);
- (ii) the Disclosure (CRR) Part of the PRA Rulebook (Appendix 3); and
- (iii) the Regulatory Reporting Part of the PRA Rulebook (Appendix 3).

4.18 The proposals would also result in consequential amendments to the following UKTS:

- The UK version of Commission Implementing Regulation (EU) No 2016/2070 of 14 September 2016 laying down implementing technical standards for templates, definitions and IT-solutions to be used by institutions when reporting to the European Banking Authority and to competent authorities in accordance with Article 78(2) of Directive 2013/36/EU of the European Parliament and of the Council (Text with EEA relevance) (Appendix 3)¹⁸.

4.19 This chapter is relevant to Capital Requirements Regulation (CRR) firms and CRR Consolidation Entities. For the purposes of the application of the requirements on a consolidated basis, references to 'firms' include CRR consolidation entities.

Proposals

Consequential amendments to the PRA Rulebook and UK Technical Standard (UKTS) arising from Basel III implementation

4.20 The PRA proposes to make 13 consequential amendments (see Appendix 3) to replace references to the CRR that was effective on Friday, 31st December 2021 with references to the CRR effective on Saturday, 1st January 2022. Such references are in the following parts of the PRA Rulebook:

- the Regulatory Reporting Part of the Rulebook; and
- the Reporting (CRR) Part of the Rulebook.

4.21 The PRA also proposes to correct an error that remained in the onshored UK version of the Commission Implementing Regulation (EU) No 2016/2070UKTS. In this UKTS, article 6 'IT solutions for the reporting' includes a reference Article 17 of EU Implementing Regulation (EU) No 680/2014 that is no longer effective. The PRA proposes to replace this reference with the correct article reference in the PRA Reporting (CRR) Part of the PRA Rulebook.

¹⁷ October 2021: <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/february/implementation-of-basel-standards>

¹⁸ September 2016: <https://www.legislation.gov.uk/eur/2016/2070/contents#>

4.22 The PRA considers that the proposed consequential amendments would advance the PRA primary objective, and improve transparency by clarifying the PRA's existing regulatory framework.

Minor corrections to rules and missing hyperlink

4.23 The rule numbers in Chapters 6 of Reporting (CRR) Part and Disclosure (CRR) Part of the Rulebook are not correct. The PRA proposes to amend all the rules in the above mentioned chapters of the PRA Rulebook with the correct number sequence.

4.24 The proposed changes include:

- (i) Updating the description for Annex XIV (Instructions for the liquidity requirements templates) to correct an error and include the missing template;
- (ii) Amending the description with references to disclosure templates for Annex XI (Disclosure of the leverage ratio) and including the corresponding link.
- (iii) Adding a missing template: Annex XXXII (Instructions for leverage ratio disclosures) is missing from the rules.

4.25 The PRA considers that these changes serve to correct minor errors, would assist the PRA in advancing its primary objective by clarifying information for firms, and would make the PRA rules consistent with requirements for firms.

The PRA's statutory obligations

Cost benefit analysis

4.26 The benefits of the proposed changes are expected to be proportionate to the costs. The benefits of the proposed changes would be to ensure that the PRA rulebook reflects the appropriate technical provisions and measures and make reporting requirements clearer for firms.

4.27 The proposed changes are limited to minor corrections. The PRA does not therefore anticipate that the proposals would give rise to any additional costs for firms.

Impact on mutuals

4.28 The PRA considers that the impact of the proposed rule changes on mutuals is expected to be no different from the impact on other firms.

Equality and diversity

4.29 The PRA considers that the proposals do not give rise to equality and diversity implications.

PRA objectives and 'have regards'

PRA objectives

4.30 The PRA has a statutory objective to promote the safety and soundness of PRA-authorized firms. The PRA considers that the proposals in this chapter are compatible with this objective, as they would assist firms in understanding and meeting the PRA's reporting requirements and expectations.

4.31 When discharging its general function in a way that advances its primary objectives, the PRA has, as a secondary objective, a duty to facilitate effective competition in the markets for services provided by PRA-authorized firms. The PRA considers that the proposals in this consultation do not have a material impact on effective competition, as they do not change its current expectations.

Have regards

4.32 In developing these proposals, the PRA has had regard to the FSMA regulatory principles, the aspects of the Government's economic policy set out in the HMT Recommendations letter and given that the proposed rule(s)/rule change in this CP is a 'CRR rule' (as defined in section 144A of FSMA), the additional have regards applicable to CRR rules – add remove as relevant. The following factors, to which the PRA is required to have regard, were significant in the PRA's analysis of the proposals outlined in this chapter:

- (i) **The need to use the PRA's resources in the most efficient and economical way:** The PRA considers that the proposals in this chapter would be compatible with this principle as improving the clarity of reporting and disclosure requirements leads to fewer queries from firms on these requirements;
- (ii) The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden: The PRA considers that the proposals in this chapter would be compatible with this principle as they would improve clarity of the reporting and disclosure requirements, which would result in less burden for firms having to make interpretations, queries or resubmissions;
- (iii) **The principle that the PRA should exercise its functions transparently:** The PRA considers that the proposals in this chapter would be compatible with this principle as they seek to provide clarity regarding reporting requirements. The proposals would furthermore ensure that the relevant instructions and guidance are accurate and up-to-date, and that firms have access to the most recent PRA reporting templates and instructions;
- (iv) **Finance for the real economy:** The proposed changes are unlikely to have a significant impact on capital requirements, balance sheet structure or business activities, due to the minor nature of the proposals. Hence the proposed changes are unlikely to have any material impact on finance for the real economy;
- (v) **Relative standing of the UK:** The proposed changes are relatively minor and unlikely to result in a material change in the current relative standing of the UK, or the competitiveness of the UK; and
- (vi) **International standards:** The proposed changes are minor and do not change prudential methodologies, or bring requirements out of alignment with international standards.

4.33 In the PRA's opinion, the proposed Disclosure (CRR) and Reporting (CRR) rule changes are not material. Therefore, the PRA considers that the explanation that would ordinarily be required by section 144D(1) FSMA is not required in relation to the proposed Disclosure (CRR) and Reporting (CRR) rule changes set out in this Chapter by virtue of the operation of section 144E(5) FSMA.

4.34 The PRA has had regard to other factors as required, as explained in paragraphs 1.4 and 1.5 and Appendix 15, but they were not significant in the PRA's analysis of the proposal.

(c) Amendment to non-corresponding provision in BTS 2014/526

4.35 In this section of chapter 4, the PRA proposes to amend a non-corresponding reference in Binding Technical Standard (BTS) 2014/526 to the Mark-to-Market method (MtM) in CRR Article 274.

4.36 The proposals in this chapter would result in amendments to Article 3(2) of BTS 2014/526.

4.37 This chapter is relevant to banks, building societies, and PRA-designated investment firms.

Proposal

Amendment to non-corresponding provision in BTS 2014/525

4.38 The PRA proposes to make an amendment to BTS 2014/525, to clarify what it considers to be ambiguity in the current text.

4.39 BTS 2014/525 refers to a CRR article that has been revoked. As a result, the PRA considers it is unclear how firms should calculate the quantitative limits described in the BTS. The PRA proposes to amend the BTS to clarify how firms should do this calculation.

4.40 Article 3(1) of the BTS sets quantitative limits on the number and size of smaller portfolios to which the Advanced Method for calculating CVA risk capital requirements (A-CVA) can be applied under CRR Article 383(4). Article 3(2) requires firms to calculate two of these quantitative limits using the MtM method drawn from the counterparty credit risk framework.

4.41 The MtM method was defined in Article 274 of CRR, which has been revoked as part of the PRA's CRR2 implementation.¹⁹ The PRA proposes to amend Article 3(2) of BTS 2014/525 to retain the MtM method. The PRA considers this is necessary because:

- The PRA does not wish to change the scope of A-CVA application; and
- The PRA expects the A-CVA method to be replaced in the Basel 3.1 CVA framework. If this amendment was not made, the PRA considers it would need to adopt an alternative approach to the calculation of the quantitative limits until the implementation of Basel 3.1-related rules changes. The PRA considers this would be a disproportionate use of firms' resources.

The PRA's statutory obligations

Cost benefit analysis

4.42 The expected benefits of the proposed amendments are proportionate to the costs. The PRA considers that the proposal in this chapter would benefit firms by providing clarity concerning their capital requirements by removing a reference to a CRR Article that no longer exists.

4.43 Moreover, without the proposed changes, the PRA considers firms may incur additional costs as they may need to use a more conservative approach calculating the CVA charge for smaller portfolios. As such, the PRA expects that the proposals would not increase costs for most firms, and could decrease costs for some firms.

¹⁹ October 2021: <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/february/implementation-of-basel-standards>

4.44 The proposals effectively make no change to the current requirements for firms and would have no additional costs for firms.

Impact on mutuals

4.45 The PRA considers that the impact of the proposed rule changes on mutuals is expected to be no different from the impact on other firms.

Equality and diversity

4.46 The PRA considers that the proposals do not give rise to any equality and diversity implications.

PRA objectives and ‘have regards’

PRA objectives

4.47 The PRA has a statutory objective to promote the safety and soundness of PRA-authorized firms. The PRA considers that the proposals set out in this chapter would assist the PRA in advancing this objective by clarifying expectations for firms and ensuring the current approach is maintained.

4.48 When discharging its general function in a way that advances its primary objectives, the PRA has, as a secondary objective, a duty to facilitate effective competition in the markets for services provided by PRA-authorized persons. The PRA considers that the proposals in this chapter would not have an impact on effective competition as they do not change the intention of any existing PRA policy.

Have regards

4.49 In developing these proposals, the PRA has had regard to the FSMA regulatory principles, the aspects of the Government’s economic policy set out in the HMT Recommendations letter. The following factors, to which the PRA is required to have regard, were significant in the PRA’s analysis of the proposals outlined in this chapter:

- (i) **The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden:** The PRA’s approach of articulating the outcomes to be achieved in relation to operational continuity in resolution, is consistent with taking a proportionate approach as it will enable specific firms to be able to continue to use the A-CVA.
- (ii) **The desirability of sustainable growth in the economy of the UK in the medium or long term:** The capitalisation of credit valuation adjustment and counterparty credit risk will remain unchanged under our proposed rules. The PRA expect that the proposals will make the rules more efficient for firms, in line with our have regards for sustainable growth and efficient and economic use of resources.
- (iii) **The need to use the PRA’s resources in the most efficient way:** The PRA considers that this amendment would not require extra resource as it does not result in a change in the way that risk is capitalised.

4.50 The PRA has had regard to other factors as required, as explained in paragraphs 1.4 and 1.5 and Appendix 15, but they were not significant in the PRA’s analysis of the proposal.

5 Deletion of non-relevant policy material

5.1 In this chapter, the PRA proposes to delete policy material that has become redundant for reasons outlined below. The proposal would result in the deletion of:

- Supervisory Statement (SS)3/13 ‘Capital requirements for major UK banks and building societies’²⁰ (Appendix 4);
- SS4/13 ‘Solvency II: applying EIOPA's preparatory guidelines to PRA-authorised firms’²¹ (Appendix 5);
- SS29/15 ‘CRD IV: Interim LCR reporting’²² (Appendix 6);
- Legacy SS4/13 ‘Liquidity and capital regime for UK banks and building societies: adjustments in relation to FPC statement’²³ (Appendix 7);
- Legacy SS6/13 ‘Pension obligation risk: treatment in the Internal Capital Adequacy Assessment Process (ICAAP) for banks and building societies’²⁴ (Appendix 8);
- Thirteen Guidelines and Recommendations referred to in the Statement of Policy (SoP) ‘Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK’s withdrawal from the EU’²⁵ (Appendix 9).

5.2 This chapter is relevant to CRR and Solvency II firms.

Proposals

5.3 The PRA strives to ensure its rules and expectations are clear and accessible to regulated firms. As part of this effort, it conducted a review of its policy material, and considers that some material had become outdated or no longer relevant. This chapter proposes to delete these policy documents to provide clarity on what material is still applicable. Each deletion is for one of the following reasons:

²⁰ December 2015: <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/capital-requirements-for-major-uk-banks-and-building-societies-ss>

²¹ December 2013: <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/solvency-2-applying-eiopas-preparatory-guidelines-to-pra-authorized-firms-ss>

²² July 2015: <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/crdiv-interim-lcr-reporting-ss>

²³ April 2013: <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/liquidity-and-capital-regime-for-uk-banks-and-building-societies-adjustments-in-relation-to-fpc-ss>

²⁴ April 2013: <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/pension-obligation-risk-ss>

²⁵ January 2022: <https://www.bankofengland.co.uk/paper/2019/interpretation-of-eu-guidelines-and-recommendations-boe-and-pra-approach-sop>

- The material has become redundant because its date of application has lapsed;
- The material is duplicative because it has already been incorporated into or superseded by other PRA policy material or regulations;
- The material is not relevant to the PRA's remit; or
- The material is has become redundant because it no longer applies to the UK as a result of its exit from the EU.

5.4 This chapter is divided into two parts. The first part considers the deletion of five Supervisory Statements (SS) of which two are legacy publications from the PRA's predecessor, the Financial Services Authority (FSA) and denoted separately as 'Legacy Supervisory Statements' (LSS). The second part, considers the removal of thirteen Guidelines and recommendations from the Annex of SoP 'Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK's withdrawal from the EU'.

Deletion of Supervisory Statements

5.5 The PRA proposes to delete the following SSs:

5.6 **SS3/13 'Capital requirements for major UK banks and building societies'**, last updated Monday 7 December 2015. This SS sets out an expectation by the PRA that seven major UK banks and building societies should meet a minimum 7% common equity Tier 1 (CET1) ratio at the group consolidated level. This expectation was introduced based on an FPC recommendation to the PRA in 2013 that it should take steps to enhance the stability of the financial sector and strengthen the capital regime in the UK. The recommendation had regard to incoming international standards which would introduce a 4.5% minimum CET1 ratio plus a 2.5% CET1 conservation buffer, ie a total of 7% CET1.

5.7 The capital buffers introduced as part of the package of Basel III reforms in 2014 have now fully phased in. All firms now have CET1 ratio requirement plus buffers of at least 7%. As the expectations contained in SS3/13 have now been included elsewhere, the PRA proposes to delete it.

5.8 **SS4/13 'Applying EIOPA's preparatory guidelines to PRA-authorised firms'**. This SS issued in December 2013 set out how the PRA expected Solvency II firms to meet the outcomes detailed in EIOPA's guidelines for the preparation of Solvency II. It stated that the PRA anticipated the statement would be withdrawn 'the day before Solvency II comes into force, expected to be on 1 January 2016'.²⁶ Solvency II came into force on that day, therefore this statement is no longer relevant. In order to clarify its expectations, the PRA proposes to delete this SS.

5.9 **SS29/15 'CRD IV: Interim LCR reporting'**. This supervisory statement was issued in July 2015 to set out the specific liquidity coverage requirement (LCR) reporting arrangements which the PRA expected firms to follow in an interim period. This period was defined as being between Thursday 1 October 2015 when the LCR standard applies in accordance with the European Commission's delegated act with regard to the LCR for credit institutions, and the introduction of mandatory reporting of the new LCR return following adoption of the amending implementing technical standard (ITS) on liquidity reporting by the European Commission.²⁷ The ITS on liquidity reporting was adopted by the Commission on Wednesday 10 February 2016, and the mandatory reporting

²⁶ July 2015 <https://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX:32016R0322>

²⁷ July 2015: <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/crdiv-interim-lcr-reporting-ss>

requirement entered into force six months after that publication date, on Wednesday 10 August 2016. The SS has therefore been superseded. In order to clarify its expectations, the PRA is proposing to delete this supervisory statement.

5.10 The PRA proposes to delete **LSS4/13 'Liquidity and capital regime for UK banks and building societies: adjustments in relation to FPC statement'**. This SS for banks and building societies was initially issued by the FSA. It aimed to clarify the PRA's (i) reaction to firms using their liquid asset buffers, (ii) treatment of pre-positioned collateral at the Bank of England for regulatory liquidity guidance and (iii) treatment of net new lending as part of the Funding for Lending Scheme (FLS) for regulatory capital requirements. In 2013, the PRA adopted this policy as a legacy publication relevant to the advancement of its objectives.

5.11 The adjustments outlined in LSS4/13 have become redundant as the prudential liquidity and capital regimes have evolved, and the drawdown window for the FLS closed in January 2018. In order to clarify its expectations, the PRA is therefore proposing to delete this supervisory statement as it is no longer relevant.

5.12 **LSS6/13 'Pension obligation risk: treatment in the Internal Capital Adequacy Assessment Process (ICAAP) for banks and building societies'**. This SS outlines the approach the PRA would expect banks and building societies to take when assessing their Pillar 2 capital requirements for pension risk. This formed part of a number of legacy FSA policy publications, which the PRA adopted from its commencement on Monday 1 April 2013.

5.13 In July 2015, the PRA set out its revised Pillar 2 capital policy in two publications: SoP 'The PRA's methodologies for setting Pillar 2 capital' and SS31/15 'The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)'. These cover pension obligation risk capital in its entirety, superseding the expectations in LSS6/13. In order to clarify its expectations, the PRA is therefore proposing to delete this supervisory statement as it is no longer relevant.

Amendments to Statement of Policy 'Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK's withdrawal from the EU'

5.14 The SoP sets out the PRA's approach to EU Guidelines and Recommendations in light of the UK's withdrawal from the EU. It states that while HM Treasury has deleted the obligation to do so, the PRA expects firms to continue to make every effort to comply with the Guidelines and Recommendations originally issued by European Supervisory Authorities (ESAs), as applicable at the end of the transition period, to the extent that these remain relevant. The Appendices 1-4 of the SoP contains a list of these Guidelines and Recommendations.

5.15 The PRA proposes to delete thirteen Guidelines and Recommendations from the lists in those Appendices to reflect that they are no longer relevant (Appendix 9). This does not alter the PRA's expectation that firms continue to comply with the other Guidelines and Recommendations included in those Appendices, to the extent that they remain relevant.

5.16 The PRA proposes to delete the Guidelines and Recommendations as outlined below.

EIOPA Guidelines

5.17 **‘Guidelines on methods for determining the market shares for reporting’**.²⁸ Following the UK’s withdrawal from the EU, the PRA is no longer subject to the requirements contained in Article 35(6) and (7) of the Solvency II Directive, which set out that regular supervisory reporting waivers being granted shall not exceed 20% of the life and non-life insurance and reinsurance markets respectively. As the market share threshold is no longer applicable in the UK, these guidelines for Solvency II firms detailing how market shares should be determined have become redundant. The PRA therefore proposes to delete them from the SoP.

EBA Guidelines - Capital Requirements Directive (CRD)

5.18 **‘Guidelines on the management of interest rate risk arising from non-trading activities (IRRBB)’**. Relevant material in these guidelines has been integrated into the Internal Capital Adequacy Assessment part of the PRA Rulebook, and in SS31/15 ‘The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)’. These guidelines are therefore duplicative, and the PRA proposes to delete them from the SoP.

5.19 **‘Guidelines on the pragmatic 2020 supervisory review and evaluation process (SREP) in light of the COVID-19 crisis’**.²⁹ These Guidelines specify how flexibility and pragmatism could be exercised in relation to the 2020 SREP framework for CRR firms in the context of the COVID-19 pandemic. The guidelines are clear that they are only targeted at the 2020 SREP cycle, and they do not represent the approach to subsequent SREP cycles. The PRA is therefore proposing to delete them from the SoP.

EBA Guidelines - Financial Conglomerates Directive (FICOD)

5.20 **‘Joint Guidelines on the convergence of supervisory practices relating to the consistency of supervisory coordination arrangements for financial conglomerates’**.³⁰ The guidelines relate to supervisory coordination agreements between competent authorities. After the UK’s exit from the EU, the term ‘competent authority’ (except ‘third-country competent authority’) refers to ‘any authority in the United Kingdom which is empowered by law or regulation to supervise regulated entities, whether on an individual or group-wide basis’. Since the competent authorities are limited to the UK regulators (ie the PRA and Financial Conduct Authority (FCA)), there is no need to retain these guidelines. This is also consistent with the cross-cutting approach for inter-EU authority cooperation processes per paragraph 2.9 of the SoP. As the material in these Guidelines is has become redundant after the UK’s exit from the EU, the PRA proposes to delete them from the SoP.

EBA Regulation Article 16

5.21 **‘Guidelines on supervision of significant branches’**.³¹ These guidelines set out how supervisory authorities within the EU should cooperate between themselves to assess the significance of branch operations and ensure that information relating to risks to the branch or risks

²⁸ <https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-determining-market-shares-reporting.pdf>

²⁹ <https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-communication-competent-authorities-auditors.pdf>

³⁰ <https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-consistency-supervisory-coordination-financial-conglomerates.pdf>

³¹ <https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-supervision-significant-branches.pdf>

to the undertaking and its group is exchanged in a timely and efficient manner according to the size and significance of the branch. Following the UK's withdrawal from the EU, the guidelines no longer impose an obligation on EU regulators to cooperate with the PRA. The PRA's involvement in cooperative supervisory activities will be determined by bespoke arrangements agreed case by case just as for any third country supervisory authority, as set out in SS5/21 'International banks: The PRA's approach to branch and subsidiary supervision'.³² These guidelines are therefore no longer applicable, and the PRA proposes to delete them from the SoP.

5.22 'Recommendations on outsourcing to cloud service providers'.³³ These recommendations for CRR firms have been integrated into the 'EBA Guidelines on Outsourcing Arrangements'³⁴ also available in the Appendices of the SoP. As the material in these guidelines is duplicative, the PRA proposes to delete them from the SoP.

5.23 'Guidelines on communication between competent authorities and auditors'. The requirements set out in Part XXII of the Financial Services and Markets Act,³⁵ and the PRA expectations set out LSS7/13 'The relationship between the external auditor and the supervisor: a code of practice'³⁶ regarding communications between the PRA and auditors are consistent with the principles in these Guidelines. The guidelines are therefore unnecessary and duplicative, and the PRA proposes to delete them from the SoP.

5.24 'Guidelines on product oversight and governance arrangements for retail banking products'.³⁷ The PRA considers the EBA guidelines on product oversight and governance arrangements for retail banking products to be not relevant to its remit and is therefore proposing to remove them from the SoP. As a result the PRA does not expect firms to continue to comply with these guidelines. For the avoidance of doubt this does not affect the FCA's position on the guidelines which is set out in its guidance 'Brexit: our approach to EU non-legislative materials'.³⁸

Deposit Guarantee Scheme Directive (DGSD)

5.25 'Guidelines on stress tests of deposit guarantee schemes'.³⁹ These guidelines were relevant to the Financial Services Compensation Scheme (FSCS) while the UK was subject to the Deposit Guarantee Scheme Directive (DGSD). Following the UK's withdrawal from the EU, the PRA, and the Bank of England as the UK's resolution authority will evaluate the FSCS's operational and funding capabilities based on what is appropriate in the UK context and such testing and evaluation will be communicated as appropriate directly to the FSCS. The peer review provided by the guidelines and oversight by the EBA is no longer relevant in the context of the UK's withdrawal from the EU. These guidelines are therefore redundant and the PRA proposes to delete them from the SoP.

5.26 'Guidelines on cooperation agreements between deposit guarantee schemes'.⁴⁰ While relevant to the FSCS while the UK was subject to the DGSD, changes to PRA Rules that were made

³² July 2021: <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/july/pr-a-approach-to-branch-and-subsiary-supervision-ss>

³³ <https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-outsourcing-cloud-service-providers.pdf>

³⁴ <https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-outsourcing-arrangements.pdf>

³⁵ <https://www.legislation.gov.uk/ukpga/2000/8/part/XXII>

³⁶ <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/the-relationship-between-the-external-auditor-and-the-supervisor-a-code-of-practice-ss>

³⁷ <https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-product-oversight-governance-retail-banking.pdf>

³⁸ <https://www.fca.org.uk/publication/corporate/brexit-our-approach-to-eu-non-legislative-materials.pdf>

³⁹ <https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-stress-tests-dgsd.pdf>

⁴⁰ <https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-cooperation-agreements-dgsd.pdf>

effective at EU Withdrawal removed many of the requirements included in the multi-lateral framework cooperation agreement provided for in these guidelines. It is possible that the FSCS will need to enter into cooperation agreements with other deposit guarantee schemes from the EEA in some circumstances. Given that the UK is no longer subject to the relevant provisions of the DGSD and because the scope of responsibility for host-situated branches has changed, any such cooperation agreements will need to be more flexible following the UK's withdrawal from the EU. These guidelines are therefore no longer applicable and the PRA proposes to remove them from the SoP.

5.27 'Guidelines on methods for calculating contributions to Deposit Guarantee Schemes (DGSs)'.⁴¹ These Guidelines for CRR firms are no longer relevant because the PRA has transposed them into a UK-specific methodology for implementing risk-based levies into its SoP 'Calculating risk-based levies for the Financial Services Compensation Scheme deposits class'.⁴² The Guidelines are therefore duplicative and the PRA proposes to delete them from the SoP.

5.28 'Guidelines on payment commitments'.⁴³ Prior to the UK's withdrawal from the EU, when subject to the DGSD, the UK did not use the discretion to accept payment commitments from credit institutions. As such, this Guideline has never been relevant to the UK's deposit guarantee scheme, the FSCS. These Guidelines are therefore redundant and the PRA proposes to delete them from the SoP.

Capital Requirements Directive (CRD)

5.29 'Guidelines for the identification of global systemically important institutions (G-SIIs)'.⁴⁴ These Guidelines for CRR firms harmonise the disclosure process of the indicators used for identifying G-SIIs and the underlying values needed for the yearly identification exercise. A large part of the material in those Guidelines is no longer relevant for UK firms, following the UK's withdrawal from the EU. The material that is relevant to UK firms is specified in:

⁴¹ <https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-methods-calculating-contributions-dgsd.pdf>

⁴² March 2019: <https://www.bankofengland.co.uk/prudential-regulation/publication/2016/calculating-risk-based-levies-for-the-financial-services-compensation-scheme-deposits-class>

⁴³ <https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-payment-commitments.pdf>

⁴⁴ Guidelines on the <https://www.bankofengland.co.uk/-/media/boe/files/paper/2020/december/gl-specification-and-disclosure-of-systemic-importance-indicators> (bankofengland.co.uk)

- The Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014 (as amended).⁴⁵
- Technical Standard on the specification of the methodology for the identification of global systemically important institutions (Commission Delegated Regulation (EU) 1222/2014 (as amended)).⁴⁶
- G-SII disclosure: PRA Rules Disclosure (CRR) (Part 8), Title II, Article 441⁴⁷ and PRA Rules Disclosure (CRR) (Part 8), Title I, Article 434b(1).⁴⁸
- G-SII reporting requirements: PRA Rules Reporting (CRR) Chapter 5, Article 20⁴⁹ on the Format and Frequency of Supplementary Reporting for the Purposes of Identifying G-SIIs and Assigning G-SII Buffer Rates.

5.30 The material in these Guidelines has therefore become redundant or duplicative and the PRA proposes to delete them from the SoP.

The PRA's statutory obligations

Cost benefit analysis

5.31 The PRA considers the benefit of its proposals arise from the additional clarity, relevance, and accessibility of the PRA's policy materials. The proposals would help ensure firm compliance with any rules or expectations related to the deleted material and regulatory requirements overall. The costs are expected to be immaterial. The PRA does not expect its proposals to have any impact on firms or their activities, as the PRA considers the material being deleted were all already redundant or superseded.

5.32 The PRA considers that it is not reasonably practicable to quantify the costs or benefits as the benefits from the proposals relate to ensuring the quality and clarity of the PRA's policy materials and are difficult to effectively quantify. Furthermore, the costs arising from the proposals are considered by the PRA to be immaterial. The PRA considers that the costs of these proposals are proportionate to the expected benefits.

Impact on mutuals

5.33 The PRA considers the impact of the proposed policy changes on mutuals is expected to be no different from the impact on other firms.

Equality and diversity

5.34 The PRA considers that the proposals do not give rise to equality and diversity implications.

PRA objectives and 'have regards'

PRA objectives

5.35 The PRA has statutory objectives to promote the safety and soundness of firms and to secure an appropriate degree of protection for policyholders. The PRA considers that the proposals outlined in this chapter would enhance the role of PRA policy material in advancing those objectives by

⁴⁵ [The Capital Requirements \(Capital Buffers and Macro-prudential Measures\) Regulations 2014 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukreg/si/2014/1000/contents)

⁴⁶ [Commission Delegated Regulation \(EU\) No 1222/2014 of 8 October 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards for the specification of the methodology for the identification of global systemically important institutions and for the definition of subcategories of global systemically important institutions \(Text with EEA relevance\) \(legislation.gov.uk\)](https://eur-lex.europa.eu/eli/reg/2014/1222/oj)

⁴⁷ [Article 441 Disclosure of Indicators of Global Systemic Importance - Prudential Regulation Authority \(prarulebook.co.uk\)](https://www.prarulebook.co.uk/Article-441-Disclosure-of-Indicators-of-Global-Systemic-Importance)

⁴⁸ [Article 434b Timing and Means of Disclosures under Article 441 - Prudential Regulation Authority \(prarulebook.co.uk\)](https://www.prarulebook.co.uk/Article-434b-Timing-and-Means-of-Disclosures-under-Article-441)

⁴⁹ [Reporting \(CRR\) - Prudential Regulation Authority \(prarulebook.co.uk\)](https://www.prarulebook.co.uk/Reporting-CRR)

improving clarity and transparency by deleting the SSs, SoPs, Guidelines and Recommendations that are no longer relevant.

5.36 When discharging its general functions in a way that advances its primary objectives, the PRA has, as a secondary objective, a duty to facilitate effective competition in the markets for services provided by PRA-authorized firms so far as is reasonably possible. The PRA considers that the proposals in this chapter do not have a significant impact on effective competition, as they do not materially change the PRA's expectations.

Have regards

5.37 In developing these proposals, the PRA has had regard to the FSMA regulatory principles, the aspects of the Government's economic policy set out in the HMT Recommendations letter. The following factors, to which the PRA is required to have regard, were significant in the PRA's analysis of the proposals outlined in this chapter:

- (i) **The need to use the resources of the PRA in the most efficient and economical way:** The PRA considers that by providing clarity, relevance, and accessibility by removing policy material that has become redundant, it would reduce the time that its staff spend on their work as the PRA expects it would receive less queries from firms as a result.
- (ii) **The principle that the regulators should exercise their functions as transparently as possible:** The PRA considers that the proposals in this chapter are compatible with this principle, as they seek to ensure that the relevant material is available to firms without the need for firms and their advisers to consider whether the material proposed to be deleted remain relevant, with the aim of improving the transparency of the PRA's expectations.
- (iii) **Competitiveness:** By increasing the clarity and transparency of the UK's regulatory policies, these proposals would help the United Kingdom to remain an attractive place to do business.

5.38 The PRA has had regard to other factors as required, as explained in paragraphs 1.4 and 1.5 and Appendix 15, but they were not significant in the PRA's analysis of the proposal.

6 Consequential amendments to the PRA Rulebook and UK Technical Standards (UKTS) arising from the introduction of the Investment Firms Prudential Regime (IFPR)

6.1 In this chapter, the PRA proposes to make minor consequential amendments to the PRA Rulebook as well as a set of relevant UK Technical Standards (UKTS), following the introduction of the Investment Firms Prudential Regime (IFPR). These consequential amendments are necessary to ensure the legal operability of the PRA's regulatory framework, as well as to ensure the PRA are aligned with the Financial Conduct Authority (FCA).

6.2 The proposal in this chapter would result in consequential amendments to the following parts of the PRA Rulebook:

- Glossary (Annex A);
- Financial Conglomerates Part (Annex B);
- Fundamental Rules Part (Annex C);
- Group Supervision Part (Annex D);
- Notifications Part (Annex E); and
- Regulatory Reporting Part (Annex F)

6.3 The proposal would also result in consequential amendments to the following UKTS:

- Part 2 (PRA) of Commission Delegated Regulation (EU) 2018/959 of 14 March 2018 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards of the specification of the assessment methodology under which competent authorities permit institutions to use Advanced Measurement Approaches for operational risk (Annex A);
- Part 2 (PRA) of Commission Delegated Regulation (EU) 342/2014 of 21 January 2014 supplementing Directive 2002/87/EC of the European Parliament and of the Council and Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the application of the calculation methods of capital adequacy requirements for financial conglomerates (Annex B);
- Part 2 (PRA) of Commission Delegated Regulation (EU) 2016/911 of 9 June 2016 laying down implementing technical standards with regard to the form and the content of the description of group financial support agreements in accordance with Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms (Annex C).

6.4 This chapter is relevant to banks, building societies, and PRA-designated investment firms.

Proposal

6.5 The policy proposal included in this chapter is to make minor consequential amendments to the PRA Rulebook and the UKTS listed above, following the introduction of the IFPR. These

consequential amendments are required to ensure the legal operability of the PRA Rulebook and these UKTS, and address three different issues:

- First, the introduction of the IFPR required HM Treasury to make a number of amendments to the on-shored CRR. As a result, the PRA proposes to update several references to the CRR in its Rulebook. These changes will clarify that those references refer to the latest version of the CRR rather than earlier versions of the CRR;
- Second, the implementation of the IFPR required the FCA to modify rules and definitions in its Handbook. In particular, it deleted several parts of its Handbook that contained rules for investment firms that are now within the scope of the IFPR and replaced them with new material containing the IFPR requirements. The PRA therefore proposes to delete references to these obsolete terms and definitions in the Financial Conglomerates Part of its Rulebook, Part 2 (PRA) of the UK version of Commission Delegated Regulation (EU) 342/2014 and Part 2 (PRA) of the UK version of Commission Delegated Regulation (EU) 2015/2303, and to replace them with rules and definitions which refer to, and are consistent with, the new FCA Handbook requirements; and
- Third, the PRA's review of the effects of the IFPR on its regulatory requirements exposed minor legal inconsistencies in some UKTS. The PRA therefore proposes to correct them. For instance, one of the proposed consequential amendments deletes an inconsistency that remained in the UKTS for the measurement of operational risk – ie. Part 2 (PRA) of Commission Delegated Regulation (EU) 2018/959. In this UKTS, only the PRA rules listed should have applied to PRA authorised persons.

6.6 The proposed approach to bring the PRA Rulebook and UKTS in-line with IFPR would advance the PRA primary objective, and improve transparency by clarifying the PRA's existing regulatory framework.

The PRA's statutory obligations

Cost benefit analysis

6.7 The PRA considers that in the absence of these proposals, the continued legal operability of the PRA's framework, and therefore the benefits to the UK economy in terms of the safety and soundness of PRA regulated firms that arise (at least in part), could not be realised. The benefits are therefore ensuring the legal operability of the framework.

6.8 The proposed consequential amendments to the PRA's Rulebook and the UKTS would not affect the PRA's approach to the regulation of banks, building societies, and PRA-designated investment firms. Any administrative costs to affected firms of updating their knowledge of these changes is expected to be minimal. The PRA considers that the benefits of the proposals are proportionate to the costs.

Impact on mutuals

6.9 The PRA considers that the impact of the proposed rule changes on mutuals is expected to be no different from the impact on other firms.

Equality and diversity

6.10 The PRA considers that the proposal does not give rise to equality and diversity implications.

PRA objectives and ‘have regards’

PRA objectives

6.11 The PRA has a statutory objective to promote the safety and soundness of PRA-authorized firms. The PRA considers that the proposal in this chapter advances this objective by ensuring the legal operability of aspects of its Rulebook and certain UKTS following the implementation of the IFPR.

6.12 When discharging its general function in a way that advances its primary objectives, the PRA has, as a secondary objective, to facilitate effective competition. The PRA does not expect the proposal to have a material impact on competition. The PRA has not identified any impacts on firms that are likely to: (i) materially affect the operating costs of any cohort of affected firms that compete in the relevant markets; or (ii) materially change the behaviour of any particular firm.

Have regards

6.13 In developing these proposals, the PRA has had regard to the FSMA regulatory principles, the aspects of the Government’s economic policy set out in the HMT Recommendations letter. The following factors, to which the PRA is required to have regard, were significant in the PRA’s analysis of the proposals outlined in this chapter:

- (i) **The principle that the PRA should exercise its functions as transparently as possible:** The proposal aids transparency by clarifying the PRA’s existing regulatory framework to bring it in line with IFPR. The proposal would furthermore ensure that the relevant references are amended to ensure the PRA Rulebook is consistent with the FCA Handbook.
- (ii) **The need to use the resources of the PRA in the most efficient and economical way:** The PRA considers that the proposal in this chapter is minor, but considered necessary to ensure the legal operability of the PRA Rulebook and the UKTS mentioned above.

6.14 The PRA has had regard to other factors as required, as explained in paragraphs 1.4 and 1.5 and Appendix 15, but they were not significant in the PRA’s analysis of the proposal.

7 Amendments to Pillar 3 Liquidity disclosure template and instructions

7.1 In the Disclosure (CRR) Part of the PRA Rulebook, the PRA introduced a new Pillar 3 disclosure template (LIQ 2) for the Net Stable Funding Ratio (NSFR). The PRA also decided to require firms to disclose NSFR data that are calculated as an average of four-quarter ends, rather than disclosing information on a spot basis. The PRA has since identified aspects of the LIQ 2 reporting instructions and templates, which do not make clear enough the PRA's policy on average disclosures, and proposes to make minor amendments to both the LIQ2 template and the instructions as a result.

7.2 The proposals in this chapter would result in amendments to:

- Annex XIII Template UK LIQ2;
- Annex XIV Instructions for the liquidity requirements templates.

7.3 This chapter is relevant to banks, building societies, and PRA-designated investment firms.

7.4 The proposed changes to CRR rules outlined in this chapter are to be made alongside the proposals set out in chapter 4 of this consultation paper.⁵⁰ The draft legal instrument for the implementation of the rule changes outlined in this chapter is therefore provided at Appendix 3.

Proposals

Consequential amendments to Pillar 3 NSFR disclosure template and instructions

(i) Disclosure Template

7.5 The LIQ 2 disclosure template forms part of the UK Pillar 3 disclosure framework. It will be used by firms when they commence publishing NSFR disclosures, beginning in 2023. The disclosures will provide public data on firms' NSFR positions and the sub-components of their NSFR ratio, and are intended to enhance market discipline and transparency.

7.6 In the Disclosure (CRR) Part of the PRA Rulebook, the PRA requires firms to disclose NSFR data that are calculated as an average of four quarter ends. The PRA outlined its justification for this approach in PS17/21 as being to mitigate the risk of adverse signalling during a market stress, and to align the disclosure regime for the NSFR to that of other metrics, including the LCR.

7.7 The PRA has since identified a reference in the LIQ 2 template to Article 451a(3) CRR, which is a reference to that provision as implemented in the Disclosure (CRR) Part of the PRA Rulebook, which specifies average disclosures. It is not a reference to EU CRR, which specifies spot disclosures. However, the PRA recognises that users of the disclosure template may interpret it as such. The template also does not include column labels indicating that the data contained therein are based on an average. The PRA considers that as a result, users of NSFR disclosures could misinterpret the data provided in the disclosure as 'spot' data, undermining the PRA's policy on average disclosure.

7.8 The PRA proposes to amend the LIQ 2 template to append the word 'average' to the column labels for columns a - e, and delete any reference to Article 451a(3) CRR from the template. The PRA considers that these amendments would further its primary objective by mitigating the risk of adverse signalling arising from spot disclosures – or the perception of a spot disclosure – during a market stress. The amendments would also enhance the clarity of the UK disclosure framework for both users of the disclosures well as the firms producing them.

⁵⁰ Paragraph 4.25(i).

(ii) Instructions

7.9 Instructions for completing the LIQ 2 template are specified in the PRA's 'instructions for liquidity requirement templates', as specified in the Disclosure (CRR) Part of the PRA Rulebook. The instructions also make reference to Article 451a(3) CRR. Although the Article refers to the provision implemented in the Disclosure (CRR) Part of the PRA Rulebook, it may be misinterpreted as a reference to the EU CRR rules, which specify spot disclosures. The PRA considers the risk that firms incorrectly complete their Pillar 3 disclosures using spot data would undermine the PRA's policy on average disclosures.

7.10 The PRA proposes to amend paragraphs 12, 16 and 17 of the instructions for liquidity requirement templates (appendix 13) to specify that the PRA expects firms to disclose averaged data based on their end of quarter NSFR data, from the preceding four quarters.

7.11 The PRA considers that these amendments would further its primary objective by mitigating the risk of adverse signalling arising from spot disclosures during a market stress. The amendments would also enhance the clarity of the UK disclosure framework for both users of the disclosures as well as the firms producing them.

The PRA's statutory obligations**Cost benefit analysis**

7.12 The PRA considers that the costs of these proposals are proportionate to the expected benefits. The proposed changes help clarify the PRA's policy on disclosure of firms' liquidity as set out in the Disclosure (CRR) Part of the PRA Rulebook. The benefits of the proposal are to avoid any confusion by firms over what data needs to be disclosed, thereby ensuring that the benefits set out in PS17/21 are realised.

7.13 The costs of the proposals are likely to be immaterial. Firms are not due to publish their first NSFR disclosure until 2023 so there is currently no scope for firms to mistakenly disclose spot data. Given that the benefits of these proposals arise from ensuring compliance with existing PRA requirements and that the costs are expected to be immaterial, the PRA considers that it is not reasonably practicable to quantify the costs or benefits.

Impact on mutuals

7.14 The PRA considers that the impact of the proposed policy changes on mutuals is expected to be no different from the impact on other firms.

Equality and Diversity

7.15 The PRA considers that the proposals do not give rise to equality and diversity implications.

PRA objectives and 'have regards'*PRA objectives*

7.16 The PRA has a statutory objective to promote safety and soundness of the PRA-authorized persons. The PRA considers that these proposals advance its primary objective by ensuring that firms are compliant with the PRA's requirements as set out in the Disclosure (CRR) Part of the PRA Rulebook, which mitigate the risk of adverse signalling during a market stress.

7.17 When discharging its general function in a way that advances its primary objectives, the PRA has, as a secondary objective, a duty to facilitate effective competition in the markets for services provided by PRA-authorized persons. The proposed changes advance the PRA's secondary competition objective by ensuring that all UK firms show the same level of transparency as their

peers and are subject to the same forces of market discipline, as investors will have consistent and comparable information on which to judge firms' liquidity positions.

Have regards

7.18 In developing these proposals, the PRA has had regard to the FSMA regulatory principles, the aspects of the Government's economic policy set out in the HMT Recommendations letter and given that the proposed rule(s)/rule change in this CP is a 'CRR rule' (as defined in section 144A of FSMA), the additional have regards applicable to CRR rules – add remove as relevant. The following factors, to which the PRA is required to have regard, were significant in the PRA's analysis of the proposals outlined in this chapter:

- (i) **The need to use the resources of the PRA in the most efficient and economic way:** the PRA considers that the proposals in this section would minimise the potential resourcing burden that would arise if firms and users were to request bilateral clarifications on the PRA's disclosure policy;
- (ii) **The principle that the PRA should exercise its functions transparently:** the PRA considers that by aligning PRA disclosure templates and instructions with PRA rules, the proposals in this section enhance the transparency of the PRA's regulatory framework;
- (iii) The desirability of the PRA publishing information relating to persons on whom requirements are imposed, or requiring such persons to publish information: the proposals in this section consider this regulatory principle by mitigating the risk that firms publish spot information that it would not be desirable to disclose, while continuing to provide for disclosures in an appropriate form;
- (iv) **Finance for the real economy:** The proposed changes are unlikely to have a significant impact on capital requirements, balance sheet structure or business activities, due to the minor nature of the proposals. Hence, the proposed changes are unlikely to have any material impact on finance for the real economy;
- (v) **Relative standing of the UK:** The proposed changes are relatively minor and unlikely to result in a material change in the current relative standing of the UK, or the competitiveness of the UK;
- (vi) **International standards:** The proposed changes are minor and do not change prudential methodologies, or bring requirements out of alignment with international standards; and
- (vii) **Competition,** which has already been considered in paragraph 7.17 above.

7.19 In the PRA's opinion, the proposed Disclosure (CRR) rule changes outlined in this Chapter are not material. Therefore, the PRA considers that the explanation that would ordinarily be required by section 144D(1) FSMA is not required in relation to the proposed Disclosure (CRR) rule changes set out in this Chapter by virtue of the operation of section 144E(5) FSMA.

7.20 The PRA has had regard to other factors as required, as explained in paragraphs 1.4 and 1.5 and Appendix 15, but they were not significant in the PRA's analysis of the proposal.

8 CRR Rule Administration Instrument

8.1 An administration instrument is used to make minor corrections to PRA Rulebook provisions. The corrections are not substantive and are not intended to change PRA policy. The corrections will result in rule amendments.

8.2 In making this instrument, the PRA aims to ensure that rules are correct, presented clearly and contain up-to-date references. Accurate Rulebook provisions allow the PRA to act in a way that advances the safety and soundness of PRA firms, and regarding insurers, contributes to policyholder protection. For these reasons, the PRA believes that administration instruments are compatible with the requirement on the PRA to act in a way that advances its objectives.

8.3 The PRA consults with the FCA prior to undertaking consultations on administration instruments and ensures that proposed corrections are consistent with the regulatory principles. In the PRA's opinion, the changes will not impact on competition or mutual societies, or give rise to any equality or diversity issues. Minor proposals are also unlikely to result in costs for firms, who will benefit from a more accurate Rulebook.

8.4 In proposing the minor corrections in the administration instrument, the PRA has had regard to the FSMA regulatory principles and the other matters to which it is required to have regard.

8.5 As this administration instrument is in respect of CRR Rules, the PRA also consulted with HM Treasury with regard to relevant equivalencies prior to undertaking this consultation.

8.6 As the proposed amendments consist of minor corrections only, it is the PRA's opinion that these changes are not material for the purposes of CRR rulemaking powers.

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Appendix 1: Draft amendments to Statement of Policy ‘The PRA’s approach to the publication of Solvency II technical information’

In this Annex new text is underlined and deleted text is struck through.

Extract

1 Background

1.1 The Prudential Regulation Authority (PRA) is required to publish technical information (TI) necessary for the valuation of insurance liabilities for each relevant currency. This Statement of Policy (SoP) explains how the PRA ~~will~~ fulfils its obligations in this regard. UK firms should use the PRA’s published TI for regulatory reporting from and including 11:00pm on Thursday 31 December 2020.

...

1.3 The PRA refers to the currencies in which it ~~will~~ publishes TI as ‘PRA relevant currencies’.

...

3 Variations by the PRA to EIOPA methodologies and judgements

PRA relevant currencies

...

3.2 ~~[DELETED] The PRA will use data from the calendar year-end returns of insurers to determine the materiality of technical provisions in each currency. The returns data as at year end N (or, if unavailable at that effective date, at the most recent effective date for which data has been submitted) will be used to choose the PRA relevant currencies in calendar year N+2.~~

3.3 The PRA ~~will~~ chooses PRA relevant currencies using two criteria:

- by materiality; and
- to include currencies in which UK insurers have VA and MA authorisations.

3.4 The PRA ~~will~~ assesses materiality by selecting PRA relevant currencies to ensure that at least 99% of group technical provisions are covered which includes the Society of Lloyd’s’ solo technical provisions. This involves (i) aggregating technical provisions (expressed in GBP and excluding those relating to unit-linked business) by currency and (ii) selecting the top-ranking currencies such that the cumulative proportion of technical provisions exceeds 99%.

3.4A When assessing the above materiality criterion, the PRA uses data from the calendar year-end returns of insurers. The returns data as at year end N (or, if unavailable at that effective date, at the most recent effective date for which data has been submitted) is used to inform the choice of the PRA relevant currencies in calendar year N+2.

3.5 The PRA ~~will~~ used the above criteria to generate the initial list of PRA relevant currencies applicable from 31 December 2020. In subsequent years, the PRA may add currencies that meet

~~either of the above two criteria to the list of PRA relevant currencies, or remove currencies from the list that fall outside the above two criteria for three consecutive years.~~

3.5A A currency may also be removed from the list of PRA relevant currencies, where:

- in the case of a currency that was included on the basis of the materiality criterion, it subsequently ceases to satisfy this criterion and continues not to satisfy this criterion for three consecutive years; or
- in the case of a currency that was included on the basis that it was covered within the scope of a UK firm's MA or VA authorisation, it subsequently ceases to be covered within the scope of any UK firm's MA or VA authorisation.

3.5B The PRA aims to give firms at least three months' notice of any addition or removal of a currency from the list of PRA relevant currencies.

...

Basic risk-free rates (RFRs)

~~3.6A Following the end of the TP, t~~The PRA ~~will~~ needs to make judgements about the reference instruments and associated Credit Risk Adjustments (CRAs) to use when constructing the basic RFRs for PRA relevant currencies. For example, some reference instruments and CRAs ~~will need to be~~ have been updated in light of the cessation of Libor settings. The PRA will make available, for example via the TI area of the Bank of England's website, relevant information about any changes to the reference instruments and CRAs used to construct the basic RFRs for PRA relevant currencies. The PRA ~~will~~ aims to give firms at least three months' notice of such changes.

Calculation of the long-term average spread (LTAS)

3.6B For the LTAS calculation, the PRA ~~will~~ calculates the average of spreads over the RFR applicable at the time of the spread data. Therefore, following the transition of TI references from Libor to an OIS rate, historic spreads (over Libor-based RFR) already embedded in the LTAS calculation would remain unadjusted.

3.6ZB The LTAS calculation for government bonds interpolates spread ~~excludes~~ data for ~~some~~ maturities where there isn't reliable financial market data for that government bond. ~~For such assumptions~~ The PRA will consider EIOPA's published conclusions in this area.

Assessment of the depth, liquidity, and transparency of the markets

3.6C The PRA ~~will~~ focuses its assessment of the depth, liquidity, and transparency of the market (the DLT assessment) on interest rate swaps data for the markets of relevant currencies where there is an active swap market and government bonds data where the swap market is insufficiently active.

3.6D The PRA ~~will~~ uses the same volume indicators as applied by EIOPA (at the end of the TP) for assessing the liquidity of the swaps market, but with the average (over one year) daily notional turnover requirement being £45 million. These indicators ~~will~~ therefore comprise the:

- average (over one year) daily notional turnover of at least £45 million; and
- average (over one year) daily number of trades of at least ten.

3.6E The PRA ~~will~~ also considers in its DLT assessment additional criteria developed to avoid excessive volatility in the results of the assessment, specifically that a previously liquid market needs to drop at least 20% below one of the thresholds to be considered illiquid, and a previously illiquid market must meet both thresholds and rise at least 20% above one of the thresholds to be considered liquid. The PRA is guided by these additional criteria as soft thresholds.

3.6F The PRA may also consider other metrics and expert opinion in order to supplement its assessment as required for the relevant currencies, which ~~will be~~ are set out in its published results and analysis of the DLT assessment.

3.6G For non-GBP ~~relevant~~ currencies, the PRA ~~will~~ make use of externally published DLT data and analysis, including that published by EIOPA and the International Association of Insurance Supervisors (IAIS), to contribute to its own DLT assessments and any other DLT assumptions required for the calculation of the SII TI.

3.6H [DELETED] ~~The PRA will apply the granular country level EIOPA DLT assessment used for the aggregated composition of the EUR VA reference portfolio, considering amendments as necessary.~~

Reference portfolios (RPs) for the Volatility Adjustment

3.7 [DELETED] ~~The PRA will use EIOPA's VA RPs (to calculate the VA) in effect at the end of the TP. Under the current timetable for TP completion on Thursday 31 December 2020, this approach will apply until Tuesday 30 March 2021. If the timetable for TP completion changes, the PRA will update users of the TI on its revised approach.~~

3.8 ~~From Wednesday 31 March 2021, t~~The PRA will derive VA RPs using the same technical approach as EIOPA, except for three specific areas where the PRA's approach ~~will~~ differs, as explained below.

3.9 The first difference in the PRA's approach ~~will be~~ is that the derivation of the VA RPs will reflect UK firms' asset exposures. Specifically:

- the VA RPs used to calculate the GBP VA ~~will be~~ are derived using data from the Quantitative Reporting Templates (QRTs) submitted to the PRA by UK solo insurers; and
- the VA RPs for non-GBP PRA relevant currencies ~~will be~~ are derived by taking a weighted average of EIOPA's published VA RPs derived using QRT data submitted to EIOPA, and the VA RPs derived using QRT data submitted to the PRA for (UK) parent undertakings (as defined in the Solvency 2 Regulations 2015). The respective RPs ~~would be~~ are weighted using the aggregate market value of assets as reported in the QRT data of European Economic Area firms and (UK) parent undertakings (as defined in the Solvency 2 Regulations 2015).

3.10 The second difference in the PRA's VA RP approach is that the PRA ~~will apply~~ ies a simplified approach to determining the weights for the government and corporate bond portfolios when 'looking through' into the underlying assets held within collective investment undertakings (CIUs). The PRA will assume that the exposures within CIUs in respect of duration, sector, and rating are the same as exposures held outside of CIUs.

3.11 The third difference in the PRA's approach is that the PRA published country VA RP for GBP ~~will be~~ is the same as the currency VA RP.

3.12 The PRA ~~will~~ aims to give firms at least three months' notice of the change in the VA RPs. The PRA's VA RPs will become effective from the next 31 March following publication.

Appendix 2: Draft amendments to SS45/15 ‘The UK leverage ratio framework’

In this Annex new text is underlined and deleted text is struck through.

Extract

...

2 Leverage Ratio Buffers

9.3 The ALRB is firm specific, and scaled relative to systemic buffers. Where applicable to a firm, the ALRB and related reporting and disclosure requirements will be set by the PRA using its powers under section 55M of the Financial Services and Markets Act (2000), and will incorporate the ALRB Model Requirements.⁵¹ Where applicable to an approved holding company, the ALRB and related reporting and disclosure requirements will be set by the PRA using its powers under section 192C of the Financial Services and Markets Act (2000), and will incorporate the ALRB Model Requirements. Where a firm is subject to both a G-SII buffer and an O-SII buffer on the same basis of consolidation, the higher of the two buffers shall apply for the purpose of calculating the ALRB.

...

⁵¹ Current version available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/vreq-additional-leverage-buffers-model-requirements>.

Appendix 3: Amendments consequential on CRR Rules

**Annex B and C of draft PRA RULEBOOK: (CRR 2 AND OTHER
CONSEQUENTIALS) MODIFICATION INSTRUMENT 2022**

**[DRAFT] PRA Standards Instrument: The Technical Standards (Consequential Amendments)
Instrument 2022**

Appendix 4: SS3/13 'Capital and leverage ratios for major UK banks and building societies'

This SS has been deleted SS3/13 'Capital and leverage ratios for major requirements for major UK banks and building societies'

**Appendix 5: SS4/13 ‘Solvency II: applying EIOPA's preparatory guidelines to PRA-
authorised firms’**

This SS has been deleted SS4/13 ‘Solvency II: applying EIOPA's preparatory guidelines to
PRA-authorized firms’

Appendix 6: SS29/15 'CRD IV: Interim LCR reporting'

This SS has been deleted SS29/15 'CRD IV: Interim LCR reporting'

Appendix 7: LSS4/13 ‘Liquidity and capital regime for UK banks and building societies: adjustments in relation to FPC statement’

This SS has been deleted LSS4/13 ‘Liquidity and capital regime for UK banks and building societies: adjustments in relation to FPC statement’

Appendix 8: Legacy SS6/13 ‘Pension obligation risk: treatment in the Internal Capital Adequacy Assessment Process (ICAAP) for banks and building societies’

This LSS has been deleted LSS6/13 - Pension obligation risk: treatment in the Internal Capital Adequacy Assessment Process (ICAAP) for banks and building societies

Appendix 9: Proposed amendments to Statement of Policy ‘Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK’s withdrawal from the EU’

Appendix 1: Non-exhaustive list of EIOPA Guidelines that are complied with in the UK Solvency II

...

~~These Guidelines have been deleted-Guidelines on methods for determining the market shares for reporting~~

Appendix 2: Non-exhaustive list of EBA Guidelines and Recommendations that are complied with in the UK

Capital Requirements Directive (CRD)

...

~~These Guidelines have been deleted-Guidelines on the management of interest rate risk arising from non-trading activities (IRRBB)~~

~~These Guidelines have been deleted-Guidelines on the 2020 pragmatic supervisory review and evaluation process (SREP) in light of the COVID-19 crisis~~

Financial Conglomerates Directive (FICOD)

...

~~These Guidelines have been deleted-Joint Guidelines on the convergence of supervisory practices relating to the consistency of supervisory coordination arrangements for financial conglomerates~~

EBA Regulation Article 16

...

~~These Guidelines have been deleted-Guidelines on supervision of significant branches~~
~~These Recommendations have been deleted-Recommendations on outsourcing to cloud service providers~~

~~These Guidelines have been deleted-Guidelines on communication between competent authorities and auditors~~

~~These Guidelines have been deleted-Guidelines on product oversight and governance arrangements for retail banking products~~

Deposit Guarantee Scheme Directive (DGSD)

...

~~These Guidelines have been deleted-Guidelines on stress tests of deposit guarantee schemes~~

~~These Guidelines have been deleted-Guidelines on cooperation agreements between deposit guarantee schemes~~

~~These Guidelines have been deleted-Guidelines on methods for calculating contributions to Deposit Guarantee Schemes (DGSs)~~

~~These Guidelines have been deleted-Guidelines on payment commitments~~

Appendix 4: Individual Guidelines where explanation has been provided that the UK does not intend to comply in whole or in part

Capital Requirements Directive (CRD)

...

~~These Guidelines have been deleted-Guidelines for the identification of global systemically important institutions (G-SIIs)~~

Appendix 10: Investment Firms Prudential Regime Amendment Instrument 2022

PRA RULEBOOK: CRR FIRMS, SII FIRMS: INVESTMENT FIRMS PRUDENTIAL REGIME AMENDMENT INSTRUMENT 2022

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (The PRA’s general rules); and
 - (2) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

- C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Rulebook: CRR Firms, SII Firms: Investment Firms Prudential Regime Amendment Instrument 2022.

- D. The PRA makes the rules in the Annexes to this instrument.

Part	Annex
Glossary	A
Financial Conglomerates	B
Fundamental rules	C
Group Supervision	D
Notifications	E
Regulatory reporting	F

Commencement

- E. This instrument comes into force on [DATE].

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms, SII Firms: Investment Firms Prudential Regime Amendment Instrument 2022.

By order of the Prudential Regulation Committee

[DATE]

Annex A

Amendments to the Glossary

In this Annex new text is underlined and deleted text is struck through

banking and investment services conglomerate

means a *financial conglomerate* that is identified in paragraph 3.1 of Annex 2 (Capital Adequacy Calculations for Financial Conglomerates) of the Financial Conglomerates part of the PRA Rulebook as a 'banking and investment services conglomerate'.

consolidated basis

has the meaning given in point (48) of aArticle 4(1)~~(48)~~ of the ~~CRR~~CRR.

credit institution

has the meaning given in point (1) of Article 4(1) of the ~~CRR~~CRR.

financial holding company

has the meaning given in set out at point (20) of Article 4(1) of the ~~CRR~~CRR.

financial institution

has the meaning given in point (26) of Article 4(1) of the CRR.

G-SII

has the meaning given in point (133) of it has in Article 4(1)~~(133)~~ of the ~~CRR~~CRR.

Institution

has the meaning given in set out at point (3) of Article 4(1) of the ~~CRR~~CRR.

insurance conglomerate

means a *financial conglomerate* that is identified in paragraph 3.1 of Annex 2 of the Financial Conglomerates Part as an insurance conglomerate.

investment holding company

has the meaning given in point (22A) of Article 4(1) of the CRR.

mixed-activity holding company

has the meaning given in set out at point (22) of Article 4(1) of the ~~CRR~~CRR.

non-UK G-SII

has the meaning given in point (134) of it has in Article 4(1)(134) of the ~~CRR~~CRR.

PRA approved intermediate holding company

means a ~~financial holding company~~ *financial holding company* or ~~mixed financial holding company~~ *mixed financial holding company* within the meaning of points (20) and (21) respectively of Article 4(1) of the ~~CRR~~CRR that this not a *UK parent financial holding company* or a *UK parent mixed financial holding company* and that is approved under Part 12B of ~~FSMA~~FSMA.

PRA designated intermediate holding company

means a ~~financial holding company~~ *financial holding company* or ~~mixed financial holding company~~ *mixed financial holding company* within the meaning of points (20) and (21) respectively of Article 4(1) of the ~~CRR~~CRR that this not a *UK parent financial holding company* or a *UK parent mixed financial holding company* and that is approved under Part 12B of ~~FSMA~~FSMA.

sub-consolidated basis

This term is defined externally, please refer to – Article 4(1)(49) ~~CRR~~CRR

third country financial conglomerate

has the meaning given in regulation 7 of the *Financial Conglomerates Regulations*

Annex B

Amendments to the Financial Conglomerates Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.4 In this Part, the following definitions shall apply:

...

collective portfolio management investment firm

has the meaning given in the *PRA Handbook Glossary*.

...

CRD full scope firm

means an investment firm as defined in article 4(1)(2) of the *CRR* that is subject to the requirements imposed by virtue of *MiFID*, or which would be subject to those requirements if its head office were in the *UK*, and that is not a *limited activity firm* or a *limited licence firm*.

...

CRR investment services sector

means a sector composed of one or more of the following entities:

(1) a *designated investment firm*; and

(2) a *financial institution*.

...

full scope IFPRU investment firm

means a *CRD full scope firm* that is an *IFPRU investment firm*.

IFPRU investment firm

means an *investment firm*, as defined in article 4(1)(2) of the *CRR*, including a *collective portfolio management investment firm*, that satisfies the following conditions:

(1) ~~it is a *FCA authorised firm*~~;

(2) ~~its head office is in the *UK*~~; and

(3) ~~it is not excluded under IFPRU 1.1.5 in the *FCA Handbook*~~.

IFPRU limited activity firm

means a limited activity firm that meets the following conditions:

- ~~(1) it is an FCA authorised firm;~~
- ~~(2) its head office is in the UK; and~~
- ~~(3) it is not excluded under IFPRU 1.1.5 in the FCA Handbook.~~

insurance conglomerate

means a *financial conglomerate* that is identified in paragraph 3.1 of Annex 2 as an insurance conglomerate.

...

investment services sector

means a sector composed of one or more of the following entities:

- ~~(1) An investment firm;~~
- ~~(2) A financial institution; and~~
- ~~(3) In the relevant circumstances described in 5, an asset management company or an alternative investment fund manager.~~

means the MIFIDPRU investment services sector and the CRR investment services sector taken together.

limited activity firm

has the meaning given by article 96(1) of the CRR.

limited licence firm

has the meaning given by article 95(1) of the CRR.

...

MIFIDPRU

means the Prudential Sourcebook for MiFID Investment Firms module of the FCA Handbook.

MIFIDPRU investment firm

has the meaning given in the *FCA Handbook*.

MIFIDPRU investment services sector

means a sector composed of one or more of the following entities:

- (1) an investment firm other than a designated investment firm;
- (2) a financial institution that is not an investment firm; and
- (3) in accordance with rule 5, an asset management company or an alternative investment fund manager.

most important financial sector

means the *financial sector*, being either the *insurance sector* or the *banking and investment services sector*, with which has the largest average referred to in the box titled Threshold Test 2 in Annex 1; and so that the ~~investment services sector~~ *investment services sector* and the ~~banking sector~~ *banking sector* are treated as one for the purpose of the definition of *financial conglomerate* and for the purposes of 1 to 5 of this Part.

overall financial sector

means a sector composed of one or more of the following types of entities:

- (1) members of ~~each of~~ the *financial sectors*; and
- (2) except where 1 to 5 and Annex 2 to this Part provide otherwise, a *mixed financial holding company*.

own funds requirement

has the meaning given by Article 92 of the ~~CRR~~CRR.

participation

has the meaning given in point (35) of Article 4(1)~~(35) CRR~~ of the *CRR*.

...

recognised third country credit institution

a credit institution that satisfies the following conditions:

- (1) its head office is outside the UK;
- (2) it is authorised by a *third country competent authority* in the state or territory in which the *credit institution's* head office is located; and
- (3) that *third country competent authority* applies prudential and supervisory requirements to that *credit institution* that are at least equivalent to those applied in the UK.

recognised third country investment firm

has the meaning given by the *PRA Handbook Glossary*, means an *investment firm* that falls within the meaning of “investment firm” given in point (2) of Article 4(1) of the *CRR* and which satisfies the following conditions:

- (1) its head office is outside the UK;
- (2) it is authorised by a *third country competent authority* in the state or territory in which the *investment firm's* head office is located; and
- (1) that *investment firm* is subject to and complies with prudential rules of or administered by that *third country competent authority* that are at least as stringent as those laid down in whichever of the *CRR* or *MIFIDPRU* would apply if its head office was in the UK.

...

sectoral rules

means, in relation to a *financial sector*, the following rules and requirements relating to the prudential supervision of ~~regulated entities~~ *regulated entities* within that *financial sector*:

- (1) for the purpose of calculating *solo capital resources* and a *solo capital resources requirement*:
 - a. to the extent provided for in paragraphs 6.4 to 6.6 of Annex 2, rules and requirements that are referred to in those paragraphs; or
 - (2) for all other purposes, rules and requirements of the *PRA*.
- and so that:
- (3) in relation to prudential rules about consolidated supervision for any *financial sector*, those requirements include ones relating to the form and extent of consolidation;
 - (4) in relation to any financial sector, those requirements include ones relating to the eligibility of different types of capital;
 - (5) in relation to any financial sector, those requirements include both ones applying on a solo basis and ones applying on a consolidated basis; and
 - (6) references to the *PRA's* sectoral rules are to sectoral rules in the form of rules, and as applicable, the *CRR*, and *delegated acts*.

third country competent authority

has the meaning given in regulation 7 of the *Financial Conglomerates Regulations*.

third country financial conglomerate

~~has the meaning given in regulation 7 of the Financial Conglomerates and Other Financial Groups Regulations 2004.~~

UCITS management company

(1) except in relation to *MiFID business*, a *firm* which is either:

- (a) a *UCITS firm*; or
- (b) a *UCITS investment firm*.

(2) in relation to *MiFID business*, a *management company* as defined in the *UCITS Directive*.

[Note: article 4(1)(24)(28) of ~~MiFID~~ *MiFID II*]

...

1.5 Unless otherwise defined in this Part, any italicised expression used in this Part and in the ~~CRR~~ or the *Solvency II Directive* has the same meaning as in the ~~CRR~~ or the *Solvency II Directive*.

2 DEFINITION OF A FINANCIAL CONGLOMERATE

...

2.4 For the purposes of Annex 1:

- (1) a *mixed financial holding company* is outside the *overall financial sector* for the purposes of the tests set out in the boxes entitled Threshold Test 1, Threshold Test 2 and Threshold Test 3 in Annex 1;
- (2) determining whether the tests set out in the boxes entitled Threshold Test 2 and Threshold Test 3 in Annex 1 are passed is based on a consideration of the consolidated and/or aggregated activities of the members of the *consolidation group* within the *insurance sector* and the consolidated and/or aggregated activities of the members of the *consolidation group* within the *banking sector* and the *investment services sector*; and
- (3) ~~in determining the investment services sector for the purposes of the tests in the boxes entitled Threshold Test 1, Threshold Test 2 and Threshold Test 3, any investment firm that does not fall within the definition in Article 4(1)(2) of the CRR is excluded. [deleted.]~~

...

3 CAPITAL ADEQUACY

...

3.2 A *firm* must at all times have capital resources of such an amount and type that results in the capital resources of the *financial conglomerate* being adequate.

[Note: Art (6)2 of the ~~Financial Groups Directive~~ *Financial Groups Directive*; see also Part 2 (PRA) of Commission Delegated Regulation (EU) 342/2014]

...

4 RISK CONCENTRATION AND INTRA-GROUP TRANSACTIONS

4.1 This Chapter applies to a *firm* that is a member of a *financial conglomerate* in respect of which a *PRA financial conglomerate notification* has been issued.

[Note: Art 7(2) and Art 8(2) of the *Financial Groups Directive*; see also Part 2 (PRA) Commission Delegated Regulation (EU) 2015/2303]

...

4.3 Table: application of *sectoral rules*

The most important <i>financial sector</i>	Applicable sectoral rules	
	<i>Risk concentration</i>	<i>Intra-group transactions</i>
<i>Banking and investment services sector</i>	<i>CRR</i>	Part Four of the <i>CRR</i>
<i>Insurance sector</i>	Group Supervision 16.1	Group Supervision 16.2
Note	Any waiver granted to a member of the <i>financial conglomerate</i> , on an individual or consolidated basis, shall not apply in respect of the <i>financial conglomerate</i> for the purposes of 4.2.	

The most important <i>financial sector</i>		<i>Applicable sectoral rules</i>	
		<i>Risk concentration</i>	<i>Intra-group transactions</i>
<i>Banking and investment services sector</i>	<i>For the banking sector and the CRR investment services sector</i>	<i>CRR</i>	<i>Part Four of the CRR</i>
	<i>For the MIFIDPRU investment services sector</i>	<i>MIFIDPRU 5 of the FCA Handbook</i>	<i>SYSC 12.1.12 R of the FCA Handbook</i>

<u>Insurance sector</u>	<u>Group Supervision 16.1</u>	<u>Group Supervision 16.2</u>
<u>Note</u>	<u>Any waiver granted to a member of the financial conglomerate, on an individual or consolidated basis, shall not apply in respect of the financial conglomerate for the purposes of 4.2.</u>	

[Note: Art 7(4) and Art 8(4) of the *Financial Groups Directive*]

5 ASSET MANAGEMENT COMPANIES AND ALTERNATIVE INVESTMENT FUND MANAGERS

5.1 A firm must treat an asset management company and an alternative investment fund manager that is a member of a financial conglomerate of which that firm is a member:

...

(2) Save in the circumstances in (4), in the case of a financial conglomerate for which the PRA is the coordinator, a firm must allocate an asset management company and an alternative investment fund manager:

- (a) to the MIFIDPRU investment services sector ~~investment services sector~~ where a decision to that effect has been made by the relevant member referred to in regulation 2(4) of the *Financial Conglomerates Regulations*;
- (b) to the *insurance sector* where a decision to that effect has been made by the *undertaking* in the financial conglomerate that is the group member referred to in Article 4(2) of the *Financial Conglomerates Directive*; or
- (c) otherwise to the *smallest financial sector*.

...

(4) ~~This rule applies even if a~~ Where a UCITS management company, is an IFPRU investment firm or if an asset management company or alternative investment fund manager is an investment firm, it must be allocated to the MIFIDPRU investment services sector.

[Note: second paragraph of Art 30 and Art 30a(2) of the *Financial Groups Directive*]

...

6 THIRD COUNTRY FINANCIAL CONGLOMERATES

...

6.2 If a firm is subject to a requirement obliging it to comply with this rule with respect to a third country financial conglomerate of which it is a member, it must comply, with respect to that third country financial conglomerate, with the rules in Part 1 of Annex 3, as adjusted by Part 3-2 of that Annex.

[Note: Art 18 of the *Financial Groups Directive*]

...

ANNEX 2 – CAPITAL ADEQUACY CALCULATIONS FOR FINANCIAL CONGLOMERATES

...

3 Table

Types of financial conglomerate	3.1	(1)	This paragraph sets out how to determine the category of <i>financial conglomerate</i> .	
		(2)	If there is a <i>UK regulated entity</i> at the head of the <i>financial conglomerate</i> , then:	
			(a)	if that entity is in the <i>banking sector</i> or the <i>investment services sector</i> , the <i>financial conglomerate</i> is a <i>banking and investment services conglomerate</i> <u><i>banking and investment services conglomerate</i></u> ; or
			(b)	if that entity is in the insurance sector, the <i>financial conglomerate</i> is an <i>insurance conglomerate</i> .
		(3)	If (2) does not apply and the <i>most important financial sector</i> is the <i>banking and investment services sector</i> , it is a <i>banking and investment services conglomerate</i> <u><i>banking and investment services conglomerate</i></u> .	
(4)	If (2) and (3) do not apply, it is an <i>insurance conglomerate</i> .			

4 Table

A mixed financial holding company	4.1	A <i>mixed financial holding company</i> must be treated in the same way as:	
		(a)	a <i>financial holding company</i> , if Part One, Title II, Chapter 2 of the <i>CRR</i> <i>CRR</i> and Groups are applied; or
		(b)	an <i>insurance holding company</i> , if the rule in Solvency II Firms: Group Supervision are applied); or
		(c)	<u>an <i>investment holding company</i> (if the rules in <i>MIFIDPRU</i> are applied).</u>

5 Table: PART 3: Principles applicable to all methods

...

Application of sectoral rules: general	5.4	...	
		(5)	Any <i>waiver</i> or <i>CRR permission</i> granted to a member of the <i>financial conglomerate</i> under those rules does not apply for the purposes of this annex.

Application of sectoral rules: banking sector and investment services sector [Deleted.]	5.5	In relation to a BIPRU firm (as defined in the FCA Handbook) that is a member of a <i>financial conglomerate</i> where there are no <i>credit institutions</i> or <i>investment firms</i> , the following adjustments apply to the <i>applicable sectoral rules</i> for the <i>banking sector</i> and the <i>investment services sector</i> as they are applied by the rules in this Annex.	
		(1)	References in those rules to non-EEA sub-groups (as defined in the FCA Handbook) do not apply.
		(2)	Any investment firm consolidation waivers (as defined in the FCA Handbook) granted to members of the <i>financial conglomerate</i> do not apply.
		(3)	For the purposes of Parts 1 and 2, without prejudice to the application of requirements in BIPRU 8 of the FCA Handbook preventing the use of an advanced prudential calculation approach (as defined in the FCA Handbook) on a consolidated basis, any advanced prudential calculation approach permission (as defined in the FCA Handbook) that applies for the purpose of BIPRU 8 of the FCA Handbook does not apply.
		(4)	For the purposes of Parts 1 and 2, BIPRU 8.5.9R of the FCA Handbook and BIPRU 8.5.10R of the FCA Handbook do not apply.
		(5)	For the purposes of Parts 1 and 2, the method in GENPRU 2 Annex 4 of the FCA Handbook must be used for calculating the capital resources and BIPRU 8.6.8R of the FCA Handbook does not apply.
		Other than as above, the <i>CRD</i> and <i>CRR</i> apply for the <i>banking sector</i> and the <i>investment services sector</i> . [deleted.]	

...

6 Table: PART 4: Definitions used in this Annex

...

Solo capital resources requirement: banking	6.2	(1)	<u>Save in the circumstances in paragraph 6.6, the</u> The <i>solo capital resources requirement</i> of an <i>undertaking</i> in the <i>banking sector</i> or the <i>investment services sector</i> must be calculated in accordance with this rule, subject to paragraphs 6.5 and 6.6.
---	-----	-----	---

sector and investment services sector	(2)	The <i>solo capital resources requirement</i> of a <i>building society</i> is its <i>own funds requirements</i> .	
	(3)	The <i>solo capital resources requirement</i> of an <i>electronic money institution</i> is the capital resources requirement that applies to it under the <i>Electronic Money Regulations</i> .	
	(4)	<p>If there is a credit institution or a designated investment firm in the financial conglomerate, the <i>solo capital resources requirement</i> for any undertaking in the <i>banking sector</i> or the investment services sector <u>CRR investment services sector</u> is, subject to (2) and (3), calculated in accordance with the CRR<u>CRR</u> for calculating the <i>own funds requirements</i> of a <i>bank</i>.</p>	
	(4A)	The <i>solo capital resources requirement</i> for any undertaking in the <i>MIFIDPRU investment services sector</i> , is, subject to (2) and (3), calculated in accordance with <i>MIFIDPRU</i> .	
	(5)	If:	
	(a)	the financial conglomerate does not include a <i>credit institution</i> ;	
	(b)	there is at least one investment firm in the <i>financial conglomerate</i> ; and	
	(c)	<p>all the investment firms in the <i>financial conglomerate</i> are <i>firms</i> within the meaning of Article 95(1) of the CRR or 96(1) of the CRR,</p> <p>the <i>solo capital resources requirement</i> for any undertaking in the <i>banking sector</i> or the <i>investment services sector</i> is calculated in accordance with the CRR for calculating the <i>own funds requirements</i> of:</p>	
	(i)	if there is a <i>firm</i> within the scope of Article 96(1) of the CRR in the financial conglomerate , an IFPRU limited activity firm as defined in the FCA Handbook; or	
	(ii)	in any other case, an IFPRU limited licence firm. [deleted.]	
(6)	If:		
(a)	the financial conglomerate does not include a <i>credit institution</i> ; and		

		(b)	(5) does not apply, the solo capital resources requirement for any undertaking in the banking sector or the investment services sector is calculated in accordance with the CRR for calculating the own funds requirements of a full-scope IFPRU investment firm as defined in the FCA Handbook. [deleted.]
		(7)	In relation to a BIPRU firm as defined in the FCA Handbook that is a member of a <i>financial conglomerate</i> in which there are no <i>credit institutions</i> or <i>investment firms</i> , any <i>capital resources requirements</i> calculated under a BIPRU TP in the FCA Handbook may be used for the purposes of the <i>solo capital resources requirement</i> in this rule in the same way that the <i>capital resources requirements</i> can be used under BIPRU 8 of the FCA Handbook. [deleted.]
...			
Solo capital resources requirement: mixed financial holding company	6.7	(1)	The <i>solo capital resources requirement</i> of a <i>mixed financial holding company</i> is a notional capital requirement. Subject to (2), it is the capital adequacy requirement that applies to <i>regulated entities</i> in the <i>most important financial sector</i> under the table in paragraph 8.
		(2)	<u>Where the <i>banking and investment services sector</i> is the <i>most important financial sector</i>, the capital adequacy requirement will be:</u>
		(a)	<u>where there is a <i>UK credit institution</i> in the <i>financial conglomerate</i>, the requirements in the table in paragraph 8 for the <i>banking sector</i>;</u>
		(b)	<u>in all other cases, the requirements in the table in paragraph 8 for the <i>CRR investment services sector</i>;</u> <u>or</u>
		(c)	<u>Where neither (a) nor (b) apply, the requirements in the table in paragraph 8 for the <i>MIFIDPRU investment services sector</i>.</u>

...

8 Table: Application of sectoral consolidation rules

<i>Banking sector</i>	8	Part One, Title II, Chapter 2 of the CRR CRR and the Groups Part.
<i>Insurance sector</i>		Group Supervision
<i>Investment services sector</i>		in relation to a <i>designated investment firm</i> or an IFPRU investment firm which is a member of a <i>financial conglomerate</i> for which the

<u><i>CRR investment services sector</i></u>		<i>PRA</i> is the <i>coordinator</i> , Part One, Title II, Chapter 2 of the <i>CRR</i> <i>CRR</i> and the <i>PRA</i> Rulebook.
<u><i>MIFIDPRU investment services sector</i></u>		in relation to a <i>MIFIDPRU investment firm</i> which is a member of a <i>financial conglomerate</i> for which the <i>PRA</i> is the <i>coordinator</i> , <u><i>MIFIDPRU</i></u> .

...

Annex C

Amendments to the Fundamental Rules Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

branch

has the meaning given in point (17) of ~~specified in Article 4(1)(17) of the~~ ~~*CRR*~~*CRR*.

Annex D

Amendments to the Group Supervision Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

~~*financial institution*~~

has the meaning given in point (26) of ~~Article 4(1) of the~~ ~~*CRR*~~*CRR*.

...

Annex E

Amendments to the Notifications Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

~~financial holding company~~

has the meaning set out at point 20 of Article 4(1) of the ~~CRR~~.

...

~~mixed activity holding company~~

has the meaning set out at point 22 of Article 4(1) of the ~~CRR~~.

~~mixed financial holding company~~

has the meaning given in ~~set out at~~ point (21) of Article 4(1) of the ~~CRR~~CRR.

...

Annex F

Amendments to the Regulatory Reporting Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.2 In this Part, the following definitions shall apply:

...

~~banking and investment services conglomerate~~

means a financial conglomerate that is identified in paragraph 4.3 of GENPRU 3 Annex 1 R (Types of financial conglomerate) in the *PRA Handbook* as a 'banking and investment services conglomerate'.

~~BIPRU~~

means the Prudential sourcebook for Banks, Building Societies and Investment Firms in the *PRA Handbook*.

...

insurance conglomerate

means a ~~financial conglomerate~~ that is identified in paragraph 4.3 of GENPRU 3 Annex 1 R (Types of financial conglomerate) in the *PRA Handbook* as an *insurance conglomerate*.

IPRU(INS)

means the interim Prudential Sourcebook for Insurers in the *PRA Handbook*.

...

~~third country financial conglomerate~~

means a ~~financial conglomerate~~ that is of a type that falls under Article 5(3) of the *Financial Groups Directive*.

...

12 FINANCIAL CONGLOMERATES

...

12.3 The table below sets out the following:

...

Financial conglomerates			
Content of Report	<i>Data item (1)</i>	Frequency	Due Date
Calculation of supplementary capital adequacy requirements in accordance with one of the three technical calculation methods	(2)	(5) Annually	(5)
Identification of significant <i>risk concentration</i> levels	(3)	Annually	4 months after year end
Identification of significant <i>intra-group transactions</i>	(4)	Annually	4 months after year end
Report on compliance with GENPRU 3.1.35 R <u>Financial Conglomerates 4.2</u> where it applies	(6)	(5)	(5)

...

(4) The frequency and due date will be as follows:

- (a) *banking and investment services conglomerate*: frequency is annually with due date 45 business days after period end;
- (b) *insurance conglomerate*: frequency is annually with due date four months after period end for the capital adequacy return and three months after period end for the report on compliance with ~~GENPRU 3.1.35 R~~ Financial Conglomerates 4.2 where it applies.

...

Appendix 11: Draft PRA Standards Instrument: The Technical Standards (Investment Firms Prudential Regime Consequential Amendments) Instrument

PRA STANDARDS INSTRUMENT: THE TECHNICAL STANDARDS (INVESTMENT FIRMS PRUDENTIAL REGIME CONSEQUENTIAL AMENDMENTS) INSTRUMENT 2022

Powers exercised

- A. The PRA makes this instrument in the exercise of powers under section 138P (Technical Standards) of the Act.
- B. For the purposes of section 138P of the Act, the powers to make technical standards which the PRA relies on are conferred on the PRA by:
 - (a) Articles 312(4) of Regulation (EU) No 575/2013;
 - (b) Regulation 7(6) of the Financial Conglomerates and Other Financial Groups (Amendment etc.) (EU Exit) Regulations 2019; and
 - (c) Articles 83(2A) and 98A of the Bank Recovery and Resolution (No.2) Order 2014.
- C. Pursuant to section 138P(2)(b) of the Act, the power to make technical standards includes the power to modify, amend or revoke any EU tertiary legislation made by an EU entity under the original EU power which forms part of retained EU law. The regulations set out in paragraph [J] below constitute EU tertiary legislation (as defined in section 20 of the EUWA) for these purposes.
- D. The powers referred to above are specified for the purpose of section 138Q(2) (Standards instruments) of the Act.

Pre-conditions to making

- E. The FCA have been consulted on the changes made by this instrument pursuant to sections 138P(4) of the Act.
- F. In accordance with section 138J of the Act, the PRA published a draft of the proposed instrument and had regard to representations made.
- G. A draft of this instrument has been approved by the Treasury, as required by section 138R of the Act.

Interpretation

- H. In this instrument, any reference to any provision of direct EU legislation is a reference to it as it forms part of retained EU law.
- I. In this instrument:-
 - “EUWA” means the European Union (Withdrawal) Act 2018.
 - “PRA” means the Prudential Regulation Authority;
 - “retained EU law” has the meaning given it in section 6 of the EUWA; and
 - “the Act” means the Financial Services and Markets Act 2000.

Modifications

J. The PRA makes the modifications in the Annex listed in column (2) below to the corresponding regulation (or part thereof) listed in column (1) below.

(1)	(2)
Part 2 (PRA) of Commission Delegated Regulation (EU) 2018/959	Annex A
Part 2 (PRA) of Commission Delegated Regulation (EU) 342/2014	Annex B
Part 2 (PRA) of Commission Delegated Regulation (EU) 2016/911	Annex C

Commencement

K. This instrument comes into force on [DATE]

Citation

L. This instrument may be cited as PRA Standards Instrument: The Technical Standards (Investment Firms Prudential Regime Consequential Amendments) Instrument 2022.

By order of the Prudential Regulation Committee

[Date]

Annex A

Modifications to Part 2 (PRA) of Commission Delegated Regulation (EU) 2018/959

- 1.1 In this Annex new text is underlined and deleted text is struck through.
- 1.2 Part 2 (PRA) of Commission Delegated Regulation (EU) 2018/959 supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards of the specification of the assessment methodology under which competent authorities permit institutions to use Advanced Measurement Approaches for operational risk, is modified as follows:

Article 11

Use of the AMA

...

(c) that the operational risk measurement system is used also for the purposes of the institution's internal capital adequacy assessment process referred to in rules 3.1(1) and 3.4 of the Internal Capital Adequacy Assessment Part of the PRA Rulebook ~~and rules 2.2.7R, 2.2.12R and 2.2.13R of the Prudential sourcebook for Investment Firms.~~

Annex B

Modifications to Part 2 (PRA) of Commission Delegated Regulation (EU) 342/2014

- 1.1 In this Annex new text is underlined and deleted text is struck through.
- 1.2 Part 2 (PRA) of Commission Delegated Regulation (EU) 342/2014 of 21 January 2014 supplementing Directive 2002/87/EC of the European Parliament and of the Council and Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to regulatory technical standards for the application of the calculation methods of capital adequacy requirements for financial conglomerates, is modified as follows:

Article 2

Definitions

In this Regulation:

...

- (1A) “competent authority” means the PRA or the FCA;
- (1B) “institution” means a credit institution or an investment firm;
- (1C) “investment firm” means a person as defined in paragraph 1A of Article 2 of Regulation (EU) No 600/2014, as that Article has effect subject to the requirements imposed by the United Kingdom legislation that implemented Directive 2014/65/EU, other than a credit institution;
- (1D) “MIFIDPRU” means the Prudential sourcebook for MiFID Investment Firms module of the FCA Handbook;
- (1E) references to “Regulation (EU) No 575/2013” mean:
- (a) except in the circumstances in (b), Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, read together with CRR rules as defined in section 144A of the Financial Services and Markets Act 2000; and
- (b) insofar as provisions are relevant to the assessment of own funds in accordance with MIFIDPRU, the Regulation in (a) as applied and modified by MIFIDPRU 3.

...

- ~~(6) under FSMA as amended by rule-making instruments made before exit day under FSMA or EU Exit Instruments made at any time under the Financial Regulators’ Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018;~~

~~(7) — a reference to an FCA sourcebook or manual is to the rules and guidance made by the FCA under FSMA as amended by rule-making instruments made before exit day under FSMA or EU Exit Instruments made at any time under the Financial Regulators' Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018;~~

~~(8) — a reference to the Solvency 2 Regulations 2015 is to The Solvency 2 Regulations 2015, SI /575 as amended by regulations made under section 8 of the European Union (Withdrawal) Act 2018.~~

...

Article 6

Deficit of own funds at the financial conglomerate level

(1) Where there is a deficit of own funds at the financial conglomerate level, only own fund items that are eligible under the sectoral rules for both the banking and investment sector (taken together), and the insurance sector shall be used to meet that deficit.

(2) The own funds referred to in paragraph 1 are the following:

...

(b) basic own-fund items where those items may be included in Tier 1 own funds in accordance with Rule 3.1 of the Own Funds Part of the PRA Rulebook or MIFIDPRU 3 (as applicable), and the inclusion of those items is not limited by Article 82 of Regulation (EU) 2015/35;

...

(d) basic own-fund items where those items may be included in Tier 1 own funds in accordance Rule 3.1 of the Own Funds Part of the PRA Rulebook or MIFIDPRU 3 (as applicable), and the inclusion of those items is limited by Article 82 of Regulation (EU) 2015/35;

...

(f) basic own-fund items where those items may be included in Tier 2 in accordance with Rule 3.2 of the Own Funds Part of the PRA Rulebook or MIFIDPRU 3 (as applicable).

...

...

Article 9

Solvency requirement

...

- (2) Where the rules for the banking or investment services sector are to be applied,
- (a) own funds requirements as laid down in Chapter 1 of Title I of Part Three of Regulation (EU) No 575/2013 or MIFIDPRU 4 (as applicable), and
 - (b) requirements pursuant to that Regulation or to Directive 2013/36/EU UK law, or to MIFIDPRU (as applicable) to hold own funds in excess of those requirements, including
 - (i) a requirement arising from the internal capital adequacy assessment process in the Internal Capital Adequacy Assessment Part of the PRA Rulebook ~~and section 2.2 of the FCA Prudential sourcebook for Investment Firms~~, or from compliance with the requirements of MIFIDPRU 7 (as applicable),

...

...

...

Article 14

Specification of technical calculation under method 1 pursuant to Annex 2 (Table 1) of the Financial Conglomerates Part of the PRA Rulebook and Annex 1R (Table 1) of Chapter 3 of the FCA General Prudential sourcebook

...

- (8) For the purposes of calculating thresholds or limits, regulated entities in a financial conglomerate which fall within the scope of an institution's consolidated situation pursuant to Section 1 of Chapter 2 of Title II of Part One of Regulation (EU) No 575/2013, or to MIFIDPRU 2 (as applicable) shall be considered together.

...

Annex C

Modifications to Part 2 (PRA) of Commission Delegated Regulation (EU) 2016/911

- 1.1 In this Annex new text is underlined and deleted text is struck through.
- 1.2 Part 2 (PRA) of Commission Delegated Regulation (EU) 2016/911 laying down implementing technical standards with regard to the form and the content of the description of group financial support agreements in accordance with Directive 2014/59/EU of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms, is modified as follows:

...

Article 2

Terms to be disclosed

...

2. The disclosure shall be accompanied by a statement that the provision of the financial support is subject to the conditions set out in Chapter 4 of the Group Financial Support Part of the PRA Rulebook ~~in rule IFPRU 11.5.14R of the Recovery and Resolution Part of the FCA Handbook~~ and to the right of the competent authority to prohibit or restrict the provision.

Appendix 12: Draft amendments to Template UK LIQ2: Net Stable Funding Ratio

Template UK LIQ2: Net Stable Funding Ratio						
in accordance with Article 451a(3) CRR						
		a	b	c	d	e
<i>(in currency amount)</i>		Unweighted value by residual maturity <i>(average)</i>				Weighted value <i>(average)</i>
		No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
Available stable funding (ASF) Items						
1	Capital items and instruments					
2	<i>Own funds</i>					
3	<i>Other capital instruments</i>					
4	Retail deposits					
5	<i>Stable deposits</i>					
6	<i>Less stable deposits</i>					
7	Wholesale funding:					
8	<i>Operational deposits</i>					
9	<i>Other wholesale funding</i>					
10	Interdependent liabilities					
11	Other liabilities:					
12	<i>NSFR derivative liabilities</i>					
13	<i>All other liabilities and capital instruments not included in the above categories</i>					
14	Total available stable funding (ASF)					
Required stable funding (RSF) Items						
15	Total high-quality liquid assets (HQLA)					
UK-15a	Assets encumbered for more than 12m in cover pool					
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:					
18	<i>Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut</i>					
19	<i>Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions</i>					
20	<i>Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which:</i>					
21	<i>With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk</i>					

Appendix 13: Instructions on Template UK LIQ2 on disclosure of Net Stable Funding Ratio (NSFR)

...

12. Institutions subject to Part Six CRR shall disclose the information included in Template UK LIQ2 ~~in application of Article 451a(3) CRR~~ in accordance with the instructions included in this Annex. Quarter-end figures for each quarter of the relevant disclosure period shall be disclosed. For eg annual disclosure ~~this includes~~ firms shall disclose one figure, which is calculated as the simple average of four data sets covering the latest and the three previous quarters.

...

16. Institutions shall always disclose as “Unweighted value by residual maturity (average)” in columns a, b, c and d of the template the accounting values, except for the cases of derivative contracts, for which institutions shall refer to the fair value as specified in Article 428d(2) CRR.

17. Institutions shall disclose the “weighted value (average)” in column e. This value shall reflect the value in accordance with Article 428c(2) CRR which is the result of the unweighted value multiplied by the stable funding factors.

Appendix 14: PRA Rulebook: CRR Firms Administration Instrument 2022

PRA RULEBOOK: CRR FIRMS: CRR RULE ADMINISTRATION INSTRUMENT 2022

Powers exercised

- G. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (3) section 137G (The PRA’s general rules);
 - (4) section 137T (General supplementary powers);
 - (5) section 192XA (Rules applying to holding companies); and
 - (6) section 192XC (Disapplication or modification of rules in individual cases).
- H. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

- I. In so far as these rules are CRR rules within the meaning of section 144A (CRR rules) of the Act, the PRA, when making the rules, had regard to and considered the matters specified in section 144C (1), (2) and (3) of the Act insofar as those sub-sections are applicable to these rules.
- J. In accordance with sections 144C(3) and 144E of the Act the PRA consulted the Treasury about the likely effect of the rules on relevant equivalence decisions within the meaning of section 144C (4) of the Act.
- K. In accordance with section 138J of the Act (consultation by the PRA), the PRA consulted the Financial Conduct Authority.
- L. The PRA published a draft of the proposed rules in accordance with section 138J(1)(b) of the Act, accompanied by the information listed in section 138J(2) and the statements of opinion referred to in sections 144E(5) and (6) of the Act by reference to, among other things, the matters specified in or under section 144C(1) of the Act in accordance with section 144E(7) of the Act.
- M. The PRA had regard to representations made.

PRA Rulebook: CRR Firms: CRR Rule Administration Instrument 2022

- N. The PRA makes the rules in Annexes A and B.
- O. The PRA clarifies a note to a rule in Annex C, which does not form part of the legislative text.

Part	Annex
Amendments to the Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR)	A
Amendments to the Counterparty Credit Risk (CRR) Part	B
Amendments to a note to the Leverage Ratio (CRR) Part	C

Commencement

- P. This instrument comes into force on [DATE].

Citation

- Q. This instrument may be cited as the PRA Rulebook: CRR Firms: CRR Rule Administration Instrument 2022.

By order of the Prudential Regulation Committee

[DATE]

Annex A

Amendments to the Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR) Part

In this Annex new text is underlined and deleted text is struck through.

...

3 CREDIT RISK (PART THREE TITLE TWO CHAPTERS TWO AND THREE CRR)

...

ARTICLE 152 TREATMENT OF EXPOSURES IN THE FORM OF UNITS OR SHARES IN CIUS

...

4. Institutions that apply the look-through approach in accordance with paragraphs 2 and 3 of this Article and that meet the conditions for permanent partial use in accordance with Article 150, or that do not meet the conditions for using the methods set out in Chapter ~~23~~ or one or more of the methods set out in Chapter 5 for all or parts of the underlying exposures of the CIU, shall calculate risk-weighted exposure amounts and expected loss amounts in accordance with the following principles:

...

Annex B

Amendments to the Counterparty Credit Risk (CRR) Part

In this Annex new text is underlined and deleted text is struck through.

...

3 COUNTERPARTY CREDIT RISK (PART THREE, TITLE TWO, CHAPTER SIX CRR)

...

Section 2 Methods for Calculating the Exposure Value

...

Article 273a **CONDITIONS FOR USING SIMPLIFIED METHODS FOR CALCULATING THE EXPOSURE VALUE**

1. Subject to the restriction set out in Article ~~237b(2)~~273b(2), an institution may calculate the exposure value of its derivative positions in accordance with the method set out in Section 4, provided that the size of its on- and off-balance-sheet derivative business is equal to or less than both of the following thresholds on the basis of an assessment carried out on a monthly basis using the data as of the last day of the *month*:
 - (a) 10% of the institution's total assets;
 - (b) GBP 260 million.
2. Subject to the restriction set out in Article ~~237b(2)~~273b(2), an institution may calculate the exposure value of its derivative positions in accordance with the method set out in Section 5, provided that the size of its on- and off-balance-sheet derivative business is equal to or less than both of the following thresholds on the basis of an assessment carried out on a monthly basis using the data as of the last day of the *month*:
 - (a) 5% of the institution's total assets;
 - (b) GBP 88 million.

...

Annex C

Amendments to a note to the Leverage Ratio (CRR) Part

In this Annex new text is underlined and deleted text is struck through.

...

Article 429a **EXPOSURES EXCLUDED FROM THE TOTAL EXPOSURE MEASURE**

...

1. By way of derogation from Article 429(4) of this Chapter, an institution may exclude any of the following exposures from its *total exposure measure*:

...

- (j) exposures that meet all the following conditions:
- (i) they are exposures to a public sector entity;
 - (ii) they are treated in accordance with Article 116(4) of the *CRR*;
 - (iii) they arise from deposits that the institution is legally obliged to transfer to the public sector entity referred to in point (i) for the purpose of funding general interest investments;

provided that the *PRA* has also granted permission under this rule.

[Note: This is a permission created under sections 144G and ~~and~~ 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies.]

...

Appendix 15: PRA statutory obligations

The statutory obligations applicable to the PRA's policy development process are set out below. This CP explains the policy assessment of relevant considerations.

- Purpose of the policy proposals (FSMA s138J(2)(b)).
- Cost benefit analysis (FSMA s138J(2)(a) and (7)(a)); and an estimate of those costs and benefits (if reasonable) (FSMA s138J(8)).
- Analysis of whether the impact on mutuals is significantly different to the impact on other authorised firms (FSMA s138J(2)(c) and 138K).
- Compatibility with the PRA's primary objectives (FSMA s138J(2)(d)(i), 2B and 2C).
- Compatibility with the PRA's secondary competition objective (FSMA s138J(2)(d)(ii) and 2H(1)).
- Compatibility with the regulatory principles (FSMA s138J(2)(d)(ii), 2H(2) and 3B).
- Have regard to the HMT recommendation letter (BoE Act s30B).
- Have due regard to the public sector equality duty (Equality Act s149).
- Have regard, subject to any other requirement affecting the exercise of the regulatory function, to the principles of good regulation and when determining general policy or principles to the Regulators Code (Legislative and Regulatory Reform Act 2006 s21 and 22)
- Have regard, so far as consistent with the proper exercise of those functions, to the purpose of conserving biodiversity. Conserving biodiversity includes, in relation to a living organism or type

of habitat, restoring or enhancing a population or habitat (Natural Environment and Rural Communities Act 2006, s40).

- Consultation of the FCA (FSMA s138J(1)(a)).
- *Where the consultation proposals a PRA rule change or amendment to onshored BTS that affects the processing of personal data* - consultation with the Information Commissioner's Office (article 36(4) General Data Protection Regulation).
- *For UK Technical Standards Instruments only:* FSMA s138J(1)(a) is replaced with: consultation of the FCA and/or Bank, where that Regulator has an interest in the technical standards (FSMA s138P(4) and (5)).
- *For UK Technical Standards Instruments only:* notice given to HMT of the consultation on the UKTS ('best efforts' basis).
- *For CRR rules only:* subject to certain exceptions, have regard to:
 - relevant standards recommended by the Basel Committee on Banking Supervision from time to time
 - the likely effect of the rules on the relative standing of the United Kingdom as a place for internationally active credit institutions and investment firms to be based or to carry on activities. For these purposes, the PRA must consider the United Kingdom's standing in relation to the other countries and territories in which, in its opinion, internationally active credit institutions and investment firms are most likely to choose to be based or carry on activities
 - the likely effect of the rules on the ability of CRR firms to continue to provide finance to businesses and consumers in the United Kingdom on a sustainable basis in the medium and long term
 - the target in section 1 of the Climate Change Act 2008 (carbon target for 2050)

(s144C (1) & (2) FSMA – exceptions in s144E FSMA).
- *For CRR rules only* – explanation of the ways in which having regard to the matters specified above has affected the proposed rules (s144D FSMA).
- *For CRR rules only* – publication of a summary of the proposed CRR rules.
- *For CRR rules only* – *consideration and consultation with the Treasury about the likely effect of the rules on relevant equivalence decisions (s144C (3) & (4) FSMA).*