

Bank of England PRA

Appendices to CP16/23 – Updating UK Technical Standards on the identification of global systemically important institutions (G-SIIs)

Consultation paper | CP16/23

July 2023

Draft for consultation



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1: Draft UK Technical Standards Instrument

PRA STANDARDS INSTRUMENT: THE TECHNICAL STANDARDS (SPECIFICATION OF THE METHODOLOGY FOR THE IDENTIFICATION OF G-SIIS) INSTRUMENT 2023

Powers exercised

- A. The PRA makes this instrument in the exercise of powers under section 138P (Technical standards) of the Act. In accordance with section 138P(2)(b) of the Act, this power includes power to modify or amend any EU tertiary legislation made by an EU entity under a power of that entity to make EU tertiary legislation which forms part of retained EU law under the EUWA. The UKTS forms such tertiary retained EU legislation.
- B. For the purposes of section 138P(1) of the Act, the power of the PRA to define, by means of technical standards, the identification methodology for G-SIIs derives from regulation 23(2) of the Regulations and article 464B(3) of the CRR.
- C. The powers referred to above are specified for the purpose of section 138Q(2) (Standards instruments) of the Act.

Pre-conditions to making

- D. The FCA has been consulted on this instrument pursuant to section 138P(4), (5)(b) of the Act.
- E. In accordance with section 138J of the Act as applied by section 138S(2)(g) of the Act, the PRA published a draft of the proposed instrument and had regard to representations made.
- F. A draft of this instrument has been approved by the Treasury, as required by section 138R of the Act.

Interpretation

- G. 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.

- H. In this instrument:-

“G-SII” has the meaning given it in regulation 2 of the Regulations;

“PRA” means the Prudential Regulation Authority;

“retained EU law” has the meaning given it in section 6 of the EUWA;

“the Act” means the Financial Services and Markets Act 2000;

“the CRR” means Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p.1);

“the EUWA” means the European Union (Withdrawal) Act 2018;

“the Regulations” means the Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014; and

“the UKTS” means 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 (OJ L330, 15.11.2014, p.27).

Modifications to the UKTS

I. The PRA makes the modifications to the UKTS in the Annex to this instrument.

Commencement

J. This instrument comes into force on [DATE].

Citation

K. This instrument may be cited as the PRA Standards Instrument: The Technical Standards (Specification of the methodology for the identification of G-SIIs) Instrument 2023.

By order of the Prudential Regulation Committee

[DATE]

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MODIFICATIONS TO THE UKTS

1. In this Annex, new text is underlined and deleted text is struck through.
2. The UKTS is modified as follows:

...

Article 5

Identification as G-SII, determination of the scores and allocation to subcategories

1. The indicator values shall be based on reported data of the relevant entity of the preceding financial year-end, on a consolidated basis, and for banks authorised in third countries on data disclosed in accordance with internationally agreed standards. The relevant authority may use indicator values of relevant entities whose financial year-end is 30 June based on their position on 31 December.
- 1a. By way of derogation from paragraph 1, the indicator values referred to in Article 6(1), Article 6(2), points (a), (b), and (c), and Article 6(4), points (a) and (b), shall include insurance subsidiaries.
2. The relevant authority shall determine the score of each relevant entity of the sample as the simple average of the category scores subject to a maximum category score of 500 base points for the category measuring the substitutability. ~~Each category score shall be calculated as the simple average of the values resulting from dividing each of the indicator values of that category by the denominator of the indicator computed in accordance with Article 3(3).~~

For the categories other than the category measuring the substitutability of the services and of the financial infrastructure provided by the group, the category shall be calculated as the simple average of the values resulting from dividing each of the indicator values of that category by the denominator of the indicator computed in accordance with Article 3(3).

For the category measuring the substitutability of the services and of the financial infrastructure, the category score shall be calculated by giving the indicator values the following weights within the category:

(a) the indicator for assets under custody as referred to in Article 6(3), point (a): one third;

(b) the indicator for payments activity as referred to in Article 6(3), point (b): one third;

(c) the indicator for underwritten transactions in debt and equity markets as referred to in Article 6(3), point (c): one sixth;

(d) the indicator for trading volume as referred to in Article 6(3), point (d): one sixth.

The scores shall be expressed in base points and shall be rounded to the nearest whole base point.

...

Article 6

Indicators

...

3. The category measuring the substitutability of the services or of the financial infrastructure provided by the group shall consist of all of the following indicators:

- (a) assets under custody;
- (b) payments activity;
- (c) underwritten transactions in debt and equity markets;-
- (d) trading volume.

...

Article 7

Transitional provisions

~~By way of derogation from the first subparagraph of Article 3(1), the EBA shall determine the sample to identify a relevant entity as a G-SII for the year 2014 by 14 January 2015. The relevant authorities shall report the indicator values regarding relevant entities within that sample based on data for financial year-ends prior to July 2014 to the EBA, by 21 January 2015. Based on those indicator values, the EBA shall calculate the denominators for the year 2014 by 30 January 2015. The relevant authorities shall determine, on the basis of those denominators, the scores for the relevant entities for the year 2014. They shall also identify G-SIIs and allocate them to subcategories. Concurrently, the relevant authority shall notify the identified G-SIIs to the Commission, the ESRB and EBA and publish their names together with their scores for the year 2014 by 28 February 2015.~~

2: 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.

- **For rules instruments and UK Technical Standards Instruments:** Purpose of the policy proposals (FSMA s138J(2)(b)).
- **For rules instruments and UK Technical Standards Instruments:** Cost benefit analysis (FSMA s138J(2)(a) and (7)(a)); and an estimate of those costs and benefits (if reasonable) (FSMA s138J(8)).
- **For rules instruments and UK Technical Standards Instruments:** 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 letters (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 & 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).
- **For rules instruments and UK Technical Standards Instruments:** Consultation of the FCA (FSMA s138J(1)(a)).
- **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)

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