

Bank of England

Prudential Regulation Authority

Appendices to the non-performing exposures capital deduction

Consultation Paper | CP6/23

March 2023

Draft for consultation



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Draft for consultation

1: Draft CRR firms: Deductions for non-performing exposures (revocations) (CRR) Instrument 2023

PRA RULEBOOK: CRR FIRMS: DEDUCTIONS FOR NON-PERFORMING EXPOSURES (REVOCATIONS) (CRR) INSTRUMENT 2023

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);
 - (2) section 137T (General supplementary powers); and
 - (3) section 192XA (Rules applying to holding companies).
- 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 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.
- D. 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.
- E. 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 explanation referred to in section 144D of the Act insofar as that section is applicable to the rules.

PRA Rulebook: CRR Firms: Deductions for Non-performing Exposures (Revocations) (CRR) Instrument 2023

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

Part	Annex
Own Funds and Eligible Liabilities (CRR)	A
Regulatory Reporting	B
Reporting (CRR)	C

Notes

- G. In Annex A to this instrument, the note (indicated by “Note”) is included for the convenience of readers but does not form part of the legislative text.

Commencement

- H. This instrument comes into force on dd/mm/yy.

Citation

- I. This instrument may be cited as the PRA Rulebook: CRR Firms: Deductions for Non-performing Exposures (Revocations)(CRR) Instrument 2023.

By order of the Prudential Regulation Committee

[DATE]

Annex A**Amendments to the Own Funds and Eligible Liabilities (CRR) Part**

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

...

3 OWN FUNDS AND ELIGIBLE LIABILITIES (PART TWO CRR)

...

ARTICLE 36 DEDUCTIONS FROM COMMON EQUITY TIER 1 ITEMS

1. Institutions shall deduct the following from Common Equity Tier 1 items:

...

- (l) any tax charge relating to Common Equity Tier 1 items foreseeable at the moment of its calculation, except where the institution suitably adjusts the amount of Common Equity Tier 1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses;
- (m) ~~the applicable amount of insufficient coverage for non-performing exposures. [deleted.]~~

...

[Note: This rule, except for the deletion of Article 36.1(m), corresponds to Article 36 of the *CRR* as it applied immediately before revocation by the *Treasury*.]

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Annex B

Amendments to the Regulatory Reporting Part

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

...

16 DATA ITEMS AND OTHER FORMS

...

16.26 PRA101 can be found ~~here~~here.

16.27 PRA102 can be found ~~here~~here.

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2: C 35.01 – NPE loss coverage: the calculation of deductions for non-performing exposures (NPE LC1)

This template has been deleted: 'C 35.01 – NPE loss coverage: the calculation of deductions for non-performing exposures (NPE LC1)'.

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3: C 35.02 – NPE loss coverage: minimum coverage requirements and exposure values of non-performing exposures excluding forborne exposures that fall under Article 47c (6) CRR (NPE LC2)

This template has been deleted: 'C 35.02 - NPE loss coverage: minimum coverage requirements and exposure values of non-performing exposures excluding forborne exposures that fall under Article 47c (6) CRR (NPE LC2)'.

Draft for consultation

4: C 35.03 – NPE loss coverage: minimum coverage requirements and exposure values of non-performing forborne exposures that fall under Article 47c (6) CRR (NPE LC3)

This template has been deleted: 'C 35.03 – NPE loss coverage: minimum coverage requirements and exposure values of non-performing forborne exposures that fall under Article 47c (6) CRR (NPE LC3)'.

Draft for consultation

5: 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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