

Policy Statement | PS13/19

Pillar 2 liquidity: Updates to the framework

June 2019



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1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 6/19 'Pillar 2 liquidity: Updates to the framework'.¹ It also contains the PRA's final policy, as follows:

- updates to the Regulatory Reporting Part of the PRA Rulebook (Appendix 1);
- updates to Statement of Policy (SoP) 'Pillar 2 liquidity' (Appendix 2);
- updates to Supervisory Statement(SS) 24/15 'The PRA's approach to supervising liquidity and funding risks' (Appendix 3);
- updates to SS34/15 'Guidelines for completing regulatory reports' (Appendix 4); and
- updates to PRA110 template and reporting instructions (appendices 5 and 6).

1.2 This PS is relevant to UK banks, building societies, PRA-designated investment firms, and non-EU EEA banks, referred to collectively as 'firms' in this PS.

Background

1.3 In CP6/19 the PRA proposed regulatory reporting amendments and clarifications to the Pillar 2 liquidity framework, including:

- (a) updates to the PRA110 template and reporting instructions;
- (b) deletion of reporting requirements for non-EU EEA banks; and
- (c) clarifications to the Pillar 2 liquidity framework.

1.4 The PRA received nine responses to CP6/19. Respondents did not express concerns on most of the proposals, but did raise some issues and requests for clarifications. The PRA's feedback to these responses and final decisions are set out in Chapter 2.

Changes to draft policy

1.5 Following consideration of the responses, the PRA has made one change to the draft policy. The new paragraph proposed for SS24/15 to clarify the treatment of intraday liquidity has been removed to allow for further consideration of feedback as discussed in paragraphs 2.5 to 2.8 below. All other proposals will be implemented as set out in the CP.

1.6 There have been no substantive changes to the rule instrument as a result of consultation. The PRA has made some minor typographical changes in response to internal feedback, but these do not alter the purpose or effect of the rule.

1.7 The PRA, having considered responses from firms, remains of the view that the proposals will not have a significantly different impact on mutuals than for other firms.

1.8 Further details on the changes are set out in Chapter 2.

¹ March 2019: <https://www.bankofengland.co.uk/prudential-regulation/publication/2019/pillar-2-liquidity-updates-to-the-framework>.

Implementation

1.9 Annex A of the rule instrument amending the Regulatory Reporting Part of the PRA Rulebook (Appendix 1), the updated SoP (Appendix 2), the updated SS24/15 (Appendix 3), and the updated SS34/15 (Appendix 4) will take effect from Monday 1 July 2019.

1.10 The updated PRA110 template and reporting instructions (appendices 5 and 6) and Annex B of the rule instrument amending the Regulatory Reporting Part of the PRA Rulebook (Appendix 1) will take effect from Wednesday 1 January 2020.

1.11 The policy in this PS has been designed in the context of the current UK and EU regulatory framework. The PRA has assessed that the policy will be affected in the event that the UK leaves the EU with no implementation period in place.

1.12 The final SoP, SS24/15 and SS34/15 attached to this PS should be read in conjunction with SS1/19 'Non-binding PRA materials: The PRA's approach after the UK's withdrawal from the EU'.²

1.13 The changes being made to the Regulatory Reporting Part of the Rulebook should be read in conjunction with SS2/19 'PRA approach to interpreting reporting and disclosure requirements and regulatory transactions forms after the UK's withdrawal from the EU'.³

2 Feedback to responses

2.1 The PRA is required by the Financial Service and Markets Act 2000 (FSMA) to have regard to any representations made to the proposals in a consultation, and to publish an account, in general terms, of those representations and its response to them.⁴

2.2 The responses have been grouped by the areas raised by respondents, as follows:

- SS24/15 'The PRA's approach to supervising liquidity and funding risks';
- PRA110 reporting template; and
- length of the consultation period.

SS24/15 'The PRA's approach to supervising liquidity and funding risks'

2.3 The PRA proposed a series of updates to SS24/15 to:

- (i) clarify the treatment of collateral used for generating intraday liquidity in securities settlement systems;
- (ii) provide a short delay to the application of guidance relating to firms' ability to survive throughout the granular Liquidity Coverage Requirement (LCR) stress scenario; and
- (iii) remove ambiguity on reporting by firms during stress.

² February 2019: <https://www.bankofengland.co.uk/prudential-regulation/publication/2019/non-binding-pra-materials-the-pras-approach-after-the-uks-withdrawal-from-the-eu-ss>.

³ February 2019: <https://www.bankofengland.co.uk/prudential-regulation/publication/2019/pras-approach-to-interpreting-reporting-and-disclosure-regs-and-reg-trans-forms-ss>.

⁴ Sections 138J(3);2L; and 138J(4) of FSMA.

2.4 The PRA received no responses in relation to proposal (iii). The PRA is implementing this proposal as set out in the CP.

Treatment of collateral used for generating intraday liquidity in securities settlement systems

2.5 The PRA proposed a clarification to the effect that High Quality Liquid Assets (HQLA) used to generate intraday liquidity, either through auto-collateralised repurchase agreements or where a central securities depository (CSD) or agent provides a secured credit facility, should be treated as encumbered.

2.6 Some respondents raised concerns with the proposal, including that:

- there could be double counting between Pillar 1 and Pillar 2 Liquidity; and
- it might be a departure from the current Pillar 2 regime and appeared to go further than Basel Committee for Banking Supervision (BCBS) guidelines, under which intraday liquidity usage in securities settlement systems is related to the haircut applied.⁵

2.7 There was also some concern about the impact on reported HQLA, with some respondents citing negative consequences for pricing and liquidity in repo markets.

2.8 The responses also highlighted that there may be inconsistencies in firms' approaches to intraday liquidity reporting, which interact with the intent of the proposed clarification.

2.9 Recognising the need to give firms certainty of the rest of the proposals in the CP, the PRA has decided not to proceed with the proposed clarification on intraday liquidity in SS24/15, for the time being. The PRA will consider how best to address the identified differences in firms' reporting practices to reflect liquidity risks appropriately, and how to provide further clarity.

PRA110 reporting template

2.10 The PRA proposed a series of updates to existing rows and columns, and the addition of new rows, in the PRA110 template.

New code numbers

2.11 One respondent noted that the proposed code number of the additional rows, which is not in numerical order, would bring additional complexity to the technical build of the template and suggested that the PRA adopts a sequential order.

2.12 The PRA has considered the response, and decided not to change the code number. The rationale for the proposed approach was that the PRA110 rows shared in common with the European Banking Authority (EBA) Maturity Ladder (ML) should keep the original nomenclature. Moreover, changing the nomenclature of existing rows could be more burdensome for firms.

'Holdings of derivatives collateral received'

2.13 One respondent sought clarification on how the addition of new rows for the reporting of 'Holdings of derivatives collateral received' will feed into the granular LCR calculation.

2.14 As set out in the CP, the additional rows for the reporting of 'Holdings of derivatives collateral received' were included because PRA110 instructions for row 360 ('1.5 Derivatives

⁵ April 2013: <https://www.bis.org/publ/bcbs248.pdf>.

amount payables other than those reported in 1.4') do not allow the inclusion of collateral received for collateralised derivatives in the Counterbalancing capacity. The PRA has not changed the reporting instructions for lines common to both the EBA ML and PRA110. The addition of the new rows will allow firms to report collateral received in derivatives transactions, which is included in firms' available liquidity as per the LCR, and therefore to complete the calculation of net liquidity profiles under the Granular LCR stress.

Unencumbered collateral reported in the Counterbalancing Capacity section

2.15 One respondent suggested that all unencumbered collateral regardless of source (including derivatives collateral received) should be reported in the Counterbalancing Capacity section of PRA110. As set out in the CP, the additional rows for the reporting of 'Holdings of derivatives collateral received' were included as PRA110 instructions do not allow the inclusion of collateral received for collateralised derivatives.

Benefits of increased granularity in PRA110

2.16 One respondent noted that the benefit of the increased granularity in PRA110 may be marginal. The PRA reiterates from the CP that the proposed changes to PRA110 address inconsistencies in the reporting of the LCR and benefit firms by providing a clearer reporting template more closely aligned with the definitions of the LCR Delegated Act.⁶

Implementation date of PRA110

2.17 One respondent sought clarification on whether the implementation of PRA110 will be delayed to 1 January 2020. The PRA clarifies that the requirement to report PRA110 from 1 July 2019 has not changed, and that 1 January 2020 is the date from which firms will be required to report the updated PRA110 template (Appendix 5). The PRA has also updated SS34/15 to clarify that the updated template takes effect from 1 January 2020.

Granular LCR stress scenario

2.18 One respondent sought clarification on how to measure and report the low point from January 2020. On 31 May 2019, the PRA published Version 1 of the PRA110 liquidity metric monitor (LMM) tool⁷ to demonstrate some of the metrics the PRA calculates using information from PRA110. The PRA will publish Version 2 of the LMM tool in due course, aligned to the updates to the PRA110 template.

2.19 As set out in the amendment to SS24/15 proposed in CP6/19, the guidance to survive the granular LCR stress scenario will apply from a date, not before 1 January 2020, of which at least two months' notice will be provided on the PRA website.

Consultation period

2.20 One respondent noted that the short consultation period presumed acquiescence from firms. The PRA has considered carefully all responses received to the consultation, and has made changes and clarifications as a result of those considerations as shown above. As set out in the CP, the PRA considered that the shortened consultation period was justified in light of the relatively minor impact of the proposed changes, and to give firms sufficient time to implement changes in the event of their finalisation following consultation. The proposed implementation date of 1 January 2020 for the updated PRA110 was chosen in order to align it with the termination date of FSA047 and FSA048 reports.

⁶ Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 with regard to liquidity coverage requirement for Credit Institutions.

⁷ Available on the Bank of England website at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/supervisory-tools-liquidity-tools>.

Appendices

- 1 PRA RULEBOOK: CRR FIRMS: LIQUIDITY REGULATORY REPORTING (AMENDMENT) (NO. 2) INSTRUMENT 2019, available at:
<https://www.bankofengland.co.uk/prudential-regulation/publication/2019/pillar-2-liquidity-updates-to-the-framework>

- 2 Statement of Policy 'Pillar 2 liquidity', available at:
<https://www.bankofengland.co.uk/prudential-regulation/publication/2018/pillar-2-liquidity>

- 3 Supervisory Statement (SS) 24/15 'The PRA's approach to supervising liquidity and funding risks', available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-approach-to-supervising-liquidity-and-funding-risks-ss>

- 4 SS34/15 'Guidelines for completing regulatory reports', available at:
<https://www.bankofengland.co.uk/prudential-regulation/publication/2015/guidelines-for-completing-regulatory-reports-ss>

- 5 Updated PRA110 reporting template, available at:
<https://www.bankofengland.co.uk/prudential-regulation/regulatory-reporting/regulatory-reporting-banking-sector/banks-building-societies-and-investment-firms>

- 6 Updated PRA110 reporting instructions, available at:
<https://www.bankofengland.co.uk/prudential-regulation/regulatory-reporting/regulatory-reporting-banking-sector/banks-building-societies-and-investment-firms>