

APPENDIX 7: PURPOSE OF THE RULES (to accompany final [PS21/21]¹)

This appendix sets out a summary of the purpose of the rules in Appendix 1 of PS21/21 (PRA Rulebook: CRR Firms: Leverage Instrument 2021 ('the instrument')), and is published by the PRA in order to comply with section 144D(2)(a) of FSMA.² Where the instrument makes amendments to existing rules, the summary relates to the purpose of the rules as amended. In this appendix, references to firms include PRA approved or designated holding companies where necessary for the purposes of consolidated requirements.

1. <u>Amendments to the Disclosure (CRR) Part</u>		
<u>Areas and rules</u>	<u>Summary of the rules</u>	<u>Summary of the purpose of the rules</u>
Part Eight CRR Amendments made to Articles 433a, 433c, 447 and 451 of Chapter 4 of the Disclosure (CRR) Part	The rules require institutions to make quarterly, semi-annual, and annual disclosures in accordance with the requirements highlighted for large, small, and non-complex and other institutions.	The purpose of the rules is to specify the information which is to be publicly disclosed by firms in order to promote market discipline in relation to the leverage ratio set out in Article 429(2) of Chapter 3 of the Leverage Ratio (CRR) Part.
Disclosure formats and instructions Amendments made to Article 7 of Chapter 5 of the Disclosure (CRR) Part	The rules set out on a more granular level how institutions must meet the disclosure requirements that were previously contained in Technical Standards.	The purpose of the rules is to highlight the detail of what is to be disclosed in the leverage ratio templates.
Pillar 3 templates and instructions Amendments made to Chapter 6 of the Disclosure (CRR) Part	The rules list the disclosure templates and instructions that firms must use when publishing details on their leverage ratio.	The purpose of the rules is to enhance market discipline by ensuring consistency and comparability of firms' disclosures in relation to the leverage ratio. They specify the exact format of the templates, which are to be disclosed, as well as the instructions to populate the templates to ensure that firms disclose their leverage ratio on a consistent basis.

1 Available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2021/june/changes-to-the-uk-leverage-ratio-framework>.

2 The PRA notes that some of the rules referred to in this table have been made in order to comply with an FPC direction or in order to act in accordance with an FPC recommendation, so that under section 144E(1) of FSMA, the requirements of section 144D are disapplied to that extent. However, in order to aid understanding the PRA has decided in this case to cover all the rules made in connection with PS21/21.

2. Amendments to the Internal Capital Adequacy Assessment Part

<u>Areas and rules</u>	<u>Summary of the rules</u>	<u>Summary of the purpose of the rules</u>
Internal assessment of the risk of excessive leverage Rule 11.2 of the Internal Capital Adequacy Assessment Part	The rules modify Rule 11.2 of the Internal Capital Adequacy Assessment Part to require that firms' procedures and policies use, as an indicator for the risk of excessive leverage, the leverage ratio determined in accordance with Article 429(2) of Chapter 3 of the Leverage Ratio (CRR) Part.	The purpose of the rule is to ensure that firms use the leverage ratio set out in Article 429(2) of Chapter 3 of the Leverage Ratio (CRR) Part as the indicator for their assessment of the risk of excessive leverage in the context of their Internal Capital Adequacy Assessment, as well as mismatches between assets and obligations.

3. Leverage Ratio

<u>Areas and rules</u>	<u>Summary of the rules</u>	<u>Summary of the purpose of the rules</u>
Part Seven CRR Calculation of the leverage ratio The Leverage Ratio (CRR) Part.	<p>The rules provide that firms must calculate a leverage ratio in accordance with Article 429(2) of Chapter 3 of the Leverage Ratio (CRR) Part, and specify the methods and principles that firms shall apply when doing so.</p> <p>Article 429a of Chapter 3 of the Leverage Ratio (CRR) Part provides a list of exposures that may (or, in the case of Article 429a(A1), must) be excluded when calculating the total exposure measure (which is the denominator of the leverage ratio).</p>	The purpose of these rules is to ensure that firms take a consistent and prudent approach to calculating their leverage ratio.

3. Leverage Ratio

<p>Amendments to the Leverage Ratio Part, which is being renamed as the Leverage Ratio – Capital Requirements and Buffers Part</p> <p>[Note: The relevant amendments are taking effect in two stages; the first set on 1 January 2022, the second set on 1 January 2023.]</p>	<p>The rules specify that certain firms are required to meet a leverage ratio capital requirement at all times and must calculate a countercyclical leverage ratio buffer ('CCLB'). The rules specify the firms to which the requirement applies, and the individual, sub-consolidated and consolidated bases of application. . Where firms are subject to an individual requirement, they may apply for a permission to apply the rules on a sub-consolidated basis in lieu of the individual level of application.</p> <p>The rules also specify that if a firm is not meeting, or is likely not to meet, the minimum requirement and buffer, it must notify the PRA and submit a capital plan.</p>	<p>These rules are intended to implement the FPC's Direction and Recommendation set out in Appendix 3 to PS21/21 in relation to the scope of application of the leverage ratio requirement. The purpose of the leverage ratio capital requirement is to ensure that firms have capital commensurate to their leverage exposure and can absorb losses that the risk-weighted capital framework may fail to capture. The requirement is calibrated to act as a 'guardrail', which means that it does not bind on most firms most of the time The purpose of the CCLB is to ensure that for relevant firms the leverage ratio requirement remains broadly equally binding throughout the economic cycle.</p>
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4. Amendments to the Reporting (CRR) Part

<u>Areas and rules</u>	<u>Summary of the rules</u>	<u>Summary of the purpose of the rules</u>
<p>Part Seven A CRR</p> <p>Amendments made to Article 430 of Chapter 4 of the Reporting (CRR) Part</p>	<p>The rules set out the specific areas upon which reporting is required, in relation to an institution's leverage ratio.</p>	<p>The rules purpose of the rules is to define the information that firms must report to the PRA so that the PRA can monitor and supervise institutions' leverage ratio as set out in Article 429(2) of Chapter 3 of the Leverage Ratio (CRR) Part. This also includes specific obligations for reporting the leverage ratio on an averaged basis.</p>
<p>Reporting requirements</p> <p>Amendments made to Article 1 of Chapter 5 of the Reporting (CRR) Part</p>	<p>The rules set out on a more granular level how institutions must meet the reporting requirements highlighted in Articles 430 that were previously contained in Technical Standards. The rules require institutions to report the information in accordance with the frequency and remittance dates highlighted.</p>	<p>The purpose of the rules is to highlight the detail required to be reported in the templates, definitions, and the data principles for institutions to report to the competent authority.</p> <p>The rules highlight how the reporting thresholds will operate as well as the frequency in which information is required and the associated remittance dates.</p>

4. Amendments to the Reporting (CRR) Part

Templates and instructions Amendments to Chapter 6 of the Reporting (CRR) Part	The rules list reporting templates and instructions that firms must use when submitting information to the PRA to comply with the reporting requirements rules relating to the leverage ratio.	The purpose of the rules is to specify the exact format of the templates, which are to be reported, as well as the content of instructions to populate the templates so that firms report to the PRA consistently on their leverage ratio.
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