

PRA STANDARDS INSTRUMENT: THE TECHNICAL STANDARDS (CRR2 AND OTHER CONSEQUENTIALS) MODIFICATIONS 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 Articles 383(7), 464B(2)(d), 464B(2)(e) and 464B(2)(f) of Regulation (EU) No 575/2013, as transferred to the PRA by The Capital Requirements (Amendment) (EU Exit) Regulations 2018.
- C. Pursuant to section 138P(2) 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 this instrument pursuant to section 138P(4) of the Act and has consented to the changes made by this instrument pursuant to section 138P(3) of the Act.
- F. 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.
- 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 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) Commission Delegated Regulation (EU) 526/2014	A
Part 2 (PRA) Commission Delegated Regulation (EU) No 1152/2014	B

Part 2 (PRA) Commission Implementing Regulation (EU) No 2016/2070	C
Part 2 (PRA) Commission Delegated Regulation (EU) No 527/2014	D

Commencement

K. This instrument comes into force on 1 September 2022.

Citation

L. This instrument may be cited as PRA Standards Instrument: The Technical Standards (CRR2 and Other Consequentials) Modifications Instrument 2022.

By order of the Prudential Regulation Committee

1 August 2022.

Annex A

Modification to Part 2 (PRA) of Commission Delegated Regulation (EU) 526/2014

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

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Article 3

Quantitative limits on the number and size of qualifying portfolios

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2. For the purpose of points (b) and (c) of paragraph 1, the size of a netting set shall be the exposure at default of the netting set calculated using the mark-to-market method ~~referred to in Article 274 of Regulation (EU) No 575/2013~~ by taking account of the effects of netting, in accordance with Article 298 of that Regulation, but not the effects of collateral.

- 2A. In article 3.2 above, the mark-to-market method is:

Mark-to-Market Method

1. In order to determine the current replacement cost of all contracts with positive values, institutions shall attach the current market values to the contracts.
2. In order to determine the potential future credit exposure, institutions shall multiply the notional amounts or underlying values, as applicable, by the percentages in Table 1 and in accordance with the following principles:
 - (a) contracts which do not fall within one of the five categories indicated in Table 1 shall be treated as contracts concerning commodities other than precious metals;
 - (b) for contracts with multiple exchanges of principal, the percentages shall be multiplied by the number of remaining payments still to be made in accordance with the contract;
 - (c) for contracts that are structured to settle outstanding exposure following specified payment dates and where the terms are reset so that the market value of the contract is zero on those specified dates, the residual maturity shall be equal to the time until the next reset date. In the case of interest rate contracts that meet those criteria and have a remaining maturity of over one year, the percentage shall be no lower than 0,5 %.

Table 1

<u>Residual maturity</u>	<u>Interest-rate contracts</u>	<u>Contracts concerning foreign-exchange rates and gold</u>	<u>Contracts concerning equities</u>	<u>Contracts concerning precious metal except gold</u>	<u>Contracts concerning commodities other than precious metals</u>
<u>One year or less</u>	<u>0%</u>	<u>1%</u>	<u>6%</u>	<u>7%</u>	<u>10%</u>
<u>Over one year, not exceeding five years</u>	<u>0,5%</u>	<u>5%</u>	<u>8%</u>	<u>7%</u>	<u>12%</u>
<u>Over five years</u>	<u>1,5%</u>	<u>7,5%</u>	<u>10%</u>	<u>8%</u>	<u>15%</u>

3. For contracts relating to commodities other than gold, which are referred to in point 3 of Annex II CRR, an institution may, as an alternative to applying the percentages in Table 1, apply the percentages in Table 2 provided that that institution follows the extended maturity ladder approach set out in Article 361 CRR for those contracts.

Table 2

<u>Residual maturity</u>	<u>Precious metals (except gold)</u>	<u>Base metals</u>	<u>Agricultural products (softs)</u>	<u>Other, including energy products</u>
<u>One year or less</u>	<u>2%</u>	<u>2,5%</u>	<u>3%</u>	<u>4%</u>
<u>Over one year, not exceeding five years</u>	<u>5%</u>	<u>4%</u>	<u>5%</u>	<u>6%</u>
<u>Over five years</u>	<u>7,5%</u>	<u>8%</u>	<u>9%</u>	<u>10%</u>

4. The sum of current replacement cost and potential future credit exposure is the exposure value.

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Annex B

Modification to Part 2 (PRA) of Commission Delegated Regulation (EU) No 1152/2014

In this Annex, the text is all new.

Article 1A

- (1) In addition to the effect of section 5 of the Financial Services Act 2021 in relation to corresponding provisions within the meaning of that section, any reference in this regulation to Part Three of CRR shall be read as including references to:
 - (i) Article 132a of Chapter 3 of the Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR) Part of the PRA Rulebook; and
 - (ii) Articles 274, 275 and 276 to 282 of Chapter 3 of the Counterparty Credit Risk (CRR) Part of the PRA Rulebook.

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Annex C

Modification to Part 2 (PRA) of Commission Implementing Regulation (EU) No 2016/2070

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

Article 6

IT solutions for the reporting

When submitting information in accordance with Article 1, an institution shall use the IT solution developed for the purposes of the supervisory reporting in accordance with ~~Article 17 of Implementing Regulation (EU) No 680/2014~~ Article 21 of the Reporting (CRR) Part of the PRA Rulebook.

Annex D

Modification to Part 2 (PRA) of Commission Implementing Regulation (EU) No 527/2014

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

Article 5

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13. ...

(e) the sum of any write-up amounts and payments of coupons on the reduced amount of the principal shall be treated as a payment that results in a reduction of Common Equity Tier 1 and shall be subject, together with other distributions on Common Equity Tier 1 instruments, to the restrictions relating to the Maximum Distributable Amount as laid down:

- (i) in rule 4.3 of the Capital Buffers Part of the PRA Rulebook in the case of a PRA-
authorised person;
- (ii) ~~in rule 10.4.3 of the Prudential sourcebook for Investment Firms in the case of other
authorised persons.~~