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APPENDIX TO PS1/26: SUMMARY OF THE PURPOSE OF THE RULES

This appendix sets out a summary of the purpose of the rules in PRA Rulebook: CRR Firms: (CRR) Instrument 2025, as required by section 144D(2)(a) of FSMA 2000. In this appendix terms that are italicised bear the meaning in the Glossary to the PRA Rulebook.

1. CREDIT RISK

Areas and rules	Summary of the rules	Summary of the purpose of the rules
Credit Risk: General Provisions (CRR) Part	The rules set out the requirement for firms to apply either the Standardised Approach or IRB Approach, how firms must treat certain exposures to central counterparties, the option for firms to use credit risk mitigation techniques, and the treatment of credit risk adjustments. The rules also set out transitional provisions.	The purpose of the rules is to provide standards that are applicable under all methods for calculating credit risk capital requirements and to provide certain time-limited transitional arrangements.
Credit Risk: Standardised Approach (CRR) Part	The rules set out a standardised approach for firms to calculate risk-weighted exposure amounts (RWEAs) for credit risk. The rules specify the criteria which firms must apply for assigning exposures to exposure classes (e.g. real estate, retail exposures, exposures to corporates). The rules specify the risk weights that must be applied to exposures within each class. The rules also include requirements for how firms calculate exposure values for 'off balance sheet' items and set out requirements for firms to undertake due	The purpose of the rules is to provide a prescriptive approach to calculating capital requirements for credit risk which is suitable for firms of all sizes and contributes to promoting safety and soundness. The framework is intended to be risk sensitive and proportionate so that firms' capital requirements reflect the relative risk of their exposures which promotes comparability between firms and jurisdictions.

Areas and rules	Summary of the rules	Summary of the purpose of the rules
	diligence on their exposures.	
Credit Risk: Internal Ratings Based Approach (CRR) Part	The rules allow firms to apply to the PRA for permission to use internal models to determine parameters used to calculate RWEAs and expected loss amounts (ELAs) for credit risk for certain exposures. The rules also set out a method for determining RWEAs and ELAs for specialised lending exposures (the "slotting approach"). The rules specify the modelling approaches available for different categories of exposures. They establish requirements for the estimation of credit risk parameters, including in relation to data maintenance, corporate governance, internal audit and risk management. The rules set out the formulae that firms should use to calculate RWEAs and ELAs from these parameters.	The purpose of the rules is to set out the conditions firms are required to meet in order to apply the IRB approach (subject to PRA permission) and the ongoing requirements that apply to those firms once they have received such a permission. The rules aim to ensure that firms can use the IRB approach where they meet a minimum level of modelling and governance capabilities. They aim to ensure that RWEAs are reflective of the riskiness of each exposure, with safeguards to ensure that they are sufficiently prudent, which contributes to promoting safety and soundness, and that ELAs are appropriate.
Credit Risk Mitigation (CRR) Part	The rules permit firms to reflect two forms of eligible credit risk mitigation (CRM) in their RWEAs and, where applicable, ELAs to reflect the mitigation provided: • Funded credit protection (FCP): a type of CRM that recognises financial or non-financial collateral held against an exposure, which the firm can retain or liquidate in case of the default of a borrower or	The purpose of the rules is to provide a range of CRM methods available to firms to reduce the credit risk associated with an exposure. The rules aim to ensure that these CRM methods are appropriately reflected in credit risk capital requirements. They aim to ensure there is robustness, consistency, and comparability of the use of CRM across firms.

Areas and rules	Summary of the rules	Summary of the purpose of the rules
	counterparty. It also includes the use of on-balance sheet netting and master netting agreements; and • Unfunded credit protection (UFCP): a type of CRM that reflects the promise from a third party to pay when a borrower or counterparty defaults. The rules set out the types of CRM that are eligible for recognition, the eligibility criteria, and the techniques for adjusting RWEAs and, where applicable, ELAs to recognise the credit protection.	

2. MARKET RISK

Areas and rules	Summary of the rules	Summary of the purpose of the rules

Market Risk: General Provisions (CRR) Part	The rules provide for firms:
	• the list of approaches and their respective eligibility requirements that firms may use to calculate their own funds requirements for market risk, including the scalar multipliers for recalibrating the retained simplified standardised approach;
	• the market risk treatment of specific instruments, i.e. alternative correlation trading portfolio (ACTP) and CIUs;
	• the treatment of positions subject to FX and/or commodity risk;
	• to apply for a permission for offsetting positions across different entities when calculating the market risk own fund requirements on a consolidated basis; and
	• an exemption from market risk capital requirements for positions used to mitigate structural foreign exchange risk with prior PRA permission.
		The purpose of the rules is to:
		• recalibrate the previous standardised approach for calculating market risk own funds requirements in respect of firms with limited derivatives business;
		• set out eligibility requirements for using the various approaches to calculate market risk own funds requirements;
		• set out the market risk treatment of specific instruments (i.e. ACTP and CIUs) and for other trading book instruments where no treatment is specified;
		• set out the treatment of non-trading book positions subject to FX and/or commodity risk;
		• set out the requirements for obtaining the permission to offset positions across different entities of the same group when calculating the market risk own fund requirements on a consolidated basis; and
		• supplement existing requirements for structural foreign exchange exemptions with additional requirements:
		  ○ the size of the excluded position should not be greater than the size of position that neutralises a firm's capital ratio sensitivity;
		  ○ the excluded positions should be excluded for at least six months;
		  ○ firms are required to establish policies for management of such

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		positions (approved by the PRA) and be able to produce records for the PRA; and ○ trading books and non-trading books containing the excluded risk positions are segregated from all other trading activities.
Market Risk: Simplified Standardised Approach (CRR) Part	The rules provide for firms with limited derivatives business to calculate their own funds requirements for market risk using a simplified standardised approach. This approach sets out basic methodologies for determining the market risk own funds requirement for a firm.	The purpose of the rules is to retain a recalibrated version of the previous standardised approach to calculating market risk own funds requirements in respect of firms with limited derivatives business. This approach is intended to be generally more conservative than the advanced standardised approach.
Market Risk: Advanced Standardised Approach (CRR) Part	The rules provide for a new advanced standardised approach for firms that do not meet the criteria for the simplified standardised approach. Market risk capital requirements under the advanced standardised approach are calculated as the sum of the Sensitivities-based Method capital requirement, the residual risk add-on and the default risk charge. This approach sets out more advanced methodologies for determining the market risk own funds requirement for a firm, compared to the simplified standardised approach.	The purpose of the rules is to introduce a further, more comprehensive, standardised approach to be used by firms that do not meet the criteria to use the simplified standardised approach and that have not applied for or have not been granted supervisory permission to use the new internal model approach for calculating their own funds requirements for market risk.
Market Risk: Internal Model Approach (CRR) Part	During the *IMA transitional period*, the rules provide for firms to continue to apply	During the *IMA transitional period*, the purpose of the rules is to retain the existing internal model

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	their existing internal model approach (IMA). An institution that has an IMA permission must meet certain standards and requirements, including in relation to value-at-risk (VaR) and Stress VaR calculation, regulatory back testing, risk measurement, qualitative requirements, and internal validation. Under the existing IMA, the market risk capital requirement would be the sum of a VaR calculation, an incremental risk charge, and a supplementary add-on for risks not captured in VaR. Firms may also apply to the PRA for permissions to extend a permission to a new or existing risk category. Existing IMA permissions would be retained during the *IMA transitional period*. Following the end of the *IMA transitional period*, the rules provide for firms to apply to the PRA for permission to apply the new IMA for a trading desk. An institution that has an IMA permission must meet certain standards and requirements, including in relation to back testing, profit and loss attribution, risk measurement, risk modelling and treatment of ineligible positions. Under the new IMA, the market risk capital requirement would be the sum of an expected shortfall	requirements for firms that have been granted permission to use IMA to calculate their own funds requirements for market risk. Following the end of the *IMA transitional period*, the purpose of the rules is to introduce a new internal model approach for firms that have been granted permission to provide a more comprehensive, coherent, and consistent approach for calculating their own funds requirements for market risk than the existing internal model approach. The rules also set out the basis of the new Risk-not-in-Model (RNIM) framework, which is further set out in SS13/13.

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	calculation, which incorporates the variable liquidity of different risk factors, a default risk charge, and a separate capital requirement for non-modellable risk factors. The rules provide for firms with an IMA permission to apply to the PRA for permission to use an internal default risk model. The rules also set out that firms should identify and hold capital for material risks that are missing from their models.	
Trading Book (CRR) Part	The rules set further requirements on inclusion of positions in the trading book and on internal hedges between the trading book and non-trading book. The rules also set out the capital treatment where firms reassigned positions between the trading and non-trading book.	The purpose of the rules is: • to set objective criteria for assigning positions to the trading book or non-trading book to support a more consistent treatment of similar risks across firms; • to ensure that positions moving between the trading book and non-trading book continue to have appropriate capital requirements; • to set specific requirements relating to governance, organisational structure, risk management and controls, as well as policies and procedures, that apply to the trading book; • to ensure that risks transferred between the trading book and non-trading book (or between the trading book and CVA portfolio) through internal hedges are either mitigated or have adequate capital requirements.

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3. CREDIT VALUATION ADJUSTMENT (CVA) AND COUNTERPARTY CREDIT RISK (CCR)

Areas and rules	Summary of the rules	Summary of the purpose of the rules
Credit Valuation Adjustment Risk Part	The rules set out three methodologies for calculating CVA capital requirements: the alternative approach for firms with limited non-centrally cleared derivatives, the basic approach that can be used by all firms, and the standardised approach (SA CVA) for firms that have been granted supervisory approval. CVA capital requirements would need to be calculated by all firms undertaking covered transactions in both the banking and trading books.	The purpose of the rules is to introduce three new standardised approaches for CVA capital requirement calculations. The rules are intended to improve the risk-sensitivity and comparability of CVA capital requirements, with a more comprehensive treatment of CVA risks and a better recognition of CVA hedges, closer alignment with industry CVA practices for accounting purposes, new methodologies, which have less reliance on modelling, and alignment with the new market risk framework methodology in the case of SA-CVA.
Counterparty credit risk (CRR) Part	The rules set out three standardised approaches for firms to calculate exposure amounts for counterparty credit risk (CCR) on contracts listed in Annex II of the CRR: the standardised approach, the simplified standardised approach, and the original exposure method.	The purpose of the rules is to provide a prescriptive approach to calculating capital requirements for counterparty credit risk for firms which do not use the more advanced Internal Models Method to calculate CCR. The framework is intended to be risk sensitive and proportionate and ensuring that firms' capital requirements reflect the relative risk of their exposures which promotes comparability between firms and jurisdictions.

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4. OPERATIONAL RISK

Areas and rules	Summary of the rules	Summary of the purpose of the rules
Operational Risk Part	The rules prescribe a single standardised approach for calculating pillar 1 operational risk capital requirements set by reference to the multiple of the business indicator component and the internal loss multiplier.	The purpose of the rules is to ensure that firms’ operational risk capital requirements adequately reflect the risks (including legal risks) posed from inadequate or failed internal processes, people or systems, or from external events.

5. OUTPUT FLOOR

Areas and rules	Summary of the rules	Summary of the purpose of the rules
Required Level of Own Funds (CRR) Part	The rules introduce a floor on risk-weighted exposure amounts (“RWEAs”) that would require relevant firms with internal model (“IM”) permissions to calculate RWEAs as the higher of: (i) the total RWEAs calculated using all approaches that they have supervisory approval to use (including IM approaches); and (ii) 72.5% of RWEAs calculated using only standardised approaches (SAs) (“the output floor”). The output floor is subject to transitional arrangements.	The purpose of the rules is to ensure that risk weighted exposure amounts (“RWEAs”) for firms with internal model permissions do not fall below a defined percentage of the RWEAs calculated under standardised approaches to minimise excessive variability in RWEA between firms and to enhance comparability of capital ratios.

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6. DISCLOSURE

Areas and rules	Summary of the rules	Summary of the purpose of the rules
Disclosure (CRR) Part	The introduction of the Basel 3.1 standards across the Pillar 1 risks has required amending rules relating to disclosure requirements. For the Pillar 1 risks that have been completely revised, new disclosure template references have been added within the rules, such as across market risk, CVA risk, operational risk and the output floor. Additionally, references to disclosure templates and instructions that will become redundant under the Basel 3.1 standards have been removed. Where existing templates and instructions have been amended such as in the case of credit risk and capital summaries, the underlying templates and instructions have been amended accordingly.	The purpose of the rules is to ensure firms complete and disclose publicly, only relevant information that reflect the Basel 3.1 standards.

7. REPORTING

Areas and rules	Summary of the rules	Summary of the purpose of the rules
Regulatory Reporting Part, Reporting (CRR) Part, and Reporting Pillar 2 Part.	The introduction of the Basel 3.1 standards across the Pillar 1 risks has required amending rules relating to reporting requirements. For the Pillar 1 risks that have been completely revised, new reporting template references have been added within the rules, such as across market risk, CVA risk, operational risk and the output floor. Additionally, references to reporting templates and instructions that will become redundant under the Basel 3.1 standards have been removed. Where existing templates and instructions have been amended such as in the case of credit risk and Capital+, the underlying templates and instructions have been amended accordingly.	The purpose of the rules is to ensure firms complete only relevant reporting to allow the PRA to monitor compliance to the Basel 3.1 standards.

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8. CONSEQUENTIAL AMENDMENTS

Areas and rules	Summary of the rules	Summary of the purpose of the rules
The rules amend the following Parts of the PRA Rulebook: • Glossary; • Capital Buffers; • Credit Risk; • Interpretation; and • Groups. The rules delete the following Parts of the PRA Rulebook entirely: • Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR); • Market Risk; • Benchmarking of Internal Approaches; • Credit Valuation Adjustment Risk (CRR); and • Operational Risk (CRR).	The rules make consequential amendments to the PRA Rulebook.	The purpose of the rules is to ensure that the PRA Rulebook continues to operate effectively as a result of the PRA Rulebook: CRR Firms: (CRR) Instrument 2026.