BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Statement on credit risk mitigation eligibility and leverage ratio treatment of loans under the Bounce Back Loan scheme

Published on 4 May 2020

HM Treasury recently launched the Covid-19 Bounce Back Loan scheme (BBLS).

This statement sets out the PRA's observations on the risk weighted treatment of exposures under the scheme, particularly eligibility for recognition as unfunded credit risk mitigation (CRM) under the Capital Requirements Regulation (CRR).[1]

It also sets out a change to the UK leverage ratio framework. The PRA is offering a modification by consent for banks subject to the UK Leverage Ratio Part of the PRA Rulebook to exclude loans under this scheme from the leverage ratio total exposure measure, if they choose to do so.

CRM eligibility of guarantees in the scheme

This statement does not provide an exhaustive description of the prudential requirements that apply to loans extended by participating banks to businesses under the scheme, nor is it a comprehensive description of the regime under which CRM techniques impact the calculation of risk weighted exposure amounts. Firms are encouraged to review relevant articles of the CRR, and any relevant PRA rules and guidance (including expectations set out in the PRA's Supervisory Statement (SS) 17/13 'Credit risk mitigation').[2] Where necessary, firms should seek independent advice to confirm that all the applicable requirements and expectations have been satisfied.

A guarantee is one form of unfunded credit protection which, where it meets the conditions in Articles 194 and 213-215 CRR, may allow a firm to adjust risk weights and expected loss amounts.

The BBLS guarantee has been provided by the Secretary of State in the context of the Covid-19 pandemic.

The PRA considers that the terms of the guarantee provided by the Secretary of State under the scheme do not contain features that would render these guarantees ineligible for recognition as unfunded credit risk protection, and the effects of these guarantees would appear to justify such treatment.

Leverage ratio treatment of loans under the scheme

In the BBLS, the government guarantees in full loans from banks to small and medium-sized businesses. The PRA is offering a modification by consent for banks subject to the UK Leverage Ratio Part of the PRA Rulebook to exclude loans under this scheme from the

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[1] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms. Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms.
[2] December 2019: https://www.bankofengland.co.uk/prudential-regulation/publication/2013/credit-risk-mitigation-ss.

leverage ratio total exposure measure, if they choose to do so. It also permits firms to exclude loans made pursuant to schemes of a similar character which are 100% guaranteed by a government or central bank of an EEA state or the ECB provided that such loans do not exceed €60,000 per loan. The PRA will consider further modifications for substantively similar EEA schemes which do not meet these criteria on a case-by-case basis.

The Financial Policy Committee has been consulted and supports this measure.