Statement by the PRA on the CRR ‘Quick Fix’ package

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From 27 June 2020, amendments to the Capital Requirements Regulation (CRR) – the CRR ‘Quick Fix’ – applied that respond to the Covid-19 pandemic. In accordance with the European Union (Withdrawal Agreement) Act, the CRR ‘Quick Fix’ applies directly to PRA-regulated firms.

This statement sets out the PRA’s initial views on the following measures included in the package:

- Transitional arrangements for capital impact of IFRS 9 Expected Credit Loss (ECL) accounting.
- Acceleration of the date of application of certain CRR II measures that had been due to apply from Monday 28 June 2021:
  - a revised small and medium-sized enterprises (SME) support factor;
  - an infrastructure support factor; and
  - non-deduction of certain software assets from Common Equity Tier 1 (CET1) capital.
- Discretion to apply a temporary prudential filter to certain unrealised gains or losses measured at fair value through other comprehensive income.

Transitional arrangements for capital impact of IFRS 9 Expected Credit Loss (ECL) accounting

The CRR ‘Quick Fix’ introduces new transitional arrangements for the capital impact of IFRS 9 ECL provisions. For relevant provisions raised from Wednesday 1 January 2020, the CET1 add-back percentages are set at 100% in 2020 and 2021, 75% in 2022, 50% in 2023, and 25% in 2024.

The PRA’s views

On Monday 25 September 2017, Sam Woods, Deputy Governor, wrote to CEOs highlighting and supporting arguments in favour of IFRS 9 transitional arrangements. The CRR ‘Quick Fix’ revises the transitional arrangements. It implements the agreement of the Basel Committee on Banking Supervision (BCBS) in April 2020.

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2. The CRR ‘Quick Fix’ also includes measures covering: market risk model back-testing; the calculation of leverage exposure under the CRR leverage ratio; the Globally Systemically Important Institutions leverage buffer; the Standardised Approach to Credit Risk treatment of loans covered by salary or pension payments; and a temporary treatment of public debt issued in the currency of another EU Member State.
3. The CRR modifies the periods to which these add-back percentages apply for firms with a financial year stating later than 1 January 2020.
The PRA’s intention remains that, subject to the need for sufficient resilience at the end of the transitional period, all aspects of supervision of a firm using the transitional arrangements would be carried out using ‘transitional’ data on capital resources and not ‘fully loaded’ figures. In particular, as stress tests should reflect how stress would be experienced, those tests should fully take account of the revised transitional arrangements.

**Follow up**
Firms already applying the CRR transitional arrangements for IFRS 9 will need to implement the revised calculations set out in the CRR ‘Quick Fix’, including amending the CET1 add-back factors applied to relevant ECL provisions for 2020–24.

Firms currently applying the transitional arrangements that are considering ceasing to apply them should note that, under the CRR, doing so would require the PRA’s permission. If a firm wishes to apply for PRA permission no longer to apply the transitional arrangements, we encourage it to contact its PRA supervisor with a request by Friday 31 July 2020, including a written explanation of the basis on which its management body has satisfied itself of the continuing adequacy of the firm’s financial resources, including in stressed scenarios. Its supervisor will discuss the matter with it in the context of supervision of the firm’s resilience and capital adequacy.

**Acceleration of certain CRR II measures, and a temporary prudential filter on certain unrealised gains and losses**

The CRR ‘Quick Fix’ accelerates the date of application of the revised SME support factor and the infrastructure support factor. It also includes a temporary discretion for firms until Saturday 31 December 2022 to remove a proportion of unrealised gains and losses on exposures to certain public sector authorities. The CRR ‘Quick Fix’ also applies the revised treatment of software assets from the date on which EBA regulatory standards that will specify their prudential treatment enter into force.6

**The PRA’s views**
These measures do not derive from BCBS agreements and are specific to the CRR. The PRA does not currently have adequate information on their quantitative impact. The PRA would like to understand better their impact on firms’ capital positions, and any implications they may have for firms’ safety and soundness.

**Follow up**
The PRA intends to request data to facilitate quantitative analysis of the impact of these CRR ‘Quick Fix’ measures. Analysis of those data, and the EBA’s final regulatory technical standards on software assets, will inform the PRA’s supervisory approach including an assessment of whether further action is necessary under Pillar 2.

6 The EBA is currently consulting on these draft regulatory technical standards.