

Bank of England

‘Strong and Simple’

An update on progress
with developing a simpler
regime

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Content

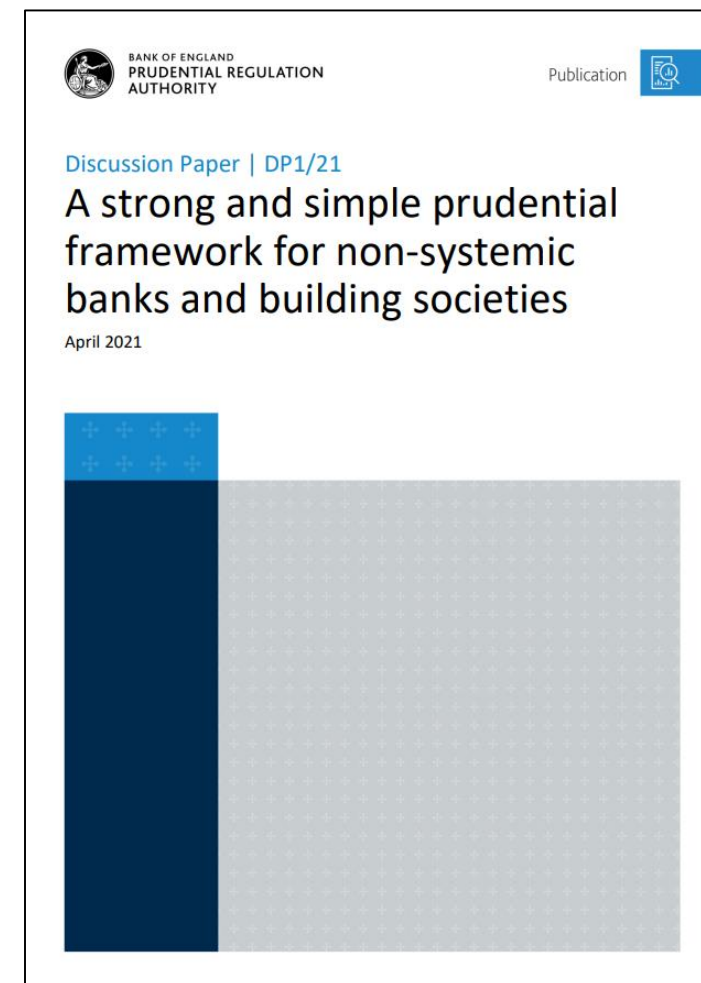
- High-level outline of the Strong and Simple Framework
- Consultation Paper 5/22: summary of proposals
- Interaction with the forthcoming Basel 3.1 reforms
- Plans for future consultations

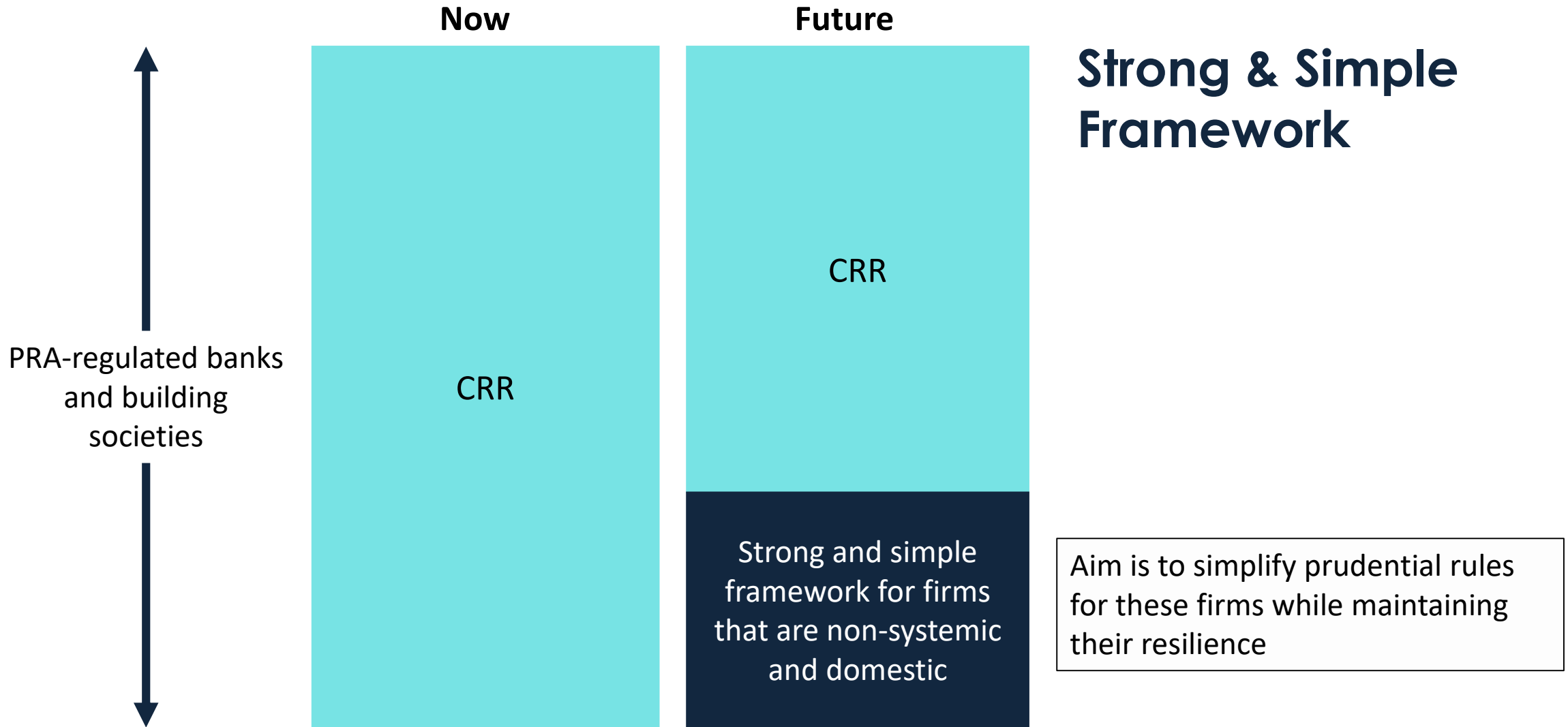


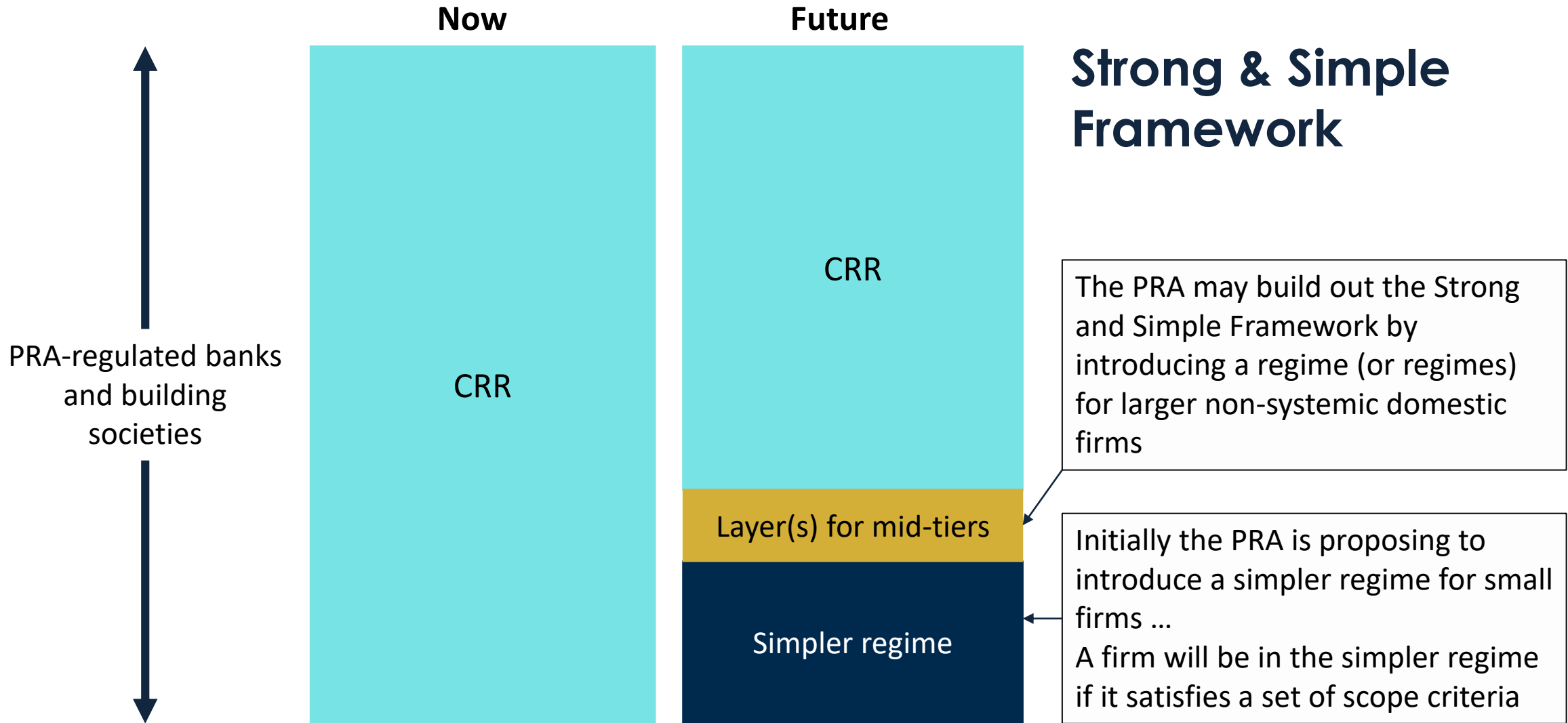
Outline of the Strong and Simple Framework

Background

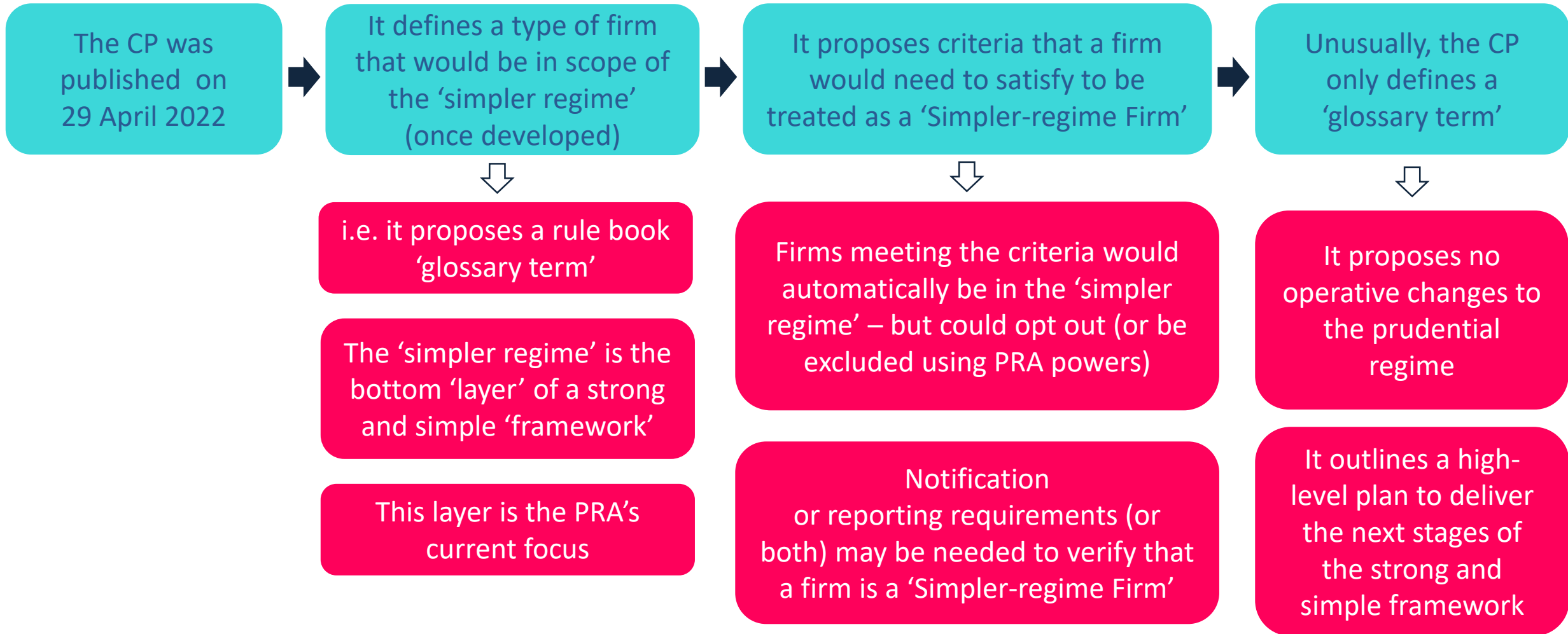
- In DP1/21, the PRA sought views on developing a simplified prudential framework for firms that are neither systemically important nor internationally active.
- The objectives of this framework would be to maintain the resilience of those firms, and the stability of the UK financial sector, while using simplified prudential regulation (hence ‘Strong & Simple’).
- Other jurisdictions have developed simpler prudential regimes for small banks (e.g. Switzerland).
- The DP outlined a strong and simple framework comprising a series of layered prudential regimes where requirements would expand and become more sophisticated as one or both of the size or complexity of firms increase.
- The PRA suggested that the layer for the smallest firms (the ‘simpler regime’) could be developed first.
- CP5/22 (just published) is the first step in developing the ‘simpler regime’.







Overview of CP5/22 - Definition of a Simpler-regime Firm



Proposed scope criteria (1)

Size

What

- Total assets \leq £15 billion.
- Calculated using a three year average.
- Based on FINREP definition of total assets.

Why

- Small firms suffer most from the 'complexity problem'.
- Threshold should give room to grow within the simpler regime.
- Averaging gives time to prepare for not meeting the definition.

Limited trading activity

- Trading book business \leq 5% of total assets and \leq £44 million.
- Overall net foreign exchange position \leq 2% of own funds.
- No commodities positions.

- The simpler regime won't need the relatively complex rules related to these exposures.
- Thresholds based on derogations in the CRR.

No IRB

- No IRB approvals.
- A firm could develop and submit an IRB application while remaining a Simpler-regime Firm.

- Rules and guidance related to IRB wouldn't be needed in the simpler regime.
- But, the PRA also considers there are benefits of IRB modelling.

Proposed scope criteria

Clearing & Settlement

What

- No provision of clearing, settlement, custody or correspondent banking services to another bank or building society.
- Does not operate a payment system.

Why

- These activities increase interconnectivity with the wider financial system.
- Would not need to include in the simpler regime prudential rules for the specific risks associated with these activities.

Domestic activity

- $\geq 85\%$ of the firm's credit exposures must be to obligors located in the UK.
- Based on the COREP data used to determine Countercyclical Capital Buffers.

- Extent of international activity may be an indicator of a firm's complexity.
- PRA wouldn't be deviating from international standards if only domestic-focused firms are in a simpler regime.

Level of application

- A firm, the consolidation group, and all firms in the group, need to meet the criteria.
- Firms that are part of foreign groups need to apply for a waiver or modification.

- The simpler regime is intended for small banks and building societies, not small units of large groups.
- Need to take into account the size and activities of the group to assess a firm's suitability for the simpler regime.⁹

Interaction with Basel 3.1

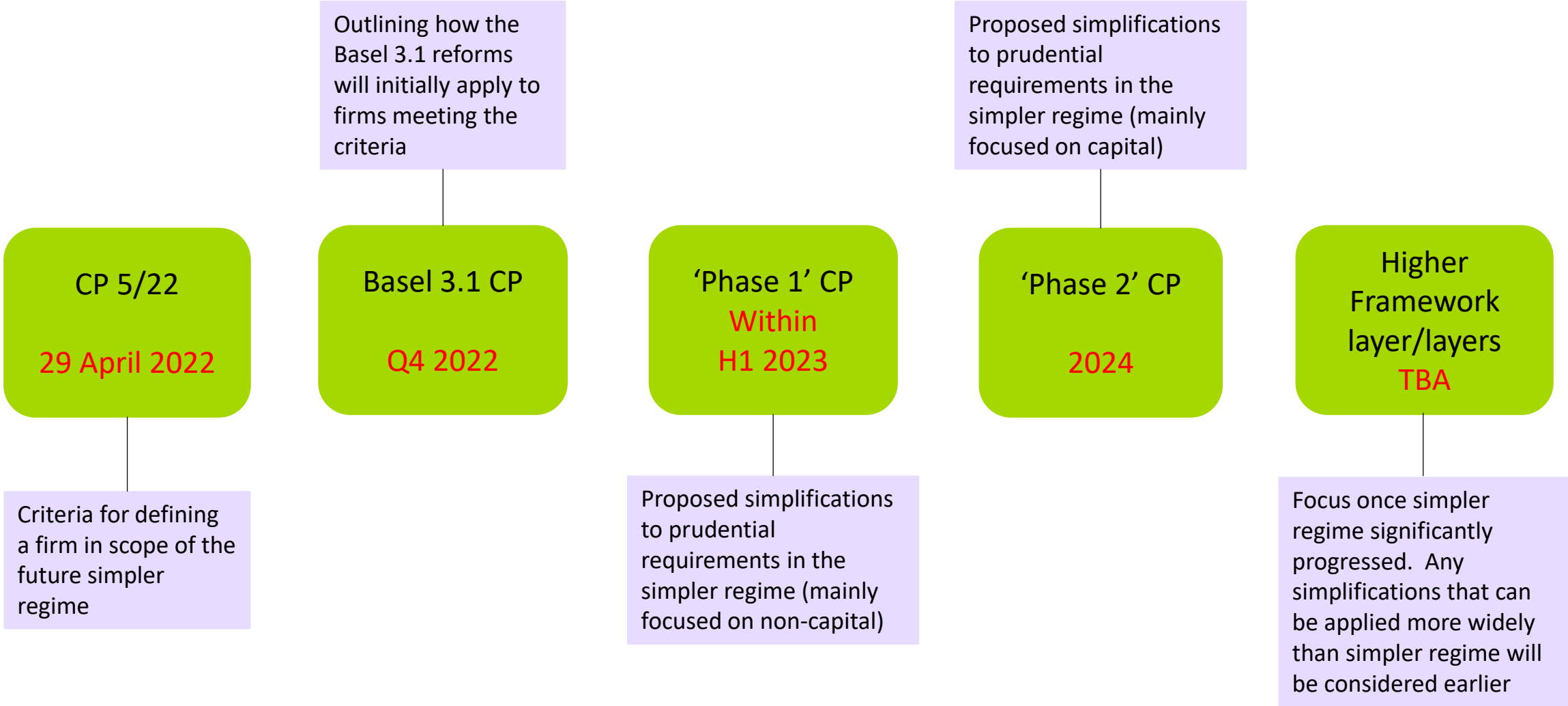
The PRA intends to consult on Basel 3.1 reforms in Q4 2022 (see recent news release).

The PRA is seeking to ensure that small firms only experience one change to their applicable risk-based capital framework.

The PRA intends to consult on an approach that would enable Simpler-regime Firms to remain subject to requirements substantially the same as the currently applicable UK Capital Requirements Regulation (CRR) during any interim period between the PRA's implementation of Basel 3.1 and the implementation of measures under the simpler regime.

In addition, the PRA intends to consult on permitting a firm that meets the Simpler-regime Firm definition to choose to be subject without delay to the PRA's implementation of the Basel 3.1 reforms.

Phasing of Policy Development & Implementation





Please respond to the consultation!

Closing date: 22 July 2022

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