



Note following the PRA IRB seminar for small and mid-tier banks and building societies

The Prudential Regulation Authority (PRA) held a seminar on Friday 24 February aimed at the small and mid-tier banks and building societies considering applying for the Internal Ratings Based (IRB) approach to credit risk.

The seminar is a follow-up to a review of the PRA's approach to IRB applications from smaller firms that was published in the 2016 Annual Competition Report.¹ It was hosted by Martin Stewart, Director of Banks, Building Societies and Credit Unions, who informed the attendees that it was the "PRA's intention to clarify expectations on the minimum requirements for obtaining IRB permission, without compromising prudential soundness and whilst complying with the IRB requirements set out in EU law."

The seminar set-out elements of the PRA's IRB regime that are particularly relevant for smaller firms. These include:

- a suite of clarifications of PRA expectations in respect of the specific IRB regulatory requirements previously raised by smaller firms; and
- process enhancements relating to the PRA's pre-application engagement with IRB-aspirants and the nature of the application process.

The overall package should help smaller firms to assess the appropriateness of the IRB approach for their business model. It also signifies that the PRA is 'open for business' where firms meet the requirements and wish to proceed with developing an application.

Attendees comprised firms who have indicated a serious interest in submitting an IRB application in the medium term.

The PRA aims to update its IRB Supervisory Statement² (SS11/13) to clarify certain supervisory expectations and will consult on the proposed clarifications in due course.

The PRA intends to repeat the seminar in the future for other interested parties.

February 2017

1 Available at: www.bankofengland.co.uk/publications/Documents/annualreport/2016/compreport.pdf.

2 PRA Supervisory Statement 11/13 'Internal Ratings Based (IRB) approaches', November 2015, available at: www.bankofengland.co.uk/pru/Pages/publications/ss/2015/ss1113update.aspx.