



Statement of Policy

Liquidity and funding permissions

July 2021

SUPERSEDED





BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

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1 Introduction

1.1 This Statement of Policy (SoP) sets out the PRA's approach to granting selected regulatory permissions that are relevant to the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements. It also sets out the PRA's expectation that eligible firms should notify the PRA if they intend to use the simplified NSFR (sNSFR) methodology. It is relevant to all UK banks, building societies and PRA-designated investment firms, referred to collectively as 'firms'.

2 General matters

2.1 In determining whether or not to grant a regulatory permission, the PRA would be exercising its powers under the Financial Services and Markets Act 2000 (FSMA), s144G or s192XC. This allows the PRA to disapply, or modify the application of, certain PRA rules in the Liquidity (CRR) and Liquidity Coverage Ratio (CRR) Parts of the PRA Rulebook, upon the application or with the consent of a firm. The PRA may give such permission subject to conditions. It also has power to revoke or vary a permission which has been issued.

2.2 The exercise of the PRA's permission power is discretionary. In exercising its discretion, the PRA will consider whether the conditions set out in relation to each of the permissions in PRA rules are satisfied, as well as the additional conditions relating to certain permissions which are set out in this SoP.

2.3 Although FSMA s144G and s192XC do not set out any additional general considerations for the exercise of the permission power, the PRA will consider whether granting a permission in any particular case would be consistent with advancing its statutory objectives as set out in Part 1A, chapter 2 of FSMA, including in relation to ring-fencing.

2.4 The PRA will also consider whether granting the permission in a particular case may undermine any of the purposes for which the rule was made, including the matters set out in s144C of FSMA ('Matters to be considered when making CRR rules').

3 Ongoing expectation to notify the PRA of material information that is relevant to permissions

3.1 Unless otherwise stated, the conditions set out in PRA rules and in this SoP should be thought of as continuing conditions which firms need to satisfy on an ongoing basis. After the PRA has granted a permission, it expects that the firm promptly notifies it if it does not, or expects that it soon will not, continue to meet any of those conditions for as long as the permission remains effective.

3.2 The PRA further expects that firms promptly notify it of any material change in circumstances, including anticipated changes in circumstances that might affect the PRA's continuing assessment of this permission. This includes changes to the factors reported by firms set out in this SoP that the PRA will consider when assessing permission applications.

3.3 These expectations are an elaboration of firms' obligations to inform the PRA of relevant information under the PRA Fundamental Rules.¹

¹ PRA Rulebook: Fundamental Rules Instrument 2014, 2.7.

3.4 The PRA may decide not to revoke or modify a permission that it has granted when it receives the notifications set out in paragraphs 3.1 to 3.3 above.

3.5 The expectations in paragraphs 3.1 and 3.2 do not apply to changes in matters set out in paragraph 6.1 (information which firms should provide as part of pre-notifications to use the sNSFR methodology).

4 Liquidity (CRR) Article 428F: Interdependent assets and liabilities

4.1 The PRA will generally not grant permissions under this Article in cases where the firm applies on the basis of a liquidity consolidation group unless the entities that hold the asset and record the liability respective are either:

- (i) both defined as 'ring-fenced bodies' or the subsidiaries or parents of ring-fenced bodies under FSMA, s142A; or
- (ii) both not defined as 'ring-fenced bodies' or the subsidiaries of ring-fenced bodies under FSMA.

4.2 When assessing firms' applications under this Article, the PRA will consider whether the proposed treatment might give rise to perverse incentives or unintended consequences which would be contrary to the PRA's statutory objectives. The PRA expects firms to provide particular assurances that this test is satisfied where the asset and/or liability in question is a derivative.

5 Liquidity (CRR) Article 428H: Preferential treatment within a group

5.1 The PRA may grant permissions under this Article where the following conditions are met:

- (i) there are reasons to expect that the liability or committed credit or liquidity facility received by the institution constitutes a more stable source of funding, or that the asset or committed credit or liquidity facility granted by the institution requires less stable funding over the one-year horizon of the net stable funding ratio than the same liability, asset, or committed credit or liquidity facility granted by other counterparties; and
- (ii) where the firm applies on the basis of the counterparty being another subsidiary of the same parent, the firm and the other relevant subsidiary are either:
 - (a) both defined as 'ring-fenced bodies' or the subsidiaries or parents of ring-fenced bodies under FSMA, s142A; or
 - (b) both not defined as 'ring-fenced bodies' or the subsidiaries of ring-fenced bodies under FSMA.

6 Liquidity (CRR) Article 428AI: Calculating simplified NSFR (sNSFR)

6.1 The PRA expects to receive the following information alongside firms' pre-notifications that they will calculate the sNSFR:

- (i) evidence that the firm meets the definition of 'small and non-complex' in CRR Article 4(145);
- (ii) confirmation that the firm expects to continue to meet the definition in bullet (i), above, for the foreseeable future;
- (iii) evidence that the firm's sNSFR is at least 100%, and the basis on which the firm expects that it will continue to be at least 100% for the foreseeable future; and
- (iv) assessment that the complexity of the firm's funding profile is such that the sNSFR is not an inappropriately simple methodology for the calculation of funding risks.

6.2 The PRA expects that firms which use the sNSFR methodology notify it promptly when the following occurs or is expected to occur:

- (i) the firm no longer meets the definition of 'small and non-complex' in CRR Article 4(145);
- (ii) the firm's sNSFR falls below 100%; or
- (iii) the complexity of the firm's funding profile is such that the sNSFR is an inappropriately simple methodology for the calculation of funding risks.

7 Liquidity Coverage Ratio (CRR) Article 12(3): Permission to derogate in respect of Level 2B assets for reasons of religious observance

7.1 In respect of applications for permission under this Article, in determining whether the non-interest bearing assets are adequately liquid for the purposes of Article 12(3) paragraph 12(1), the PRA will consider at least the following factors:

- (i) the available data in respect of their market liquidity, including trading volumes, observed bid-offer spreads, price volatility, and price impact; and
- (ii) other factors relevant to their liquidity, including the historical evidence of the breadth and depth of the market for those non-interest bearing assets, the number and diversity of market participants, and the presence of a robust market infrastructure.

8 Liquidity Coverage Ratio (CRR) Article 17(4): Liquidity buffer composition requirements

8.1 The PRA may grant permission under this Article where exceptional circumstances exist which pose a systemic risk affecting the banking sector of the United Kingdom.

9 Liquidity Coverage Ratio (CRR) Article 29: Permission to apply lower LCR outflow rate to certain outflows within a group

9.1 The PRA may grant permission under this Article where the following conditions are met:

- (i) there are reasons to expect a lower outflow even under a combined market and idiosyncratic stress of the provider; and
- (ii) the applicant firm and the counterparty either:
 - (a) are both defined as 'ring-fenced bodies' or the subsidiaries or parents of ring-fenced bodies under FSMA, s142A; or
 - (b) are both not defined as 'ring-fenced bodies' or the subsidiaries of ring-fenced bodies under FSMA.

10 Liquidity Coverage Ratio (CRR) Article 33(3) and 33(4): Permission to exempt from cap on inflows or increase cap on inflows

10.1 In assessing whether a firm's business activities exhibit a low liquidity risk profile, the PRA may consider the following:

- (i) the extent to which the timing of inflows matches the timing of outflows; and
- (ii) the extent to which, at the individual level, the firm is financed by retail deposits.

11 Liquidity Coverage Ratio (CRR) Article 34: Permission to apply higher inflow rate to certain inflows within a group

11.1 The PRA may grant permission under this Article when the following conditions are met:

- (i) there are reasons to expect a higher inflow even under a combined market and idiosyncratic stress of the provider; and
- (ii) the applicant firm and the counterparty either:
 - (a) are both defined as 'ring-fenced bodies' or the subsidiaries or parents of ring-fenced bodies under FSMA, s142A; or
 - (b) are both not defined as 'ring-fenced bodies' or the subsidiaries of ring-fenced bodies under FSMA.