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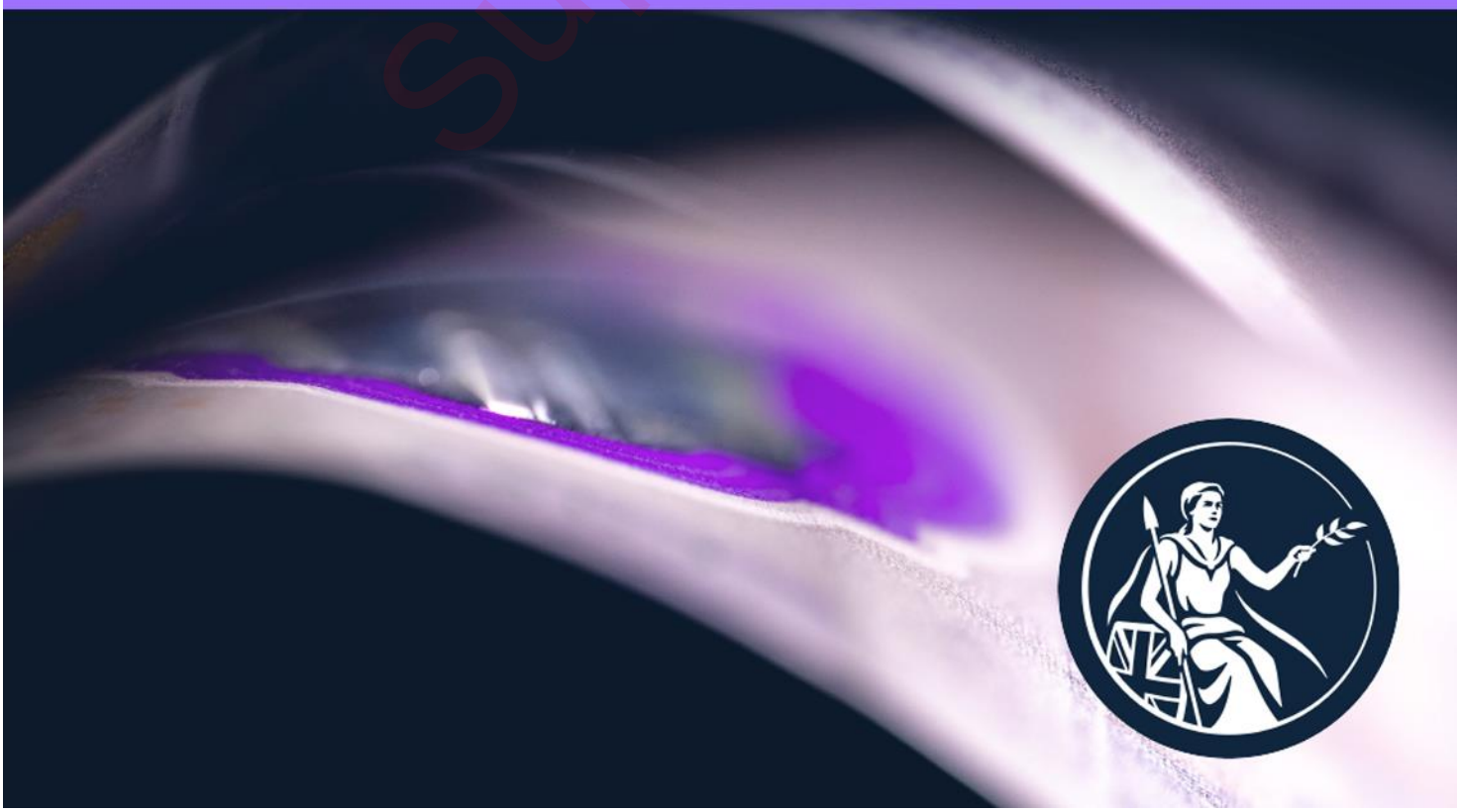
Bank of England PRA

Operating the Small Domestic Deposit Taker (SDDT) regime

Superseded

Statement of policy 2/23

January 2026 (Updating December 2023)



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1: Introduction

1.1 This statement of policy (SoP) sets out the Prudential Regulation Authority's (PRA) approach to operating the Small Domestic Deposit Taker (SDDT) regime.[1] It covers:

- how UK banks and building societies (firms) that meet the SDDT criteria, and CRR consolidation entities that meet the SDDT consolidation criteria, can access the SDDT regime;
- how firms and CRR consolidation entities that are part of groups based outside of the UK can access the SDDT regime;
- how firms and consolidation entities will be treated in the case of a merger, acquisition, a disposal of entities or activities, or similar circumstances;
- how firms that cease to meet the SDDT criteria, and consolidation entities that cease to meet the SDDT consolidation criteria, will transition out of the SDDT regime; and
- the PRA's approach to reviewing the SDDT criteria.

1.2 This SoP should be of interest to PRA-authorised banks and building societies and to CRR consolidation entities, as well as to entities prospectively interested in, or currently applying for, authorisation as a deposit-taker, or for approval as a bank holding company. It should be of particular interest to firms that meet the SDDT criteria and CRR consolidation entities that meet the SDDT consolidation criteria, and to firms and CRR consolidation entities wishing to be treated in the same way as those that meet the criteria.

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1 www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2023/december/ps1523app1.pdf.

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2: Accessing the SDDT regime

2.1 The PRA is prepared to offer a firm that meets the SDDT criteria a modification of the definition of an 'SDDT' (Small Domestic Deposit Taker) by which the firm would become an SDDT. Similarly, the PRA is prepared to offer a CRR consolidation entity that meets the SDDT consolidation criteria a modification of the definition of an 'SDDT consolidation entity' by which it would become an SDDT consolidation entity.

2.2 Where a firm is a member of a consolidation group, those modifications are offered on the condition that all firms in the consolidation group and the CRR consolidation entity are willing and able to consent to similar modifications at the same time. Where a firm is also a CRR consolidation entity, it will need to consent to both the SDDT and SDDT consolidation entity modifications.

2.2A A firm that wishes to become an SDDT should engage with its supervisors early prior to consenting to the SDDT modification. Once the firm has notified the PRA of its intention to consent to the SDDT MbC, the PRA would consider several practical matters, such as when and how to update the firm's Pillar 2A requirements and its expectations of the capital the firm should maintain under the Single Capital Buffer (SCB). The PRA would then coordinate with the SDDT-eligible firm on timings for the firm to formally consent to the SDDT MbC. Where an SDDT-eligible firm has not coordinated closely with the PRA on its process and timeline to become an SDDT, the PRA will need more time to plan for the relevant changes to its processes prior to issuing any modification direction.

Discretion to remove firms meeting the SDDT criteria from the SDDT regime

2.3 The PRA will consider removing a firm from the SDDT regime by revoking its modification direction if, in the PRA's consideration, the firm's inclusion in the regime does not advance the PRA's statutory objectives.

2.4 This situation is likely to arise if a firm is carrying out business activities that pose risks to the firm's safety and soundness that are not adequately addressed by the SDDT regime but are adequately addressed by the prudential rules that apply to other firms.

2.5 The PRA may in particular consider revoking a firm's modification direction in the case of a merger or acquisition, or similar circumstances, if the SDDT regime is no longer appropriate for the firm even though it continues to meet the SDDT criteria due to the criteria's use of measures based on historical data (eg a three-year average of total assets to calculate the size measure).

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2.6 Where relevant, the PRA will also consider revoking a CRR consolidation entity's modification direction in similar circumstances.

Approach to foreign exchange related permissions

2.7 Paragraphs 2.8-2.11 reflect the reflect the position from 1 January 2027 onwards. However, firms may apply for the permission referred to in paragraph 2.9 before 1 January 2027 (to come into effect on 1 January 2027).

2.8 The SDDT criteria require assessment of a firm's overall net foreign-exchange position, using the method set out in Article 352 CRR, to which Article 352(1), (3), (4) and (5) of the Market Risk: Simplified Standardised Approach (CRR) and Article 325(9) of the Market Risk: General Provisions (CRR) Part correspond. A firm with a permission under Article 325(9) Market Risk: General Provisions (CRR) Part and Article 352(1) of the Market Risk: Simplified Standardised Approach (CRR) could, respectively, exclude structural FX and/or use a delta it has calculated itself when measuring its overall net foreign exchange position for the purposes of assessing itself against the SDDT criteria. The Market Risk: General Provisions (CRR) Part and the Market Risk: Simplified Standardised Approach (CRR) Part do not apply to SDDTs.

2.9 The PRA may use its power under section 138BA of FSMA to give an SDDT permission to apply SDDT Regime – General Application 2.1(4) with modifications allowing it:

- to exclude structural FX; and/or
- to calculate delta itself (to the extent and subject to any modifications set out in the permission).

2.10 When considering an application from an SDDT for such a permission under section 138BA of FSMA, the PRA would take into account whether the SDDT is able to demonstrate to the satisfaction of the PRA that it meets the requirements for the equivalent permission set out in Article 325(9) of the Market Risk: General Provisions (CRR) Part or Article 352(1) of the Market Risk: Simplified Standardised Approach (CRR) Part.

2.11 An SDDT that is granted such a permission would be subject to a requirement for ongoing compliance with conditions, as set out in SDDT Regime – General Application 2.10 and 2.11.

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3: Approach to firms that do not meet the SDDT criteria

3.1 This chapter sets out the PRA's approach to firms and CRR consolidation entities that wish to access the SDDT regime, but do not meet SDDT criteria or SDDT consolidation criteria. Such firms and consolidation entities may still be able to be treated in the same way as those meeting the criteria. The remainder of the chapter refers only to firms and the SDDT criteria. Those references should be read, with any necessary modifications, as applying also to CRR consolidation entities and the SDDT consolidation criteria.

Firms that are members of foreign groups

3.2 A firm that has a parent based outside the UK, including a firm that has a holding company based outside the UK, (a member of a foreign group) cannot meet all the SDDT criteria; in particular the criterion specifying that 'any parent undertaking of the firm is a UK undertaking'.[2]

3.3 The PRA considers that it may be appropriate for a firm that is a member of a foreign group but that satisfies each of the other conditions in the SDDT criteria to be treated in the same way as a firm that satisfies all the SDDT criteria. Whether this is the case will depend in particular on the total size of the foreign group the firm is a member of. The PRA considers that this is likely to be the case where the firm can demonstrate that the group's total assets do not exceed £20 billion when calculated on the following basis:

- the measure of total assets is comparable to the measure used in the SDDT criteria and calculated using the average of this measure during the previous 36 months; and
- the entities included in or excluded from the group for this purpose are determined using approximately the same principles as those used when establishing the boundaries of a UK consolidation group.

3.4 If a firm in this position wishes to be subject to the SDDT regime, it should apply to the PRA under section 138A of the Financial Services and Markets Act 2000 (FSMA 2000) for a modification of the SDDT criteria, so that instead of the criterion specifying 'any parent undertaking of the firm is a UK undertaking', there is a criterion to the effect that the group's total assets do not exceed £20 billion, appropriately tailored to the circumstances of the group.

2 PRA Rulebook, SDDT Regime – General Application, 2.1(9).

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3.5 The PRA will consider any application for a modification of the SDDT criteria on a case-by-case basis, applying the statutory tests in section 138A(4) of FSMA 2000. Subject to that, the PRA considers that the statutory tests are generally likely to be met in the circumstances described above. In assessing an application for the modification, the PRA will consider whether there are any reasons that the firm's safety and soundness would be negatively affected if it were granted the modification.

3.6 A member of a foreign group that is granted a modification to the SDDT criteria, and meets its modified SDDT criteria, will be subject to the PRA's offer of a modification by consent to become an SDDT and enter the SDDT regime (on the same terms as other firms that meet the SDDT criteria).

Entity or activity disposals

3.7 In the case of a disposal of entities or activities, or similar circumstances, a firm might consider that the SDDT regime is appropriate for the firm even though it does not meet the SDDT criteria, due the criteria's use of measures based on historical data (eg a three-year average of total assets to calculate the size measure).

3.8 If a firm in such a position applies for a modification of the SDDT criteria under section 138A of FSMA 2000, the PRA will consider its application, including the explanation and evidence submitted by the firm that support its view that the PRA can be satisfied that the statutory tests in FSMA 2000 s138A(4) are met.

Domestic activity criterion

3.9 The SDDT criteria allow firms to treat relevant credit exposures as located in the UK if they would qualify as 'residential loans to individuals' for the purposes of the Mortgage Lending and Administration Return (MLAR), whether or not they would otherwise be treated as located in the UK.[3]

3.10 The PRA recognises that some firms may offer financing arrangements for UK home purchases that, while not structured as conventional regulated mortgage contracts, are economically equivalent to 'residential loans to individuals' in the MLAR. The PRA considers that it may be appropriate to include such financing arrangements in the calculation of relevant credit exposures located in the UK and may therefore grant a modification to the SDDT criteria to reflect this treatment.

3.11 A firm offering such financing arrangements for home purchases may apply to the PRA under section 138A of FSMA 2000 for a modification of the SDDT criteria. The PRA will

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3 PRA Rulebook, SDDT Regime – General Application, 2.6. Available at: **www.prarulebook.co.uk/pra-rules/sddt-regime--general-application**.

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assess such applications on a case-by-case basis, applying the statutory tests in section 138A(4) of FSMA 2000. In doing so, the PRA will consider whether the firm can demonstrate that the financing arrangements for home purchases are economically equivalent to residential loans to individuals as defined in the MLAR. The PRA will also consider whether giving the modification would adversely affect the advancement of the PRA's safety and soundness objective.

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4: Leaving the SDDT regime

4.1 This chapter sets out the approach for firms and CRR consolidation entities transitioning out of the SDDT regime.

4.2 If an SDDT or SDDT consolidation entity ceases to meet the SDDT criteria or SDDT consolidation criteria, it must notify the PRA. (The remainder of the chapter refers only to firms and the SDDT criteria. Those references should be read, with any necessary modifications, as applying also to CRR consolidation entities and the SDDT consolidation criteria.)

4.3 The firm should expect that the PRA will then decide to revoke its modification direction so that it stops being subject to the SDDT measures and becomes subject to rules and policies that do not apply to SDDTs.

4.3A There are no pre-determined transitional arrangements for a firm leaving the SDDT regime. In many cases, such a firm will be able to prepare for ceasing to meet the SDDT criteria and should therefore be able to comply almost immediately with the measures that will apply to it when it ceases to be an SDDT. In some circumstances, a firm might reasonably need some further time to prepare for complying with those measures. The PRA will consider these factors, and the time needed for the PRA to make any necessary changes – such as the time needed to update the Pillar 2 requirements and expectations of the firm – and any information needed from the SDDT, when deciding when to revoke the firm's modification direction.

4.4 If an SDDT ceases to meet the SDDT criteria because it receives an internal ratings based (IRB) approval, the PRA will engage with the firm in the period before the approval decision to support the firm's readiness to move from the SDDT regime measures to the measures that will apply to it when it ceases to be an SDDT.

4.5 If an SDDT that continues to meet the SDDT criteria wishes to leave the regime, the PRA expects the firm to engage with its supervisors to discuss its plans and explain its reasons for seeking to leave at the earliest opportunity before requesting that the PRA revoke its modification direction. An SDDT in this position will generally be able to prepare for leaving the SDDT regime so that by the time it requests the revocation of its modification direction it will be able to comply almost immediately with the measures that would apply to it if it ceases to be an SDDT. Early engagement with the PRA will also allow time for the SDDT and the PRA itself to prepare for any necessary changes associated with a request to leave the SDDT regime. Any such steps would need to be completed before the PRA would be able to accede to a request for revocation of a modification direction.

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4.6 A firm that has had its modification direction revoked may wish to later re-enter the SDDT regime, provided it meets the SDDT criteria. The PRA, however, does not expect firms to enter and leave the SDDT regime frequently.

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5: Approach to reviewing the SDDT criteria

5.1 The PRA considers that the SDDT regime is intended for small firms that are not systemically important and are focused on deposit-taking from, and lending to, households and corporates in the UK. The SDDT criteria are designed to reflect the attributes of smaller, less complex firms.

5.2 To ensure the criteria continue to do that, the PRA will monitor the suitability of the SDDT criteria.

5.3 Specifically, the PRA intends to undertake a review of the SDDT criteria no later than the end of 2028. In that review, the PRA would assess whether the criteria still identify the relevant firms (eg it could consider whether structural changes in the banking sector require other criteria in order to identify relevant firms) and whether the calibrations of the thresholds within the criteria still identify the relevant firms (eg whether the thresholds expressed in currency terms need to be adjusted).

5.4 If the conclusion of the review were that changes to the SDDT criteria would advance PRA objectives, any proposed changes would be subject to the normal consultation process.[4]

5.5 If the review led the PRA to propose changes to the size criterion, the PRA would intend that those changes would be reflected in the PRA's approach to firms that are members of foreign groups, with the consultation also covering updates to this SoP.

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4 Section 138J of FSMA 2000.