Detailed analysis of objectives and 'have regards' (appendix to CP5/21 'Implementation of Basel standards', February 2021)

The PRA has considered its primary and secondary objectives and had regard to all the FSMA regulatory principles, the HM Treasury recommendation letter and the new matters in the Financial Services Bill in relation to the proposals in this consultation paper (CP). The analysis below summarises the areas where the impact of these considerations was most directly relevant and explains how the proposed rules are compatible with these considerations and how they affected the proposed rules.

1. Level of application

Areas	Summary	PRA objectives and 'have regards'
Third country sub-consolidation (CRR Article 22)	The PRA proposes not to implement the third country sub-consolidation requirement (CRR Article 22) as a new rule in the PRA Rulebook. Instead, the PRA proposes to clarify in the Groups Supervisory Statement that the PRA may use its existing powers to require sub-consolidation on a case-by-case basis where it considers it necessary given the risks to the firm from a significant third-country subsidiary.	***Overview*** • The PRA considered requiring firms to meet a third country sub-group consolidated requirement where they have a bank, investment firm or financial institution subsidiary (or participation) in a third country. Such an approach would advance firms' safety and soundness in line with the primary objective. However, not introducing the requirement would simplify requirements, thereby advancing the PRA's secondary objective and be consistent with Basel standards. As such, the PRA considered the prudential benefits would not be sufficient to justify the costs of a requirement for mandatory consolidation in all such cases. The PRA considered that using its existing powers to require such consolidation where warranted by the risks posed in individual cases would deliver an equivalent outcome in a more proportionate manner. ***PRA objectives*** • **PRA's primary objective:** The combination of not implementing the requirement and taking a case-by-case approach to requiring sub-consolidation means that the safety and soundness of firms would continue to be advanced in an appropriately proportionate manner. And using the PRA's existing powers to impose such a requirement on a case-by-case basis is likely to be a more proportionate approach. This also ensures efficient use of resources by the PRA in performing its supervisory function and reducing the burden on firms. • **PRA's secondary objective:** The PRA considers that not introducing this requirement would be consistent with facilitating effective competition, as simplifying requirements could make the requirements clearer to firms and help to reduce their costs, thereby advancing the PRA's secondary objective.

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		Have regards: • **'International standards':** The proposed approach would be consistent with the Basel standards, as sub-consolidation is not required where requirements are applied at a solo level. This could improve the '**relative standing of the UK**' and '**competitiveness**', as firms would not automatically be subject to requirements on a sub-consolidated basis where the costs of the approach are not justified by the prudential benefits. • **'Finance for the real economy', 'growth' and 'sustainable growth':** The PRA does not expect the proposed changes to have any significant effect on finance for the real economy, 'growth' or 'sustainable growth'.

2. Own funds

Areas	Summary	PRA objectives and 'have regards'
Prudential treatment of CET1 deductions	The PRA proposes to require all intangible assets to be deducted fully from CET1 capital, including software assets.	***Overview*** • The PRA considered the interaction between its primary and secondary objectives and the 'have regards', including in relation to international standards, relative standing of the UK, and finance for the real economy. Given the lack of evidence that software assets can absorb losses on a going concern basis, the PRA considers it to be necessary to advance firms' safety and soundness by proposing to require intangible assets to be deducted fully from Common Equity Tier 1 (CET1) capital, with no exemption for software assets. This would advance the PRA's primary objective and align the UK approach with Basel Standards. ***PRA objectives*** • **PRA's primary objective:** The PRA has found no evidence that software assets can absorb losses effectively in stress. Therefore, requiring those assets to be deducted fully from CET1 capital would contribute to the safety and soundness of UK firms. • The EU CRR II exempts certain software assets from deduction from CET1 capital. As the relevant EU technical standard was published in the EU Official Journal before the end of the transition period on Thursday 31 December 2020, the EU approach to the prudential treatment of software assets became part of the CRR. The PRA's proposed approach is consistent with the requirement that applied to UK firms before this technical standard became applicable, but represents a change from the onshored requirement. • **PRA's secondary objective**: As the PRA proposal would apply to all PRA-regulated firms, it would not have an effect on competition between firms. ***Have regards:*** • **'International standards'**: The PRA proposal is in line with the Basel Standards which require all intangible assets to be deducted from CET1 capital because of the uncertainty about both their value and their ability to absorb

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		losses, especially in stress. • **‘Relative standing of UK’ and ‘competitiveness’**: The PRA has considered the argument that this proposal, when looked at narrowly, could put UK firms at a competitive disadvantage relative to the firms in some other jurisdictions. However, this may not necessarily be the case in practice as some market participants have indicated that, in assessing EU banks’ resilience and insolvency status, they may look through any capital inflation from software assets. The PRA proposal would contribute towards ensuring the quality of firms’ capital resources, which is important for maintaining creditor confidence in UK firms. • **'Finance for the real economy', ‘growth’ and ‘sustainable growth’**: The PRA proposal to require UK firms to deduct software assets from CET1 capital would be unlikely to have a significant adverse impact on finance for the real economy in the medium to long term. The PRA considers it likely that the proposal could support sustainable bank lending, which in turn could contribute both to ‘growth’ and ‘sustainable growth’.

3. Market risk

Areas	Summary	PRA objectives and 'have regards'
Prudent valuation	The PRA proposes the following three changes to the prudent valuation requirements: 1. In the CRR, Article 34 states that the requirements on prudent valuation as set out in Article 105 apply to all fair-valued positions. However, Article 105 sets out the requirements on prudent valuation for trading book positions only; a subset of all fair-valued positions. The PRA proposes to amend the prudent valuation requirements in Article 105 to clarify that the requirements apply to both trading and non-trading book positions measured at fair value; 2. firms should revalue trading book positions at fair value at least on a daily basis, and that changes in the value of those positions shall be reported in the profit and	***Overview*** • The PRA considers that its proposed approach to prudent valuation would advance its primary objective, facilitate effective competition, align with Basel standards, and improve transparency. ***PRA objectives*** • **PRA's primary objective:** The proposed changes are intended to provide minor clarifications on prudent valuation policy, serving to advance the PRA's primary objective by advancing the safety and soundness of firms. • **PRA's secondary objective:** The proposed changes are relatively minor and the PRA considers that implementing those proposed changes through rules would improve transparency on how the PRA exercises its functions, thereby advancing the PRA's secondary objective. ***Have regards:*** • **'Transparency':** See 'PRA's secondary objective' above. • **'Finance for the real economy', 'growth' and 'sustainable growth':** The proposed rules are unlikely to have a significant impact on capital requirements, balance sheet structure or business activities. Hence the proposed rules are unlikely to have any material impact on finance for the real economy. Therefore the impact on growth and sustainable growth is also not expected to be significant. • **'Relative standing of the UK' and 'competitiveness':** The PRA considers the proposed changes to be relatively minor and unlikely to result in a material change in the current relative standing of the UK, or the competitiveness of the UK. • **'International Standards':** The PRA considers the proposals to be consistent with Basel standards.

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	loss account of the institution; and 3. the PRA proposes to make rules to give effect to the content of the EU CRR II regulatory technical standards on prudent valuation without any substantive policy changes.	
Trading book management	The PRA proposes a minor clarification and reordering of existing requirements for trading book management.	***Overview*** • The PRA considers its proposed changes to requirements for the trading book that clarify the general requirements for trading book management would advance firms' safety and soundness, in line with the primary objective, and help to improve transparency, thereby facilitating effective competition. The proposals are also consistent with Basel standards. ***PRA objectives*** • **PRA's primary objective:** The proposed changes to requirements for the trading book are intended to clarify the general requirements for trading book management, serving to advance the PRA's primary objective by improving the safety and soundness of firms. • **PRA's secondary objective:** The proposed changes are a minor clarification and reordering of existing requirements, and the PRA considers that implementing those proposed changes, in this case, through rules (as opposed to for example conveying them bilaterally with individual firms) would improve transparency on how the PRA exercises its functions. The improved transparency would also facilitate effective competition, as smaller firms would not have to engage compliance resources as they would for more complex rules, thereby advancing the PRA's secondary objective. ***Have regards:*** • **'Finance for the real economy', 'growth' and 'sustainable growth':** The PRA considers the proposed rules unlikely to have a material impact on firms' capital requirements or balance sheet structure. As a result, they are

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		unlikely to have a significant impact on finance for the real economy. Similarly, the PRA expects the impact on growth and sustainable growth not to be significant. • **'International standards':** The PRA considers the proposals to be consistent with the requirements for trading book management under the revised Basel standards on market risk. • **'Relative standing of the UK' and 'competitiveness':** As this proposal follows international standards, and other major jurisdictions' implementation of those standards, the PRA expects there would be no impact on the relative standing of the UK or the competitiveness of the UK.
Proportionality	The PRA proposes three adjustments to the derogation for small trading book business, which allows firms with small trading books to capitalise those trading positions using the credit risk rather than market risk framework: 1. Increasing the absolute threshold for being considered a small trading book business, from €15 million to £44 million; 2. Amending the methodology for calculating trading book size, to exclude FX and commodities risks as well as credit internal hedges;	***Overview*** • The PRA considers that the proposed increase of the absolute threshold for eligibility to use the derogation for small trading book businesses would appropriately limit the use of the derogation, ensuring the overall safety and soundness of firms continues to be advanced. However, it would also facilitate effective competition and ensure that the market risk capital requirement framework is implemented proportionately. ***PRA objectives*** • **PRA's primary objective**: The proposed changes to the derogation would increase the absolute threshold for firms to use the derogation. The proposed changes would allow more firms to apply the derogation and allow firms to increase their trading book business while continuing to apply the derogation. However, the PRA considers that the proposed increase of the threshold would still limit the use of the derogation to small trading book businesses, such that the overall safety and soundness of firms is advanced. • **PRA's secondary objective:** Having regard to the PRA's secondary objective, the PRA considers the proposed changes would help to facilitate effective competition in the markets by potentially allowing smaller firms to increase trading activities while continuing to use the derogation. ***Have regards:*** • **'Proportionality' and 'different business models'**: The PRA considers that the proposals outlined in this CP are proportionate to the cost for firms in implementing and meeting the requirements on an ongoing basis, and would be proportionate to firms' size and complexity. In particular, the proposal to increase the threshold for

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	and 3. Amending the criteria for ceasing to use the derogation, so that firms must cease to use the derogation where they exceed the threshold criteria in each of the past three months or in 6 of the past 12 months.	using the derogation would improve proportionality by potentially allowing a broader range of different business models with small trading book business to benefit from the more proportionate treatment that the derogation offers. • **'Finance for the real economy', 'growth' and 'sustainable growth'**: The PRA considers the proposed rules to be unlikely to have a material impact on affected firms' capital requirements or balance sheet structure. As a result, the proposed rules would be unlikely to have a significant impact on finance for the real economy. The PRA also expects the impact on growth and sustainable growth not to be significant. • **'International standards'**: Basel standards apply to internationally active banks, so this derogation, which is expected to apply to smaller firms with limited trading activities, is not within the scope of Basel standards. • **'Relative standing of the UK' and 'competitiveness':** As the proposals are outside the scope of Basel standards, and consistent with the EU's amendments to the derogation in the EU CRR II, the PRA considers those rules would not impact the 'relative standing of the UK' or the competitiveness of the UK materially.

4. Collective Investment Undertakings

Areas	Summary	PRA objectives and 'have regards'
Credit risk treatment of exposures to collective investment undertakings (CIUs).	The PRA proposes to update rules to implement the look through approach (LTA), mandate based approach (MBA) and fallback approach (FBA), including setting eligibility criteria for the LTA and MBA, and specifying how firms should calculate exposure values for derivative exposures.	***Overview*** • The PRA considers that its proposed revision to requirements for exposures to CIUs would advance its primary objective by improving the robustness of their treatment. The effect on effective competition is expected to be relatively low. The PRA considers the introduction of a jurisdictional equivalence condition for third country CIUs would advance the PRA's primary objective, as it would provide additional assurance that the funds in question are subject to supervision similar to that of the UK. Overall, the PRA considers its proposed approach to be proportionate. ***PRA objectives*** • **PRA's primary objective:** The proposed approaches to the treatment of firms' exposures to CIUs in third countries and technical standards on how firms should calculate exposure values for derivative exposures would improve the safety and soundness of firms, whilst avoiding an excessively conservative approach. The PRA considers that requiring the FBA to apply to exposures to CIUs in third countries which are not considered equivalent to the UK would advance safety and soundness as it would result in higher capital requirements applying to address the potential risks resulting from equivalent requirements not being applied to the managers of such CIUs. • **PRA's secondary objective:** The PRA expects the effect on effective competition would be relatively low, as investment in CIUs are likely to represent only a small fraction of firms' total assets, and the proposals should likely have the same impact on firms providing similar services. ***Have regards:*** • **'International standards'**: The proposed changes are intended to implement the relevant Basel standards. There are some places where the PRA's implementation differs slightly, but the PRA considers those differences not to be material. • **'Relative standing of UK' and 'competitiveness'**: Applying Basel standards would help to ensure a level playing field for internationally active banks in the UK. It would also be consistent with the approach to CIUs applied in the EU. The PRA considers that applying standards consistent with Basel requirements would help ensure consistency with requirements applied in other jurisdictions implementing Basel, which would be beneficial for

Areas	Summary	PRA objectives and 'have regards'
		the UK's relative standing and competitiveness. • **'Finance for the real economy', 'growth' and 'sustainable growth'**: The Fall Back Approach (FBA) could result in relatively higher capital requirements for UK firms for certain exposures to CIUs. However, if certain conditions were met, firms could use the LTA or the MBA, which involve capital requirements. In addition, the relatively low materiality of UK banks' risk-weighted exposures to CIUs means that these proposed changes should not have a significant impact (positive or negative) on finance for the real economy or growth in the medium and long term.

5. Counterparty credit risk

Areas	Summary	PRA objectives and 'have regards'
SA-CCR and Exposures to CCPs	The PRA proposes to update rules to implement revised approaches to counterparty credit risk and a revised treatment of exposures to CCPs.	***Overview*** • The PRA considers its proposals on counterparty credit risk would advance its primary objective and facilitate effective competition. The proposals would introduce greater proportionality, with simplified measures tailored specifically for small and less complex firms. The PRA also considers the proposals would help to provide a firmer foundation for finance for the real economy by ensuring a more risk sensitive allocation of capital to counterparty risk under the Standardised Approach to Counterparty Credit Risk (SA-CCR). The PRA considers there to be some potential for unequal impact of the SA-CCR on certain types of transactions (e.g. bilateral and uncollateralised derivatives) and business models that rely on those activities. However, the PRA considers that closer alignment of regulatory capital requirements with underlying risks would enhance firms' safety and soundness and help to support sustainable growth. The proposals are also in line with Basel standards. • The PRA proposed changes to the treatment of exposures to central counterparties (CCPs) would improve the robustness and proportionality of the prudential treatment of those exposures, in line with the primary objective. It also seeks to ensure consistency with international standards, and to support the central clearing of derivatives exposures. ***PRA Objectives*** • **PRA's primary objective:** The proposed changes to requirements for counterparty credit risk advance the safety and soundness of firms by improving the risk sensitivity of the requirements for the standardised approach to counterparty credit risk and exposures to CCPs. • **PRA's secondary objective:** The PRA does not expect the proposed changes to materially impact competition in the provision of services provided by PRA-authorised firms. The proposal likely would affect different firms with different business models in different ways, but should have the same impact on firms providing similar services. The proposals also embed proportionate counterparty credit risk measures tailored for small and less complex firms. ***Have regards:*** • **'Proportionality':** The PRA considered it to be important to ensure its proposed approach to counterparty credit

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		risk was sufficiently proportionate. This led the PRA to propose to allow smaller, less complex firms to apply simpler approaches to counterparty credit risk: the simplified SA-CCR and the Original Exposure Method. The PRA expects this could allow some firms to benefit from lower compliance costs, while applying standards that are prudentially robust. • '**International standards**': The PRA considers its proposals to be in line with Basel standards on SA-CCR and on exposures to CCPs. • **'Relative standing of the UK' and 'competitiveness':** The PRA considers there would be no material change to the relative standing of the UK with respect to those countries that have implemented the relevant Basel standards. While some jurisdictions have made modifications to the Basel standards, the PRA does not assess the differences to have a material impact on relative standing, including when assessed against other modifications made in capital frameworks focused on similar transactions or counterparties. • '**Finance for real economy**' and '**growth**' and '**sustainable growth'**: The PRA would expect its proposed rules to help to improve firms' allocation of capital against counterparty credit risk. Without these rules, there is a risk that finance provided may not reflect the underlying risk sufficiently, which could increase the likelihood of losses for firms, and adverse effects for real economy lending. The PRA expects the proposed changes would help to support the sustainability of economic growth by helping to reduce the risk that firms' ability to provide finance is adversely affected by unexpected losses or capital requirements that were underestimated.

6. Operational risk

Areas	Summary	PRA objectives and 'have regards'
Operational risk	The PRA proposes to create a new PRA rule (modifying requirements under CRR Article 316) in order to provide greater clarity on the calculation of the BIA.	***Overview*** • The PRA considers its proposals advance its primary objective and facilitate effective competition by enhancing the clarity and transparency of the calculation of the Basic Indicator Approach (BIA) for leasing business. The PRA considered this greater clarity could assist in firms' application of the requirements. The proposals are consistent with Basel standards. ***PRA objectives*** • **PRA's primary objective**: The proposed approach aims to provide greater clarity on the calculation of the BIA in relation to leasing activities, ensure consistency of the application of requirements, and avoid unnecessary regulatory burden for firms in having to interpret the BIA requirements. The PRA considers that this can be achieved while continuing to advance the PRA's primary objective of promoting the safety and soundness of PRA-authorised persons. • **PRA's secondary objective**: The proposals do not reflect a material change in policy, but provide clarity on the calculation of the 'relevant indicator' element of the BIA. The changes would increase the transparency of the BIA calculation, which may support effective competition. ***Have regards:*** • **'Finance for the real economy', 'growth' and 'sustainable growth':** The PRA considers the proposed rules to be unlikely to have a material impact on affected firms' regulatory requirements or balance sheet structure. As a result, the PRA considers the proposed rules to be unlikely to have a significant impact on finance for the real economy and the impact on growth and sustainable growth is also not expected to be significant. • **'International standards':** The proposals are consistent with the Basel requirements for operational risk. • **'Relative standing of the UK' and 'competitiveness':** The PRA has not identified any potential for significant change to the relative standing of the UK, or the competitiveness of the UK as a result of the proposals.

7. Large exposures

Areas	Summary	PRA objectives and 'have regards'
Eligible capital	The PRA proposes to make Tier 1 capital the basis for setting limits on large exposures.	***Overview*** • The PRA considers that the proposed changes advance its primary objective, as there are safety and soundness benefits to limiting large exposures based on the capital that is available to absorb losses and allow a firm to remain a going concern. The proposals have been affected by the need to be consistent with Basel standards and are being implemented in a proportionate manner such that any burden arising from the proposed changes would be small and proportionate to the benefit of limiting large exposures to loss-absorbing capital on a going concern basis. ***PRA objectives*** • **PRA's primary objective:** Changing the definition of eligible capital to Tier 1 capital would advance the PRA's primary objective by improving the safety and soundness of firms. • **PRA's secondary objective:** The PRA assesses that the proposed rules would not have a material impact on effective competition, as the proposed changes would apply for all firms holding these types of exposures. ***Have regards:*** • **'Proportionality':** The PRA considers that the benefits of the proposals are proportionate to the cost for firms in implementing and meeting the requirements on an ongoing basis, and would be proportionate to firms' size and complexity. In particular, any burden arising from the proposed changes would be small and proportionate to the benefit of limiting large exposures to loss-absorbing capital on a going concern basis. Based on current large exposure returns, the PRA considers that this would impact a small number of firms with a small number of isolated exposures that might slightly breach the large exposure limits. The PRA considers that this change remains justified from a prudential perspective and that the restriction is proportionate to the benefits. • **'Finance for the real economy', 'growth' and 'sustainable growth':** The PRA considers that the proposed rules would be unlikely to have a material impact on affected firms' capital requirements or balance sheet structure. Hence the proposed rules are unlikely to have a significant impact on finance for the real economy and the impact on growth and sustainable growth would also not be expected to be significant.

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		• **'International standards':** The proposals are consistent with the requirements for large exposures under the revised Basel supervisory framework for managing and controlling large exposures. • **'Relative standing of the UK' and 'competitiveness':** The PRA considers the proposed approach would be unlikely to have a significant impact on the relative standing of the UK or competitiveness, as it is consistent with Basel standards and with the EU's implementation of those standards in the EU.
Calculating exposure values	The PRA proposes that firms use revised approaches to counterparty credit risk to calculate large exposures from derivative exposures. The PRA proposes to allow firms to offset long and short positions in different instruments issued by a given client provided the short position is junior or equal in seniority to the long position. The PRA proposes not to permit credit risk mitigation techniques available under the IRB approach to be used for large exposures purposes.	***Overview*** • The PRA considers that the proposed changes promote its primary objective as they ensure that the maximum possible loss a firm could incur as a result of an unexpected default of a client or group of connected clients would not endanger the firm's survival on a going concern basis, thereby improving the safety and soundness of firms. The proposals were affected by the need to be consistent with Basel standards and to ensure a proportionate approach was taken for the exposures of smaller firms. The PRA considers that the proposals would not affect the relative standing of the UK significantly. ***PRA objectives*** • **PRA's primary objective:** The proposed changes are intended to align with the objective of the large exposures framework which is designed to ensure that the maximum possible loss a firm can incur as a result of an unexpected default of a client or group of connected clients would not endanger the firm's survival on a going concern basis, serving to advance the PRA's primary objective by improving the safety and soundness of firms. • **PRA's secondary objective:** The PRA does not assess the proposed rules to materially affect competition, as all firms would be subject to the same sets of requirements for determining exposure values, albeit some would be able to use a more proportionate approach to measure derivatives exposure. ***Have regards*** • **'Finance for the real economy', 'growth' and 'sustainable growth':** The PRA considers the proposed rules are unlikely to have a material impact on firms' capital requirements or balance sheet structure, given their Tier 1 capital and exposure levels . As a result, the PRA considers the proposed rules to be unlikely to have a significant impact on finance for the real economy. Similarly, the impact on growth and sustainable growth is also not

Areas	Summary	PRA objectives and 'have regards'
		expected to be significant. • **'International standards':** The proposals are consistent with the requirements for large exposures under the new Basel supervisory framework for measuring and controlling large exposures. • **'Relative standing of the UK' and 'competitiveness':** The proposals would strengthen the UK approach to large exposures in a way this is consistent with the Basel framework and the EU's implementation of those standards. Therefore, the PRA considers the proposals would not have a significant impact on the relative standing or competitiveness of the UK.
Reporting requirements	Firms would have to report all exposures above £260 million as well as top ten exposures to shadow banking entities.	***Overview*** • The PRA's regulatory reporting proposals would promote the primary objective of advancing safety and soundness by ensuring that the PRA has the information necessary to assess firms' concentration of counterparty risk as well as greater insight into concentrations of exposures to the shadow banking sector. The PRA sought to ensure the proposals are proportionate by applying reporting instructions that are consistent with the existing reporting framework in use by firms. In addition, the changes make efficient and economic use of PRA resources by avoiding developing alternative reporting requirements via an additional taxonomy. The proposals have also been affected by the need to be consistent with Basel standards, while maintaining the relative standing of the UK. ***PRA objectives*** • **PRA's primary objective:** The PRA considers the proposed changes would provide greater oversight of firms' concentration of counterparty risk as well as greater insight into concentrations of exposures to the shadow banking sector, serving to advance the safety and soundness of firms. • **PRA's secondary objective:** The PRA does not assess the proposed rules to materially affect competition as it relates solely to reporting and would have the same effect on firms with such large exposures. ***Have regards:*** • **'Finance for the real economy'**: The proposed rules do not affect firms' regulatory requirements, capital resources or balance sheet structure. Hence the proposed rules are unlikely to have a significant impact on

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		finance for the real economy. • **'International standards':** The proposals are consistent with the requirements for large exposures under the Basel supervisory framework on measuring and controlling large exposures. • **'Relative standing of the UK':** The proposals are consistent with the Basel supervisory framework and with the EU's implementation of those standards so there is no change to the relative standing of the UK.
Exposures to G-SIIs	The PRA proposes to limit exposures between G-SIIs to 15% of Tier 1 capital.	***Overview*** • The PRA considers that the proposed change promotes its primary objective as it limits the extent of interconnectedness between G-SIIs, reducing the risk that material losses in one could adversely impact the solvency of others, thereby advancing the safety and soundness of firms. The proposals have been affected by the need to align with international standards while maintaining the relative standing of the UK. ***PRA objectives*** • **PRA's primary objective:** The proposed changes are intended to reduce interconnectedness between G-SIIs. A key lesson during the financial crisis was that material losses in one systemically important institution could trigger concerns about the solvency of other systemically important institutions. Limiting the extent of interconnectedness advances the safety and soundness of firms. • **PRA's secondary objective:** The PRA does not assess the proposed rules to materially affect competition as the PRA considers it likely that G-SII consolidated exposures to other G-SIIs would be below the 15% limit. ***Have regards:*** • **'Finance for the real economy', 'growth' and 'sustainable growth':** The proposed rules are unlikely to have a material impact on affected firms' capital requirements or balance sheet structure. Hence the proposed rules are unlikely to have a significant impact on finance for the real economy and the impact on growth and sustainable growth is also not expected to be significant. • **'International standards':** The proposals are consistent with the requirements for large exposures under the

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		Basel supervisory framework on measuring and controlling large exposures. • **'Relative standing of the UK' and 'competitiveness':** The proposals are consistent with the Basel supervisory framework and with the EU's implementation of those standards so there is no change to the relative standing or competitiveness of the UK.
Substitution Approach	The PRA proposes to require firms to assign exposures to credit protection and collateral providers.	***Overview*** • The PRA considers the proposed requirement to report credit protection and collateral as exposures to the credit provider / issuer to advance its primary objective by identifying and limiting potential large concentration risk to credit protection or collateral providers. This would enhance the safety and soundness of firms. The proposals take an approach that is consistent with Basel requirements. ***PRA objectives*** • **PRA's primary objective:** The proposed changes are intended to reveal potential large concentration risk to credit protection providers, serving to advance the PRA's primary objective by improving the safety and soundness of firms. • **PRA's secondary objective:** The PRA does not assess the proposed rules to materially affect competition as all firms would be subject to the substitution requirement in the event they took credit protection or collateral. ***Have regards:*** • **'Finance for the real economy', 'growth' and 'sustainable growth':** The proposed rules are unlikely to have a material impact on affected firms' regulatory requirements, capital resources or balance sheet structure. Hence the proposed rules are unlikely to have a significant impact on finance for the real economy or on growth. • **'International standards':** The proposals are consistent with the requirements for large exposures under the Basel supervisory framework on measuring and controlling large exposures. • **'Relative standing of the UK' and 'competitiveness':** The proposals are consistent with the Basel supervisory framework and with the EU's implementation of those standards so the PRA expects there would be no

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		significant change to the relative standing or competitiveness of the UK.

8. Net stable funding ratio (NSFR)

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Requirement and associated reporting	The PRA proposes to apply the NSFR and associated reporting, which requires firms to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities.	***Overview*** • The PRA considers that the safety and soundness benefits of the NSFR justify its inclusion in the PRA framework, as it introduces a sustainable funding structure that reduces the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. In considering the secondary competition objective the PRA noted that though the proposed changes clearly have a different impact on different business models, no particular business model was affected to an extent that justified exempting certain firms, given the PRA's primary objective. Considering matters to which the PRA must have regard, the PRA made a number of adjustments to align closely with Basel standards. The PRA also made some adjustments where it was concerned there could otherwise be potentially adverse impacts on financial markets. These adjustments were affected by the 'Finance for the Real Economy' and the 'Competitiveness and Relative standing of the UK' 'have regards'. ***PRA objectives*** • **PRA's primary objective:** The NSFR requires firms to maintain a stable funding profile in relation to the composition of their assets. A sustainable funding structure reduces the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on and off-balance sheet items, and promotes funding stability. It improves safety and soundness by addressing a key shortcoming identified in the financial crisis. • **PRA's secondary objective:** The PRA has considered its secondary competition objective in a number of ways including by choosing to implement the simplified NSFR for smaller firms (see paragraphs on 'proportionality' and 'different business models' below) and assessing the differential impact of the NSFR on a range of business models. The PRA concluded that although the NSFR clearly has a different impact on different business models, no particular business model is likely to be affected to an extent that warrants exempting certain firms, given the PRA's primary objective. ***Have regards:*** • **'Proportionality' and 'different business models':**

Areas	Summary	PRA objectives and 'have regards'
		○ A key consideration was whether to apply the NSFR to investment firms. The NSFR was designed by the BCBS to address the longer-term funding risks of banks. The NSFR's specific treatments of derivatives, securities financing transactions, and certain on balance-sheet securities enhance its risk sensitivity for application to this part of banks' and designated investment firms' business. However, the NSFR remains a relatively simple metric. The PRA's analysis of designated investment firms' activities suggest there would be significant prudential benefits applying an NSFR framework to them. Those activities often overlap significantly with those of banks. Applying the NSFR to designated investment firms would also help to ensure that PRA rules apply to products with the same risk characteristics in the same way, irrespective of the type of firm using them. This would help to avoid adverse effects on competition between deposit-taking firms and designated investment firms. ○ The PRA's consideration of proportionality affected its approach to the application of the NSFR to individual firms. Some domestic firms manage their liquidity jointly, as a sub-group. Under the CRR, and proposed PRA rules, where certain conditions are met such firms may apply for permission to apply the liquidity coverage requirement at the level of a domestic liquidity sub-group (DoLSub), rather than to each firm within the DoLSub. This better reflects the way those firms manage their liquidity in practice. The PRA considers the use of DoLSub permissions also to be prudentially appropriate and proportionate for the NSFR. The PRA's proposed approach to implementing the NSFR extends the process for DoLSub permissions also to the NSFR. This would enable domestic firms to apply to apply the NSFR at the level of a DoLSub, rather than at the level of individual firms within the sub-group. To support this approach, the PRA proposes to update the list of information to be provided with an application for a DoLSub permission in order to include additional information relevant to stable funding. ○ The PRA included the possibility for small, less complex firms to choose to use a 'simplified' NSFR (sNSFR) in order to improve the proportionality of the PRA's proposed approach. ○ The sNSFR would allow smaller, less complex firms to report a sNSFR template that is simpler than that of the full NSFR. That could reduce the reporting costs associated with the standard and better aligns the costs of the NSFR with the revenue profile of the firms implementing it. ○ The sNSFR would advance the safety and soundness of firms by applying conservative Required Stable Funding (RSF) and Available Stable Funding (ASF) factors that ensure that the level of a firm's sNSFR ratio would never be higher than it would be under the NSFR ratio. However, given the funding profile of such

Areas	Summary	PRA objectives and 'have regards'
		firms the PRA does not expect this to prove a material obstacle to use of the sNSFR by small firms. • **'International standards'**: The PRA considers that the UK's proposed implementation of the NSFR is consistent with the Basel standard. Where the PRA proposes deviations from the Basel standard, the PRA considers the deviations not to be material. • **'Relative standing of the UK' and 'competitiveness':** Given the NSFR is an internationally agreed standard, implemented in other Basel jurisdictions, the PRA assesses that it would have a negligible impact upon the relative competitiveness of the UK. The PRA believes the approach to the implementation of the internationally agreed standard is broadly in line with the approach taken in peer jurisdictions. • **'Finance for the Real Economy', 'growth' and 'sustainable growth'**: The PRA has made some minor adjustments to its proposed approach where the potential adverse impacts of the NSFR on financial markets could otherwise be significant. The PRA recognises that the NSFR may result in some increase in funding costs for certain firms and products, including wholesale firms. This is set against the benefits to safety and soundness noted above.

9. Disclosure

Areas	Summary	PRA objectives and 'have regards'
Pillar 3 public disclosures	The PRA proposes to update Pillar 3 reporting requirements to implement revisions to the Basel disclosure framework.	***Overview:*** • The PRA considers that the proposed changes to disclosure requirements advance its primary objective, as there are safety and soundness benefits to ensuring that users of the Pillar 3 reports have access to relevant information on the impact of the Basel changes on the risk profile and capital levels of firms. In considering the secondary competition objective, the PRA noted that the proposed disclosure changes would enhance market transparency of UK firms by providing clear and consistent information on which external users can make decisions. The proposals have been affected by the need to be consistent with the Basel disclosure framework, which seeks to ensure that transparency and market discipline around UK banks' Pillar 3 disclosures is achieved proportionately, and in a manner that makes efficient and economic use of the PRA resources. ***PRA objectives*** • **PRA's primary objective:** The proposed Pillar 3 disclosure changes would ensure that users of the Pillar 3 reports have access to relevant information on the impact of the Basel changes on the risk profile and capital levels of firms. The proposals seek to ensure that UK firms disclose with the same level of transparency as their peers in other jurisdictions, thus supporting market discipline by providing consistent and comparable information to inform decisions made by a firm's external stakeholders. • **PRA's secondary objective:** The proposed disclosure changes would enhance market transparency of UK firms by providing clear and consistent information on which external users can make decisions, thereby facilitating effective competition. ***Have regards:*** • **'Efficient and economic use of resources':** The disclosure proposals support the efficient and economic use of the PRA's resources by using the relevant disclosure templates contained in the European Banking Authority's (EBA) final draft ITS to update firms' Pillar 3 disclosures for the new Basel methodologies. This approach aims to minimise the duplicative effort associated with the PRA designing alternative disclosures to meet the same objective and convey similar information to the market as the proposed disclosure templates in this CP. • **'Proportionality':** The disclosure proposals have regard to proportionality through the varied application of

Areas	Summary	PRA objectives and 'have regards'
		certain templates to firms according to their classification as a 'large institution' or 'small, non-complex institution' and whether firms have listed securities. This seeks to ensure that the nature of information disclosed is aligned to the size of a firm and the complexity of its activities. • **'International standards':** The proposed changes to disclosure reflect those to the Basel disclosure framework for the prudential methodologies proposed in this CP, and therefore ensure that firms' disclosures are aligned with international requirements. By requiring firms to disclose the composition of collateral subject to a threshold, the PRA is exercising the discretion contained in the Basel disclosure framework to exempt disclosure where this could reveal central bank liquidity assistance, thus supporting the financial stability of firms in the UK. • **'Relative standing of the UK' and 'competitiveness':** The proposals are consistent with the Basel standards and EU's disclosure requirements so there is no change to the relative standing of the UK. • **'Finance for real economy', 'growth' and 'sustainable growth':** The proposed rules would not affect firms' regulatory requirements, capital resources or balance sheet structure. The alignment of the disclosure requirements with international requirements seeks to minimise the costs associated with preparing disclosures according to different frameworks for UK cross border banks. Hence the proposed rules are unlikely to have a significant impact on finance for the real economy.

10. Reporting

Areas	Summary	PRA objectives and 'have regards'
Regulatory reporting	The PRA proposes to update the UK version of COREP and FINREP to reflect revised Basel methodologies.	***Overview*** • The regulatory reporting proposals seek to ensure that the PRA has the information necessary to supervise how firms are meeting the revised Basel requirements in a proportionate manner by implementing reporting templates and instructions that are consistent with the existing reporting framework in use by firms. The PRA considers that the proposed changes would advance its primary objective, as there are safety and soundness benefits to the PRA having the necessary information to supervise how firms are meeting the revised Basel requirements, and to understand the drivers and relevant exposures underlying a firm's prudential and financial risks. In considering the secondary competition objective the PRA considered that the proportionality of incremental costs and complexity of the reporting proposals to the size of firm would help to facilitate effective competition. The proposals are proportionate and make efficient and economic use of PRA resources by avoiding developing alternative reporting requirements via an additional taxonomy. The proposals have been affected by the need to be consistent with Basel standards and taking account of the relative standing of the UK. ***PRA objectives*** • **PRA's primary objective:** The proposed changes to regulatory reporting would advance the safety and soundness objective by ensuring that the PRA has the necessary information to supervise how firms are meeting the revised Basel requirements, and to understand the drivers and relevant exposures underlying a firm's prudential and financial risks. • **PRA's secondary objective:** The incremental costs of reporting proposals would increase according to the size of the firm and the complexity of Basel methodologies used, and the PRA therefore considers that these proposals are consistent with its secondary objective to facilitate effective competition. ***Have regards:*** • **Efficient and economic use of resources**: The reporting proposals seek to make efficient and economic use of the PRA resources by leveraging off the templates contained in V3.0 of the EBA's reporting taxonomy. This approach delivers incremental updates to the existing taxonomy framework, and results in consistent data definitions and reporting formats. By following this approach rather than designing alternative templates, the PRA is able to deliver reporting changes on time and maximise implementation time. In addition, following this approach

Areas	Summary	PRA objectives and 'have regards'
		reduces the cost impact for UK cross border firms, many of whom will be implementing the EBA templates across other jurisdictions. • **'Proportionality':** The PRA considers that the proposals outlined in this CP are proportionate to the cost for firms in implementing and meeting the requirements on an ongoing basis, and would be proportionate to firms' size and complexity. In particular, the proposed use of the reporting templates in version 3.0 of the EBA reporting taxonomy seeks to minimise the reporting implementation burden on cross-border firms through implementing a single taxonomy that is consistent with existing reporting. The PRA has additionally considered how liquidity reporting can be more proportionate, and proposes to streamline existing requirements by removing the C66 liquidity maturity ladder template. • **'International standards':** The Basel Standards do not specify actual reporting requirements. The reporting proposals seek to update UK FINREP and UK COREP to enable the PRA to supervise the prudential methodologies developed by the BCBS. • **'Relative standing of the UK' and 'competitiveness':** The reporting proposals seek to update UK FINREP and UK COREP to enable the PRA to supervise the prudential methodologies developed by the BCBS. Since the reporting proposals largely mirror the EU reporting requirements they are unlikely to have a significant impact on the relative standing of the UK. • **'Finance for real economy', 'growth' and 'sustainable growth':** The proposed rules for reporting do not affect firms' capital requirements or balance sheet structure. The proposed use of the reporting templates in version 3.0 of the EBA reporting taxonomy seeks to minimise the implementation costs for firms by maintaining a single taxonomy. Hence the proposed rules are unlikely to have a significant impact on finance for the real economy.

11. Currency redenomination

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<tr><th>Areas</th><th>Summary</th><th>PRA objectives and ‘have regards’</th></tr>
<tr><td>Currency redenomination</td><td>The CRR contains a number of prudential thresholds and monetary values, which are currently set in EUR.

The PRA proposes to set thresholds and limits in PRA rules in GBP.</td><td>Overview

• The proposals to redenominate EUR prudential thresholds and monetary values into GBP would help to advance the primary objective by reducing the risk that the prudential requirements applicable to firms vary because of movements in exchange rates. The proposals were affected by consideration of the relevant international standards.

PRA objectives

• PRA’s primary objective: The proposals would advance the safety and soundness of firms by ensuring that prudential thresholds and monetary values in PRA rules do not fluctuate over time depending on the GBP/EUR exchange rate.

• PRA’s secondary objective: The PRA expects the effect of these proposals on effective competition would be relatively low, as they have the same effect on all firms.

Have regards:

• ‘International standards’: A number of the EUR references in the CRR have been set from Basel text. Redenominating these EUR thresholds into GBP would provide an equivalent standard to Basel as at the date of redenomination. The PRA retains the ability to update the GBP values in PRA rules, should fluctuations in the exchange rate cause it to deviate significantly from the original Basel standard. There is also one threshold in relation to G-SIB disclosure requirements, where the PRA is proposing to implement the threshold set from the Basel text. Therefore, the PRA’s proposals are in line with international standards. Given these proposals are consistent with international standards there is no material impact on the ‘relative standing of the UK’ or ‘competitiveness’:

• ‘Finance for the real economy’, ‘growth’ and ‘sustainable growth’: The proposals are not expected to have a material impact on firms' regulatory requirements, capital resources or balance sheet structure. Hence the proposed rules are unlikely to have a significant impact on finance for the real economy.</td></tr>
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12. The temporary transitional power

Areas	Summary	PRA objectives and 'have regards'
Temporary Transitional Power (TTP)	The temporary transitional power (TTP) enables the UK's financial services regulators to delay the application of firms' regulatory obligations where they have changed as a result of an onshoring change made under the EU (Withdrawal) Act 2018. In order to preserve the application of the TTP for CRR restatement provisions, the PRA proposes to include a mirror provision in the draft CRR 2 (Revocations and Other Amendments) Instrument 2021, amending the Interpretation Part of	***Overview:*** • The PRA considers that the proposed change advances its primary objective by enabling firms to benefit from another three months of the TTP for related PRA rules, which would smooth the impact of the UK's withdrawal from the EU on firms, and thereby benefits safety and soundness. The proposals were affected by proportionality; affording firms time to adjust to changes resulting from onshoring, reducing the burden on them. ***PRA objectives*** • **PRA's primary objective:** The TTP cannot be used in areas where it would adversely affect the advancement of the regulators' statutory objectives, and the PRA has identified a number of exceptions, expressly provided for in the PRA's transitional direction, where the TTP will not be used. These exceptions would continue to apply to the mirror provision, protecting the PRA's primary objective. In addition, the proposal to carve-out changes to LCR rules from the application of the mirror provision is to reduce inconsistencies that may arise with the PRA's NSFR rules, where the TTP cannot apply. The proposals are expected to continue to advance the safety and soundness of firms. • **PRA's secondary objective:** The TTP is designed to help firms adjust to changes in their regulatory obligations resulting from onshoring. The proposed approach applies equally for all firms that currently benefit from the TTP. For that reason, the PRA expects the effect on competition would be relatively low ***Have regards:*** • **'Proportionality':** The TTP gives firms time to adjust to changes resulting from onshoring, reducing the burden on firms. The mirror provision aims to preserve the effect of the TTP for CRR restatement provisions. The PRA is therefore acting proportionately in trying to smooth the impact of the UK's withdrawal from the EU on firms. • '**International standards'**: There are no international standards on transitional powers, and the proposals are therefore not relevant to international standards. • '**Relative standing of the UK**' and '**competitiveness**': The TTP would give firms additional time to adjust to

Areas	Summary	PRA objectives and 'have regards'
	the PRA Rulebook.	changes to their regulatory obligations resulting from onshoring. The mirror provision preserves the application of the TTP on certain rules, which are CRR restatement provisions. The proposals therefore mean that firms can continue to benefit from the TTP for an additional 3 months. • **'Finance for the real economy', 'growth' and 'sustainable growth'**: The proposals provide more time for firms to adjust. The proposals are therefore likely to have, if anything, a very small positive impact on finance for the real economy.