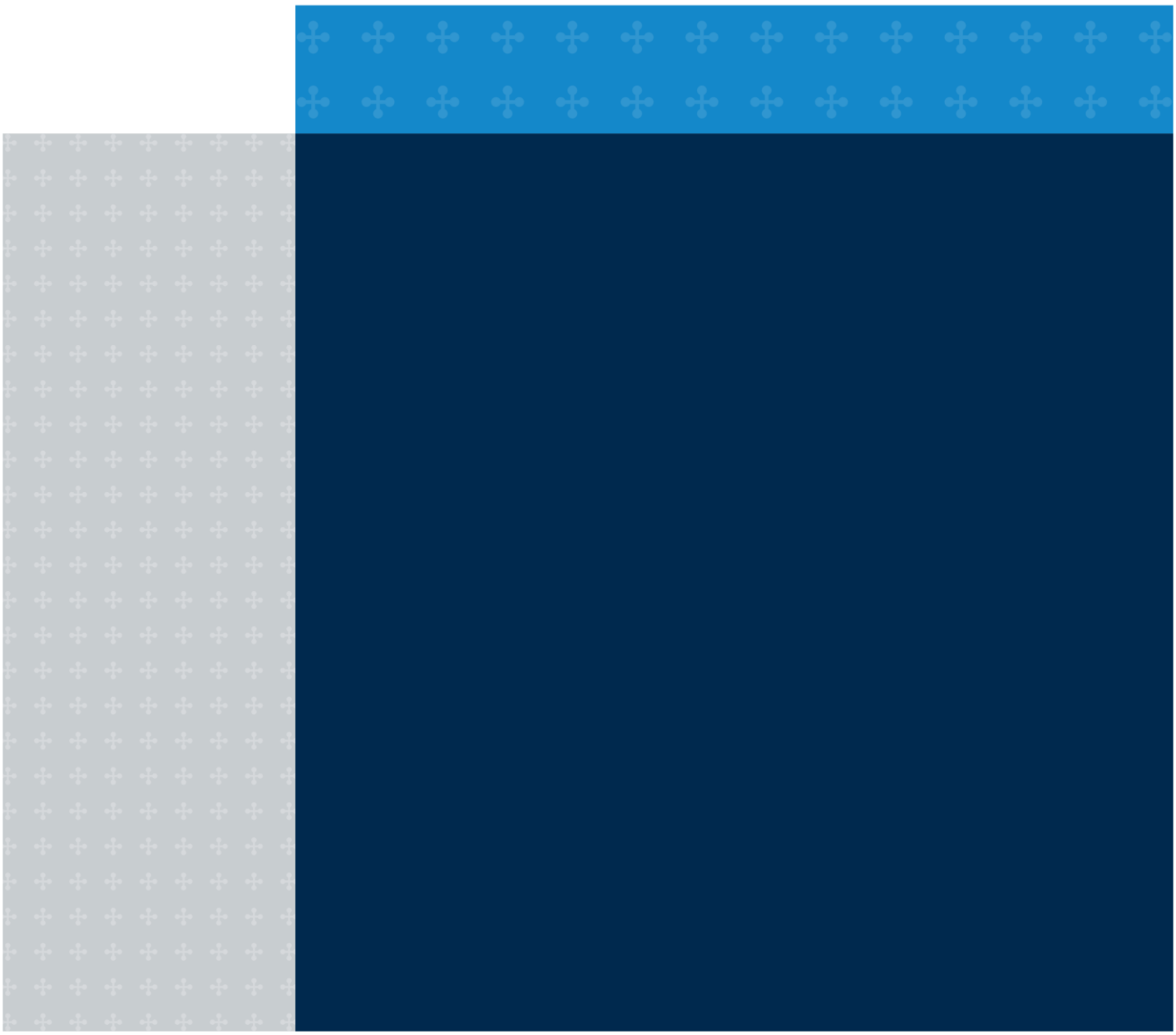
BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Publication

Policy Statement | PS26/20

Capital Requirements Directive V (CRD V)

December 2020



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December 2020

Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

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1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 12/20 'Capital Requirements Directive V (CRD V)'[1], and CP17/20 'Capital Requirements Directive V (CRD V): Further implementation'.[2] It also contains near-final Rules instruments, Statements of Policy (SoP), Supervisory Statements (SS), model requirements, and templates.

1.2 The appendices to the PS provide links to the near-final policy material, as set out in the table below.

Near-final Rules instruments	Appendix 1	GLOSSARY (CAPITAL REQUIREMENTS DIRECTIVE V) INSTRUMENT 2020
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Updates to SS31/15	Appendix 17	SS31/15 'The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)';
	Appendix 18	Post-transition period (TP) update: SS31/15 'The Internal

1 July 2020: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/capital-requirements-directive-v.
2 September 2020: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/capital-requirements-directive-v-further-implementation.

		Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)'
Update to SS2/17	Appendix 19	SS2/17 'Remuneration'
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Updates to SS15/13	Appendix 21	SS15/13 'Groups'
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Update to SS34/15	Appendix 23	SS34/15 'Guidelines for completing regulatory reports'
Update to SS4/16	Appendix 24	SS4/16 'Internal governance of third country branches'
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1.3 This PS is relevant to UK banks, building societies, and PRA-designated investment firms (firms), as well as UK financial holding companies (FHCs) and UK mixed financial holding companies (MFHCs) of certain PRA-authorised firms.

1.4 Part 1 of this PS covers the feedback to CP12/20, and part 2 covers the feedback to CP17/20.

Implementation and next steps

1.5 The policy material mentioned above is published as near-final. The PRA does not intend to change policy or make significant alterations to the text of the instruments before the publication of the final policy material. The policy material has been approved for publication as near-final versions by the relevant PRA governance committees, but the instruments have not been formally made at this stage. The instruments are being published now to maximise the time that firms have to review them before the final rules apply. The PRA is not able to publish final instruments at the time of publishing this PS, because the power for the PRA to make rules imposing consolidated or sub-consolidated requirements on holding companies cannot be exercised by the PRA before Monday 28 December 2020.[4]

3 This SoP was previously titled 'The PRA's approach to the implementation of the systemic risk buffer'.
4 Section 192Z FSMA, inserted by Regulation 2 of The Financial Holding Companies (Approval etc.) and Capital Requirements (Capital Buffers and Macro-prudential Measures) (Amendment) (EU Exit) Regulations 2020.

1.6 The final Rule instruments will be published in a subsequent PS in time for the implementation deadline of Monday 28 December 2020, once the powers referred to above have come into effect.

1.7 The policy set out in this PS has been designed in the context of the UK's withdrawal from the European Union and the current transition period (TP), during which time the UK remains subject to European law. The PRA also assessed whether any changes would be required owing to changes in the UK regulatory framework at the end of the TP when EU law no longer applies in the UK. The near-final post-TP rules and supervisory statements reflect that consideration.

1.8 The PRA has assessed that certain policies would need to be amended under the EU (Withdrawal) Act 2018 (EUWA). Please see CP13/20 'UK withdrawal from the EU: Changes before the end of the transition period'.[5] These are changes that do not affect the substance of the policy, but are to make the legislation operable in a UK-only context.

1.9 The near-final rules attached to this PS do not contain the relevant amendments under EUWA consulted on in CP12/20 and CP17/20. The relevant changes under EUWA will be made separately before the end of the TP.

1.10 With the exception of the post-TP updates to SS2/17, SS15/13, SS6/14, SS15/20 and SS31/15, the near final SSs and SoPs attached to this PS will apply during the TP and should be read in conjunction with SS1/19 'Non-binding PRA materials: The PRA's approach after the UK's withdrawal from the EU',[6] which explains how to interpret these statements after the end of the TP.

1.11 At the end of the TP, there will be a further set of amendments to SS6/14 and SS15/13. The amendments to SS20/15 will also apply from the end of the TP and a further set of amendments to SS31/15 will apply from Friday 31 December 2021. The amendments to SS2/17 will apply from Friday 1 January 2021. These amendments reflect the fact that EU law will not be applicable at that point. The references in these amendments to SS2/17, SS6/14, SS31/15, SS15/13, and SS20/15 to Regulations and Binding Technical Standards are to the onshored versions, which are the versions that will apply under UK law after the end of the transition period and which will include the relevant amendments under EUWA.[7]

1.12 After the end of the transition period, EU Guidelines (GLs) referred to in this PS and policy material should be read in conjunction with the SoP 'Interpretation of EU Guidelines: Bank of England and PRA approach after the UK's withdrawal from the EU'.[8] This sets out that the Bank of England and PRA expect firms and financial market infrastructures to continue to make every effort to comply with EU Recommendations and GLs, applicable before the end of the transition period and with which the UK has notified its intent to comply, to the extent that they remain relevant when the UK leaves the EU.[9]

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5 September 2020: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/uk-withdrawal-from-the-eu-changes-before-the-end-of-the-transition-period.

6 February 2019: https://www.bankofengland.co.uk/prudential-regulation/publication/2019/non-binding-pra-materials-the-pras-approach-after-the-uks-withdrawal-from-the-eu-ss.

7 February 2019: https://www.bankofengland.co.uk/prudential-regulation/publication/2019/pra-approach-to-interpreting-reporting-and-disclosure-regs-and-reg-trans-forms-ss.

8 April 2019: https://www.bankofengland.co.uk/paper/2019/interpretation-of-eu-guidelines-and-recommendations-boe-and-pra-approach-sop.

9 February 2019: https://www.bankofengland.co.uk/paper/2019/interpretation-of-eu-guidelines-and-recommendations-boe-and-pra-approach-sop.

Part 1: Feedback to responses: CP12/20

Background

1.13 In CP12/20, the PRA proposed new CRD V requirements, covering Pillar 2, remuneration, intermediate parent undertakings (IPUs), governance, and third-country branch reporting. Specifically, it proposed to:

- implement CRD V requirements covering Pillar 2, including to:
  - clarify how the PRA's supervisory review and evaluation process (SREP) process takes account of: (i) proportionality; and (ii) money laundering or terrorist financing (MLTF);
  - amend the setting of the PRA buffer for subsidiaries of UK consolidation groups; and
  - remove duplicative reporting;
- implement changes to remuneration requirements, including:
  - the basis on which remuneration requirements would be disapplied to firms and individuals on proportionality grounds; and
  - changes to deferral periods, eligible instruments, and currency thresholds;
- implement an IPU requirement between Tuesday 29 December 2020 and the end of the TP for certain non-EEA groups, and remove the requirement at the end of the TP;[10]
- introduce new governance requirements to address:
  - operational risk from outsourcing;
  - the monitoring of loans to board members;
  - verification of fitness and propriety where supervisors have reasonable grounds to suspect either MLTF has been committed or there is an increased risk of MLTF; and
  - independence of mind; and
- implement revised reporting requirements for third-country branches.

Summary of responses

1.14 The PRA received 12 responses to CP12/20. Respondents generally welcomed the PRA's proposals. However, respondents also sought additional clarification in certain areas, raised concerns that some elements could be difficult to operationalise, and opposed certain proposals. Most responses focused in particular on the PRA's proposals on remuneration.

1.15 Two respondents provided general comments that were outside the scope of CP12/20. These comments related to: the flexibility of UK macroprudential tools; inclusion of environmental, social,

10 CRD V requires an IPU requirement apply during the transition period to non-EEA groups with total EU assets that were above €40 billion on Tuesday 29 December 2020, but were less than €40 billion on Thursday 27 June 2019.

and governance risks in the SREP; and the UK transposition of CRD V. While outside the scope of this CP, the PRA will consider these comments further as part of future policy development.

1.16 Details of the responses, and the PRA's feedback and final decisions, are set out in the following sections.

Changes to draft policy

1.17 Where the final rules differ from the drafts in the CP in a way that the PRA considers is significant, the Financial Services and Markets Act 2000 (FSMA)[11] requires the PRA to publish:

(a) details of the difference together with a cost benefit analysis; and

(b) a statement setting out the PRA's opinion on whether or not the impact of the final rule on mutuals is significantly different to the impact that the draft rule would have had on mutuals, or to the impact that the final rule will have on other PRA-authorised firms.

1.18 After considering responses to CP12/20, and taking into account minor corrections to the proposed draft policy, the PRA has amended the following aspects of its draft policy:

- SS31/15 has been amended to include a clarification regarding group risk add-ons, as set out in the Pillar 2 feedback section below;

- the proposed rules in the Remuneration Part of the Rulebook and expectations set out in SS2/17 'Remuneration' have been amended. These changes relate to the application of deferral and clawback to different categories of material risk takers (MRTs); the treatment of part-year MRTs; the approach to converting other currencies into sterling for the purposes of applying the UK remuneration regime; the definition of branch assets; and firm-wide application of risk adjustments. Respondents also highlighted a small number of errors that have been corrected and some minor drafting changes have also been made to improve clarity in the near-final rules and SS2/17. Details are set out in the Remuneration section below;

- SS34/15 has been amended to clarify how firms can comply with the recovery plan reporting requirement when a branch recovery plan is not available. Details are set out in the section covering third-country branch reporting below; and

- certain formatting issues and typographical errors have been amended, references updated, definitions clarified, and other consequential administrative corrections within the policy material contained in this PS.

1.19 The PRA considers these changes not to be significant and not to alter the cost benefit analysis presented in the CP. The PRA also does not consider that the impact of the changes will have a significantly different impact on mutuals.

Feedback on CP12/20

1.20 Before making any proposed rules, the PRA is required by FSMA to have regard to any representations made to it, and to publish an account, in general terms, of those representations and its feedback to them.[12]

11 Section 138J(5) and 138K(4).

1.21 The sections that follow provide the PRA's detailed response to the comments received on the different proposals, and are structured similarly to the chapters of the CP. The responses have been grouped as follows:

- Pillar 2;
- remuneration;
- IPUs;
- governance; and
- third-country branch reporting.

12 Sections 138J(3) and 138J(4) of FSMA.

2 Pillar 2

2.1 CP12/20 covered a number of areas of Pillar 2 that are affected by the implementation of CRD V. In particular, the PRA proposed to:

- clarify how it considers proportionality and MLTF in the SREP, as required by CRD V;
- apply the PRA buffer to subsidiaries of UK consolidation groups or ring-fenced bank (RFB) sub-groups; and
- remove duplicative reporting.

2.2 The PRA proposed not to change its policy relating to tailored methodologies, quality of capital for Pillar 2A, the risks covered in Pillar 2A, and Pillar 2 for leverage. Proposals under each of the Pillar 2 areas are summarised below, along with the feedback received on that topic.

Supervisory review and evaluation process (SREP)

Proportionality

2.3 The PRA proposed to make amendments to the SREP chapter of SS31/15 to highlight the ways that proportionality is applied.

2.4 One respondent supported the inclusion of additional criteria in the SREP, while another commented that SREP should be simplified and streamlined further for small, non-complex building societies.

2.5 After considering the responses, the PRA has decided not to change the draft policy. The PRA considers its approach to the SREP to be proportionate, given its application of the SREP and relevant elements of the European Banking Authority (EBA) SREP Guidelines on proportionality, and fewer reporting requirements for smaller firms. The PRA also has a number of policies that are designed to reduce the burden of the SREP process on non-systemic firms. For example:

- the PRA refined its Pillar 2A approach for firms using the standardised approach (SA) for credit risk to assess whether the capital held by them exceeds the amount necessary to ensure sound management and coverage of their risks;[13] and
- in response to the Financial Policy Committee raising the UK Countercyclical Capital Buffer (CCyB) rate that it expects to set in a standard risk environment, from in the region of 1% to in the region of 2%, small firms[14] are eligible to receive a Pillar 2A reduction equal to the increase in the firm-specific CCyB pass-through rate, whereas large firms only receive 50% of this reduction.[15]

2.6 The PRA considers that the combination of the incorporation of proportionality in the SREP, reduced reporting requirements, and the additional measures applied, ensures that the PRA approach is sufficiently proportionate. The PRA intends nevertheless to keep the policy under review to ensure it remains proportionate.

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13 Paragraphs 5.12A to 5.12C of SS31/15.
14 Defined here as firms for which the minimum requirement for own funds and eligible liabilities (MREL) is equal to their total capital requirement (TCR).
15 Paragraph 1.9 of PS15/20 'Pillar 2A: Reconciling capital requirements and macroprudential buffers', July 2020: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/pillar-2a-reconciling-capital-requirements-and-macroprudential-buffers.

Money laundering or terrorist financing (MLTF)

2.7 The PRA proposed to amend SS31/15 to clarify how CRD V's MLTF requirements will be addressed in the SREP. No response was received in relation to proposals on MLTF. The PRA will publish the policy as proposed.

Tailored SREP methodologies

2.8 The PRA proposed not to introduce new tailored SREP methodologies.

2.9 One respondent commented that building societies could benefit from the application of a tailored SREP methodology, given the degree of similarity in risk profiles and business models.[16]

2.10 After considering the response, the PRA has decided to maintain its current approach. The PRA considers its current SREP policies to be proportionate. As a result, the PRA does not consider it necessary to develop specific tailored methodologies. The PRA intends nevertheless to keep the policy under review, including through its planned work on a more proportionate yet equally strong in terms of resilience regime for small banks and building societies.

Pillar 2A

Risks covered

2.11 CRD V removes a supervisor's ability to use Pillar 2A for macroprudential purposes. The PRA has not used Pillar 2A in that way and proposed to continue its current approach.

2.12 One respondent was supportive of the PRA's proposal to continue to not use Pillar 2A to address macroprudential risks.

2.13 After considering the response, the PRA has decided not to change its approach.

Quality of capital for Pillar 2A

2.14 The PRA did not consider amendments to its Pillar 2A approach to be required to implement the CRD V provisions on the quality of capital for Pillar 2R. Respondents did not comment on the proposals regarding quality of capital used to meet Pillar 2A. However, the PRA subsequently consulted on an amendment to require Pillar 2A to be met with 56.25% Common Equity Tier 1 capital, which is necessary to align with the requirements of CRD V, in CP17/20. The responses to that proposal are discussed in Chapter 12 of this PS.

Pillar 2B – the PRA buffer

Applying the PRA buffer to subsidiaries of UK consolidation groups or ring-fenced body (RFB) sub-groups

2.15 The PRA proposed to implement the PRA buffer on an individual basis for firms that are part of a UK consolidation group, or part of an RFB sub-group (subsidiaries), through a three-stage process.

2.16 First, the PRA determines whether, on a UK consolidated basis, the PRA buffer plus combined buffers and total capital requirement (TCR) is the same as the internal capital considered to be sufficient by the firm. The PRA then determines if, on an individual basis, the subsidiary is not exposed to materially different risks to those of the group in a medium-term stress. In this case, the PRA proposed to set the PRA buffer for a subsidiary such that, when aggregated with the TCR and the combined buffer, the total capital it is expected to hold is the same as the internal capital the firm calculates in its internal capital assessment to be sufficient to address their risks. The PRA proposed to also take this approach where these conditions are not met, in cases where:

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16 A tailored methodology refers to applying a specific SREP methodology for institutions with a similar risk profile.

(i) a subsidiary is not material in the context of its UK consolidation group or RFB sub-group (ie it comprises less than 5% of the UK consolidation group risk-weighted assets (RWAs), leverage exposures, and operating income);

(ii) the PRA considers financial resources to be transferable between the group entities; and

(iii) the PRA expects parental support would be likely to be provided to the subsidiary, if required.

2.17 Second, where a firm has a very similar risk profile to its UK consolidation group or RFB sub-group, the PRA proposed to set the PRA buffer on an individual basis by reference to the PRA buffer calculated for that group or sub-group. In the CP, the PRA provided an example in which a subsidiary that comprises more than 80% of the UK consolidation group's RWAs, if the rest of the group undertakes similar activities as the subsidiary, would be considered to have a very similar risk profile to the group.

2.18 Third, the PRA proposed to set the PRA buffer according to a comprehensive individual assessment if none of the approaches above are applicable, or if the PRA identifies any factor indicating a full assessment to be needed.

2.19 One respondent supported the PRA's proposed approach to setting the PRA buffer for subsidiaries of UK consolidation groups and RFB sub-groups. One respondent requested clarity on how the exact threshold would be set for an entity to meet the criteria of having 'a very similar risk profile to that of its group'. Another respondent stated that it would be helpful if the PRA could clarify that the PRA buffer will only be applied to UK entities within the group that exceed 5% of a UK consolidation group, as opposed to all subsidiaries within a UK consolidation group.

2.20 After considering the responses, the PRA has decided not to change the draft policy. The PRA did not include an exact mechanical threshold to determine whether an entity has a very similar risk profile as its group. The CP provided examples of similarity, but the relevant factors could vary between firms, and will be determined through supervisory judgment. The PRA also intends to discuss with individual firms the similarity of subsidiaries' risk profiles to the group, as part of the supervisory dialogue in the SREP cycle. The PRA does not consider that the PRA buffer should be applied only to UK entities within the group that exceed 5% of a UK consolidation group. During the transition period, CRD V requires that a PRA buffer be considered for all firms. Furthermore, the PRA considers that the approach will result in prudent and proportionate outcomes. Therefore, the PRA does not consider the introduction of a 5% threshold to be necessary or appropriate after the end of the TP.

2.21 In order to improve the clarity of SS31/15, the PRA has decided to amend paragraph 5.25D to make clear the three conditions under which it will apply the proportionate approach to calibrating the PRA buffer for subsidiaries.

2.22 One respondent asked the PRA to clarify that the group risk add-on component of the PRA buffer at group level should be excluded when setting the PRA buffer for a subsidiary with reference to the group PRA buffer. They expressed concern that the PRA's proposed approach would inappropriately extend the impact of the systemic risk buffer (SRB) to subsidiaries within a consolidated group, and suggested that the PRA buffer applied to subsidiaries should exclude the element set due to the UK consolidation group's group risk.

2.23 After considering the response, the PRA has decided to amend SS31/15 to clarify that the group risk add-on will be excluded when setting the PRA buffer for a subsidiary with reference to the

group PRA buffer. The PRA agrees with the respondent that it would not be appropriate to extend the impact of the SRB in this way.

Pillar 2 for leverage

2.24 The PRA proposed not to implement a requirement for Pillar 2R for leverage, as the CRD V requirement applies after the end of the transition period.[17]

2.25 Two respondents supported the PRA's proposal not to apply Pillar 2R for leverage at this time.

2.26 After considering the responses, the PRA has decided to continue with that approach.

Duplicative reporting

2.27 The PRA consulted on two reporting items that it considered could qualify as duplicative reporting. The PRA proposed to:

- delete a table relating to geographical concentration risk from FSA079 'Concentration risk additional data requirements'; and

- offer a modification by consent to waive one of two PRA107 'Statement of profit or loss – forecast data' submissions for firms that also report funding plans on the same reporting reference date.

2.28 The PRA received comments from two respondents that supported these proposals. One respondent suggested three additional examples of reporting which they considered to be duplicative, citing overlap between the:

- treasury asset return (TAR) and Common Reporting Framework (COREP) additional liquidity monitoring metrics (ALMM) templates;

- mortgage lending and administration returns (MLAR) and the loan book data (LBD) template; and

- PRA110 cash flow mismatch template (PRA110) and the COREP C66 maturity ladder template (C66).

2.29 Both respondents also provided additional comments in relation to reporting outside of the scope of the proposals in the CP.

2.30 After considering the responses, the PRA has decided not to change its draft policy. The PRA considers that the CRD V definition of duplicative reporting is not met in the case of the TAR / ALMM templates, or the MLAR / LBD templates. While the returns report on similar topics, the underlying data points collected in these examples are not the same (nor substantially the same) in terms of granularity and timing, and the PRA would not be able to produce information of the same quality and reliability as existing reporting.

2.31 The PRA recognises that the PRA110 and C66 reporting templates both cover liquidity, but considers there to be key differences in the frequency and submission of these reports. These differences preclude the PRA from reproducing the PRA110 return using the information reported in

[17] This applies the approach to transposition of measures that apply after the end of the transition period on which HM Treasury consulted in its Transposition of the Bank Recovery and Resolution Directive II.

C66. However, the PRA will continue to evaluate how these reports can best support the supervision of liquidity as part of the implementation of further reforms by the Basel Committee on Banking Supervision.

2.32 One respondent noted the potential for possible future duplication as a result of the implementation of new requirements under Capital Requirements Regulation (CRR) II. The potential for future duplication in reporting requirements is outside the scope of this CP. However, the PRA recognises its obligation to eliminate duplicative reporting and will consider that as part of any future reporting requirements.

2.33 The other respondent stated that the PRA should be more ambitious in addressing duplicative reporting, while acknowledging the short timeframe to identify and remove all duplication. That respondent suggested that the PRA consider the possible duplication of prudential reporting with the information collected by all other areas of the Bank of England.

2.34 The PRA recognises the importance of collecting information from firms in an efficient and proportionate manner. The PRA will continue seeking to enhance the proportionality of the reporting framework, and will consider duplicate reporting obligations in new reporting requests via its internal data governance processes for both new rules-based reporting requirements, as well as ad-hoc requests. The PRA also anticipates that firms will have the opportunity to consider potential issues of duplicative reporting in PRA proposals of new or amended reporting requirements through the statutory public consultation process.

2.35 In addition to the updated FSA079 reporting template and accompanying instructions, the PRA has amended SS32/15 to update links to this template. These were not included in the original CP due to the administrative nature of these amendments, and no other changes have been made.

3 Remuneration

3.1 Eleven of the responses received to CP12/20 related to the PRA proposals regarding CRD V remuneration provisions. Most responses were supportive of the PRA's overall approach, but some asked for clarifications in some areas, and others opposed elements of the proposals. This section summarises the remuneration proposals in CP12/20, the detailed comments received, and the PRA's response. The PRA received no responses on its proposals relating to payment in instruments.

3.2 In the CP, the PRA noted HM Treasury's consultation on its proposed approach to transposing CRD V requirements on gender neutral remuneration, and noted that the PRA will determine whether any changes are needed to the PRA approach in light of HM Treasury's final approach to transposition. HM Treasury published its response to its consultation in October 2020. In light of HM Treasury's approach, the PRA considers changes to its approach not to be required.[18]

3.3 In the near-final rules amending the Remuneration Part the PRA Rulebook and SS2/17, the PRA has used, for the purposes of defining the Material Risk Takers Regulation (the MRT RTS), the revised draft of the MRT RTS published by the EBA on Thursday 18 June 2020. This is because the European Commission has not adopted a final version in time for the near-final rules. If the European Commission does adopt the MRT RTS in substantially the same form as the EBA's revised draft of Thursday 18 June 2020 in time for the making of final rules by the PRA, then the PRA will consider substituting a reference to that directly applicable MRT RTS in the relevant definition. Otherwise, the PRA intends to make the final rules referring to the EBA's revised draft as in the near-final rules accompanying this PS. The same approach has been taken for defining the MRT RTS in SS2/17.

3.4 If the existing MRT RTS 604/2014 remains in force and is onshored into UK law, the PRA is aware that there will be a discrepancy between MRT RTS 604/2014, which is directly applicable in UK law, and the revised draft RTS which has been used as the basis for the PRA's changes to the Remuneration Part of the Rulebook to transpose CRD V, as set out in the preceding paragraph. The PRA intends to update the onshored MRT RTS 604/2014 in order to ensure it aligns with rules and expectations. The PRA envisages consulting on these proposed amendments at the earliest possible stage.

Scope of application

3.5 The PRA proposed to maintain its current approach of applying remuneration rules at consolidated and sub-consolidated levels to all entities within a group, as defined in section 421 of FSMA.

3.6 Two respondents noted practical challenges in applying remuneration rules on a consolidated basis in accordance with the proposed definition of 'group', when groups hold a participating interest in a group entity but do not have control over that entity.

3.7 The PRA recognises the challenge, but after considering the responses, has decided not to change the draft policy, as departing from use of the FSMA definition would increase the risk that individuals who materially impact the risk of a CRR group would not be subject to the PRA's remuneration rules and therefore not subject to appropriate incentives and constraints. The PRA notes that Remuneration 5.1 gives scope to apply the rules proportionately in appropriate cases.

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18 'Updating the UK's Prudential Regime before the end of the Transition Period': https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/926735/CRDV_Consultation_Response.pdf.

3.8 Five respondents commented on the interaction of the PRA's proposed rules on a consolidated level and the forthcoming UK Investment Firm Prudential Regime (IFPR),[19] [20] in particular noting their views on the treatment of non-CRR firms within CRR groups. Respondents raised competition concerns, which they believed would arise from these entities being subject to different remuneration regimes due to their group structures. The PRA also received a communication after the consultation period had closed from industry bodies emphasising competition impacts that may arise between UK and EU investment firms.

3.9 The PRA has considered these responses, including the late communication, and recognises that there may be differences in the remuneration frameworks that certain undertakings in UK CRR firms' groups would be able to offer compared to domestic and international competitors. Notwithstanding the potential impact on competition, the PRA has decided not to change its draft policy. CRD V reduces the scope of proportionate disapplication of remuneration rules, and so broadens the divergence with the remuneration rules applicable to investment firms that are not subject to CRD requirements on an individual basis, but are subject to them on a consolidated basis. The PRA considers that the application of remuneration rules on a consolidated basis within a group (as defined in FSMA) is justified by the prudential need to reduce the risk of regulatory arbitrage, and ensure that individuals who have the potential to have a material impact on the safety and soundness of PRA firms are identified and treated in a consistent manner. One respondent asked about the PRA's potential use of its modification powers under FSMA on the consolidated application of requirements and certain related group level governance and remuneration requirements. The PRA considers the overall policy to be appropriate, but notes that the PRA's waiver/modification power is available, and can be exercised, in individual cases, where the PRA considers that the application of the unmodified rule would impose an undue burden on a firm, or would not achieve the purpose for which the rule was intended.

3.10 One respondent expressed support for the PRA's proposal to use the discretion under CRD V to reduce the total assets threshold for firms, the effect of which is to amend the application of proportionality for firms where there is more than one firm subject to the Remuneration Part on an individual basis in a group.[21]

Identification of MRTs

3.11 The PRA proposed to update the Remuneration Part, to implement CRD V's revised approach to identifying MRTs by specifying certain categories of staff whose professional activities have a material impact on a firm's risk profile, including for MRTs in branches of third-country firms.

3.12 The PRA received one response on this issue. The respondent noted that the paragraph on notifications for the exclusion of individuals earning below the €750,000 threshold was removed from SS2/17, and requested clarity on whether such notifications continue to be required.

3.13 The PRA consulted on amending SS2/17 on the basis of the revised draft regulatory technical standards on MRT identification published by the EBA on Thursday 18 June 2020 (the revised draft RTS). Subject to paragraph 4.3 above, the PRA has decided to make the proposed changes to remuneration rules on the basis of the revised draft RTS. Having considered the response, the PRA has decided not to change its draft policy, as these documents clarify that notifications for the exclusion of individuals earning less than €750,000 are no longer required. Staff members with total

19 https://www.fca.org.uk/publication/discussion/dp20-2.pdf.
20 https://www.fca.org.uk/news/statements/joint-statement-implementation-prudential-reforms-financial-services-bill.
21 Paragraph 10 of SS2/17, April 2017. Under this approach, all the firms subject to the Remuneration Part on an individual basis within a group are subject to the same remuneration rules (on an individual basis) as those applicable to the firm with the highest proportionality level among them.

remuneration equal to or greater than €750,000 need to submit a request to the PRA for prior approval of exclusion in line with Articles 7.2 and 7.3 of the revised draft RTS.

Minimum deferral period

3.14 The PRA proposed to apply the CRD V minimum deferral and clawback requirements rather than the stricter PRA standards that applied to the higher paid MRTs,[22] for those whose variable remuneration is below £500,000 and does not exceed 33% of their total remuneration.

3.15 The PRA received six responses on this issue. Stakeholders acknowledged the PRA's use of the CRD V discretion to adopt a proportionate approach, and that the proposals to apply requirements in excess of CRD V were only applicable to higher paid MRTs. However, they stated that having multiple categories of MRTs would create operational complexity and additional costs for firms, in particular as individuals move between MRT categories. One respondent noted this may particularly impact the larger firms, where this movement is more likely.

3.16 The PRA has considered the responses received, and notes that for firms with a large number of MRTs who are differently remunerated, the additional MRT category could create operational complexity, while offering a more proportionate approach for these individuals. For others – in particular smaller firms and mutuals not previously subject to these rules – the proposals may be less operationally complex and would help to provide a more proportionate approach, which reduces implementation and compliance costs. After reviewing the responses, the PRA therefore has decided not to change its draft policy.[23] However, the PRA notes that firms may apply a stricter approach than PRA rules require in order to establish greater uniformity of treatment among their staff and reduce operational complexity. A firm that considered the additional complexity of the PRA's approach to be sufficiently costly would be able to adopt the higher standard for deferral and clawback. The PRA has amended Chapter 4 of SS2/17 accordingly to make that explicit.

3.17 One respondent questioned the proposal to apply the requirement of a five-year deferral period for individuals that meet the criteria in Remuneration 3.1(1)(c), which identifies MRTs on the basis of the size of their total remuneration, as under Remuneration 15.17 these MRTs are subject to the minimum deferral period of three years.

3.18 Having considered the responses received, the PRA concurs that individuals meeting the criteria in Remuneration 3.1(1)(c) should be subject to the minimum length of deferral, which following transposition of CRD V amendments is four years. The PRA has changed Remuneration 15.17(2)(a)(i) to reflect this, by eliminating the reference to Remuneration 3.1(1)(c).

3.19 Three respondents enquired about the proportionate application of deferral rules, particularly in relation to the application of deferral to individuals who are not higher paid MRTs but who perform a senior management function (SMF) or are MRTs identified according to Articles 6(1), 6(2), or 6(5) of the RTS. Except for those employees exempted under Remuneration 15.A1, firms are required by Remuneration 15.17(1) to apply a minimum deferral of four or five years in respect of these MRTs, depending on whether they are a member of the senior management or management body of a significant firm. The PRA has provided further clarifications in Chapters 3 and 4 of SS2/17 to address these points.

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22 Remuneration 15.17 and 15.20.

23 Other than the amendment to Rule 15.17(2)(a)(i) described in paragraph 3.18, further minor drafting amendments have been made in Rule 15.17, which the PRA considers to improve the clarity of these rules but not their effect. In particular, the PRA has decided to delete the reference to the PRA senior management function in Remuneration 15.17(1)(b) to address a drafting error. Remuneration 15.17(2)(a)(ii) also clarifies that these are references to the Material Risk Takers Regulation.

3.20 One respondent noted that the proposed mechanism of linking clawback to the length of deferral may have the unintended consequence of discouraging smaller firms from operating deferral beyond minimum requirements. They noted that this issue also applies to firms that have chosen to apply the deferral requirements to MRTs who are not higher paid MRTs.

3.21 Deferral, in conjunction with risk adjustments (malus and clawback), aims to ensure that remuneration outcomes reflect the current and future risks of the firm. This attempts to align remuneration with prudent risk taking and the long-term interests of the firm and other stakeholders. CRD V requires the application of clawback or malus to 100% of variable remuneration. The PRA acknowledges that this may lead to some disincentive to apply deferral beyond minimum requirements. However, further changes set out below to proposals on the mechanism for linking deferral and clawback will help to mitigate this effect. The PRA has also specified different minimum clawback periods for MRTs, depending on the size of their total remuneration and ratio of variable to total remuneration, to ensure rules are proportionate.

Relevant performance year

3.22 The PRA proposed that the changes to the PRA Rulebook and SS2/17 would take effect on Tuesday 29 December 2020, and would apply to remuneration awarded in respect of the first performance year on or starting after that date.

3.23 The PRA received two responses to this proposal. One respondent noted the tight timelines when shareholder approval is needed to apply remuneration policy changes. Another respondent sought for the rules to apply from the first performance year on or after Saturday 1 January 2022, to align with the start date of the IFPR. They also queried which rules apply between Tuesday 29 December and Thursday 31 December 2020, and sought clarity on the application of Binding Technical Standards (BTS) in the UK.

3.24 The PRA recognises that for most firms these rule changes are coming into effect towards the end of the current performance year. As set out in CP12/20, the new rules and expectations will apply to any remuneration awarded in relation to the first performance year starting on or after Tuesday 29 December 2020, and for remuneration awarded on or after that date in respect of earlier performance years, firms must comply with the rules as they applied immediately prior to the modifications.[24] The PRA does not consider that application from 2022 would be an adequate transposition of CRD V.

3.25 The PRA notes that the BTS which are directly applicable in the UK at the end of the TP may require amending under EUWA to ensure that they are operable in a UK context at the end of the TP.

3.26 On Thursday 18 June 2020, the EBA published an amended version of draft RTS covering the identification of MRTs (the revised draft RTS). The European Commission has not adopted the RTS in time for the PRA to make rules referring to those standards, and so the PRA has made the rules referencing the revised draft RTS. However, if those revised draft standards are adopted by the European Commission and are operative in EU law before the end of the TP, they will form part of the body of law that is onshored under EUWA.

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[24] Remuneration 2.6.

Application of certain remuneration requirements to all firms and individuals

3.27 The PRA proposed to amend its approach to apply the CRD V requirements covering the maximum ratio between variable and fixed remuneration, malus, clawback, and buyouts to all firms. The PRA received six responses to these proposals.

3.28 Two respondents recognised that the application of CRD V does not allow a degree of differentiation by proportionality level, which was previously welcomed by industry. Other responses focused on the proposals in relation to: (i) application of clawback; (ii) buy-out rules; and (iii) part-year MRTs.

Application of clawback

3.29 The PRA proposed a proportionate approach to clawback for MRTs whose total remuneration is no more than £500,000, and whose variable remuneration does not exceed 33% of total remuneration. This proposed that variable remuneration would be subject to a clawback period from the date on which the variable remuneration is awarded. The period would be the longer of the combined deferral and retention period applied by the firm, or one of the proportionate minimum clawback periods applicable to the relevant MRT categories.[25]

3.30 While respondents recognised that the aim of the proposed changes in relation to clawback is to allow for a more proportionate approach within the confines of CRD V transposition, they argued against the proposal, stating that the changes would introduce operational complexity. Three respondents suggested reverting back to the current approach of applying a seven-year clawback for all MRTs. One of these respondents suggested that if the PRA wanted to retain some element of proportionality it should apply only two levels: seven years of clawback for all MRTs for the remuneration subject to deferral, or a one-year clawback period.

3.31 The PRA recognises that some firms may be more concerned about the operational complexity of proposals than the scope of individuals they may affect. PRA rules set minimum standards that firms may choose to exceed in order to establish greater uniformity of treatment among their staff and reduce operational complexity, including by applying a longer clawback period to all MRTs. Having considered the responses, the PRA has decided to not to change its draft policy. Furthermore, the PRA has amended Remuneration 15.20(3A) so that minimum clawback periods for MRTs do not require extension of the clawback period if firms choose to exceed minimums for the combined deferral/retention periods.

3.32 Four respondents noted that a summary of the clawback and deferral requirements for different staff would be helpful. Having considered these responses, and to facilitate understanding of the different requirements, the PRA has summarised the minimum deferral and clawback requirements across MRT categories in Table G of SS2/17.

3.33 Three respondents pointed out that the proposed Remuneration 15.20A lengthens the clawback period for SMFs beyond the current requirements (eight years rather than seven), and sought clarity on the PRA's intention.

3.34 Having considered the responses, the PRA has decided to amend Remuneration 15.20A to maintain the minimum length of clawback period at seven years for higher paid MRTs who are SMFs (to be extended to 10 years in the event of an investigation), and remove requirements to extend the clawback period where a longer-than-minimum combined deferral/retention period is applied by the firm. This reflects the fact that the PRA already applied deferral periods stricter than required

25 Remuneration 15.20(3A).

by CRD V. The PRA considers that this approach to transposing CRD V clawback requirements is more proportionate than the approach on which it consulted.

Buy-out rules

3.35 As per CRD V, the PRA proposed the application of buy-out rules to all firms in scope of the remuneration provisions.

3.36 One respondent noted that applying certain rules for buy-outs could become challenging for smaller firms that were previously exempt from these requirements, and suggested the inclusion of a monetary threshold so that small buy-outs were excluded from the rules.

3.37 The PRA acknowledges this issue, and the potential impact on smaller firms. However, the introduction of thresholds would frustrate the application of buy-out rules to all firms. Accordingly, the PRA has decided not to change the draft policy. The PRA considers that for firms in scope of the remuneration regime, the rules are clear on the operational implementation of buy-outs, facilitating collaboration between firms and reducing the burden for all parties involved.

Part-year MRTs

3.38 The PRA proposed removing guidance in SS2/17 that certain requirements could be disapplied for individuals who have been in an MRT role for three months or less in a given performance year. In addition, the PRA proposed a pro-rata approach to individual variable remuneration when assessing individual proportionality thresholds for MRTs, based on the number of days in that performance year the individual has spent as an MRT. The proposal also applied this pro-rata approach to the €50,000 (£44,000) threshold set by the rule.

3.39 Two respondents asked for clarity on whether individuals in an MRT role for less than three months should, within that performance year, be identified as an MRT. The respondents' concerns related to the potential for individuals to be disincentivised from taking up MRT roles towards the end of the performance year, and a potential adverse effect on short-term secondees in MRT roles.

3.40 After considering the responses, the PRA has decided to clarify that for assessing whether part-year MRTs fall within the proportionality threshold for the purposes of the remuneration rules, it does not expect firms to apply the €50,000 (£44,000) proportionality threshold on a pro-rata basis. This will ensure a more proportionate approach to the application of the rules, and reduce any unintended consequences on labour mobility.

Proportionate application of remuneration requirements

3.41 The PRA consulted on the implementation of CRD V proposals that resulted in changes to the PRA's approach to proportionality, and received a total of seven responses.

Application at firm level

3.42 The PRA proposed to exercise a CRD V discretion to raise the firm proportionality threshold in order to align as much as possible with the PRA's current approach to proportionality guidance, which exempts firms with less than £15 billion total assets from applying certain remuneration rules where appropriate. The PRA proposed that firms with total assets equal to or less than €5 billion would not need to apply requirements that CRD V permits not to be applied to such firms and,

exercising the CRD V discretion, to exempt certain smaller firms with total assets less than €15 billion[26] from the same.

3.43 Two respondents expressed support for the PRA's existing approach to proportionality, noting that reducing the threshold to €5 billion would have the effect of imposing additional requirements and costs for some small firms. These, and one other respondent, welcomed the PRA's proposal to take advantage of the flexibility available under CRD V to increase the threshold to €15 billion for firms that meet certain criteria.

3.44 Two respondents sought clarity on the definition of small firms, what factors will be considered in that assessment, and by whom.

3.45 The definition of small firms is set out in Articles 94(3) and (4) of CRD, which the PRA proposed to transpose in the definition of 'small CRR firm' in Remuneration 1.3. This Rule sets out objective criteria for whether a firm should be considered to meet this definition. In the first instance, it will be for the firm to assess the conditions in a proportionate manner, although the PRA will supervise their application to ensure correct and proportionate application. The PRA may consider providing further clarification in light of its and firms' experience applying these rules, and of international practice if warranted.

3.46 However, the PRA can make the following observations on the definition of 'small CRR firm' in Remuneration 1.3. Condition 1 sets out the requirements that a firm must satisfy in terms of its average total assets and other criteria relating to the characteristics of that firm. Condition 2 sets out criteria under which the characteristics of the group to which a firm belongs mean that the firm cannot be considered to be a small firm. The PRA notes that where Condition 1(a) (total assets not exceeding €15 billion) is satisfied, a firm does not need to consider or satisfy the criteria set out in Condition 1(b). If, conversely, a firm does not meet Condition 1(a), then each of the criteria in Condition 1(b)(i) to (iv) must be satisfied. For the purposes of applying Condition 1(b)(i), the following should be taken into account (in a holistic assessment) as a minimum:

(a) the rules that can be disapplied under Remuneration 5.3;

(b) the nature, scope, and complexity of the firm's activities;

(c) the firm's internal organisation; and

(d) where applicable, the characteristics of the firm's group.

Application to branches

3.47 The PRA proposed to modify its approach to the proportionate application of remuneration requirements to branches of third-country firms operating in the UK, to maintain an equivalent treatment to that applied to PRA-authorised UK firms.

3.48 One respondent welcomed the PRA's proposal. One other respondent suggested PRA rules should not apply to the branches of European Economic Area (EEA) CRR firms, as they are subject to CRD V. They also requested clarity on whether firms should assess materiality for proportionality purposes at branch level or at the parent entity level, and suggested using the parent entity's balance sheet to avoid operational complexity.

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26 The €15 billion total assets threshold refers to the CRD V proportionality threshold that permits firms to not apply certain requirements if Condition 1b in Remuneration 1.3 applies.

3.49 After considering the responses, the PRA has decided not to change the draft policy. From the end of the TP, any third-country branch, including those of EEA CRR firms, will be required to apply the PRA remuneration rules. A different approach would discriminate against third-country branches from non-EEA countries, as branches of EEA CRR firms would not be required to apply the PRA's requirements which are stricter than CRD minima. However, immediately after the conclusion of the TP,[27] temporary transitional relief is being provided for former EEA passporting firms in respect of the Remuneration Part of the PRA Rulebook in relation to:

- certain obligations that go beyond the minimum requirements of CRD;
- exclusion of MRTs approved by the Competent Authority prior to the end of the transition period; and
- sterling-denominated proportionality thresholds.[28]

3.50 The PRA considers that it is unlikely to be beneficial to use the parent entity's balance sheet data to ascertain whether firms may benefit from the proportionality approach set out in Remuneration 5.3. In order to disapply certain remuneration rules, a branch must meet certain criteria that qualifies it as a small third-country CRR firm. These are based on the size of the business conducted at branch level, which by definition is likely to be smaller than the overall balance sheet of the entity branching into the UK. The PRA has made a minor drafting change to the definitions of 'small third-country CRR firm' and 'small trading book' in Remuneration 1.3 to clarify this.

Application to individuals

3.51 The PRA proposed to amend the individual proportionality thresholds under which, as specified by CRD V, firms may disapply remuneration requirements for payment in instruments, minimum deferral of variable remuneration, and discretionary pension benefits.[29]

3.52 Four respondents stated that the proposed variable remuneration thresholds may result in the restructuring of remuneration towards a greater proportion of fixed pay. Among these, it was noted that the new requirements will necessitate building societies introducing deferral schemes for a small number of staff on relatively modest variable remuneration. One of these respondents also noted the lower thresholds may adversely impact firms' abilities to hire or retain individuals in the relevant roles.

3.53 The new proportionality thresholds, set out in CRD V, will result in bringing more individuals within the scope of the remuneration rules, which will advance the PRA's objectives by ensuring a wider population of staff have their remuneration aligned with the long-term performance of the firm. However, the PRA acknowledges the impact of the lower proportionality thresholds on smaller firms and building societies in particular. A reduction of variable at risk remuneration, and an increase in fixed salary, would be undesirable from a prudential perspective as it would increase fixed costs for firms, reducing their ability to conserve capital when needed. The PRA therefore encourages firms to consider this issue when setting and reviewing their remuneration policies, taking into account the implications for their safety and soundness.

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27 September 2020: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/uk-withdrawal-from-the-eu-changes-before-the-end-of-the-transition-period.

28 As specified in Appendix 1 to CP13/20, available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/uk-withdrawal-from-the-eu-changes-before-the-end-of-the-transition-period.

29 Remuneration 12.2 and 15.A1(3).

3.54 Two respondents asserted that the PRA's approach in some aspects goes beyond the minimum CRD requirements, and that the misalignment between the UK and EU approaches for remuneration might bring challenges for cross-border businesses, where staff may be assessed as MRTs against multiple sets of criteria and may be subject to different and overlapping MRT thresholds. Both respondents suggested the PRA aligns with CRD V wherever possible, in particular with regard to minimum deferral periods. One respondent considered that going beyond the minimum CRD requirements would further exacerbate the 'level playing field' issues currently faced by UK firms, and proposed that group MRTs operating in jurisdictions which apply the Financial Stability Board's Principles for Sound Compensation and Remuneration Practices and their Implementation Standards[30] should only be required to apply local rules, rather than PRA rules.

3.55 The PRA has considered these points, which address the different challenges of cross-jurisdictional business operations, and has decided not to change its draft policy approach. Regarding the first suggestion, the PRA is of the view that the remuneration framework is critical to supporting better alignment between risk and reward. By deferring the payment (or 'vesting') of part of an award, there is an opportunity to reassess the nature, scale, and outcomes of the risks taken in order to assess the performance for which variable remuneration has been awarded. These risks can take time to crystallise, and it is important the rules should allow for that, in particular for the most senior decision makers.

3.56 Regarding the second proposal, the rules defining whether an MRT is higher paid are aimed at ensuring certain remuneration rules have a proportionate effect. This is to align the PRA and CRD approach for certain MRTs, which partially addresses the respondents' concerns regarding alignment with the EU. Firms may opt to apply stricter rules to all MRTs and thereby reduce the operational complexity of assessing MRTs against multiple criteria; this optionality has been added to SS2/17. Remuneration 4.2 (transposing CRD Article 109) establishes the requirements for the application of remuneration rules in a group. The suggestion that only local rules apply to group MRTs would not be consistent with the transposition of CRD provisions, and furthermore would undermine the effectiveness of the UK regime, as it could incentivise regulatory arbitrage.

Euro denominated thresholds

3.57 The remuneration thresholds set out in CRD V are denominated in euros. The PRA proposed to set these thresholds in sterling once the TP ends, and set out its proposed approach for conversion.

3.58 Five respondents agreed with the conversion of proportionality thresholds into sterling. One respondent requested guidance on the appropriate methodology for converting non-sterling currencies into sterling, for the purposes of complying with the remuneration thresholds following the end of the TP.

3.59 After considering the responses, the PRA has decided to clarify its expectations. The PRA expects firms to use either the internal exchange rate, or the average daily 12-month exchange rate for the relevant performance year, based on the rates provided on the Bank of England's website.[31] Using a 12-month average would help mitigate substantial foreign exchange rate fluctuations that may arise from using a daily spot rate. Also, an exchange rate averaged out over the firm's performance year will better mirror the remuneration round, which takes place annually. The PRA has updated SS2/17 to reflect these expectations.

30 https://www.fsb.org/work-of-the-fsb/market-and-institutional-resilience/post-2008-financial-crisis-reforms/building-resilience-of-financial-institutions/compensation/?page_moved=1.
31 https://www.bankofengland.co.uk/statistics/exchange-rates.

3.60 Two respondents suggested using a £1:€1 exchange rate, while another respondent suggested rounding the thresholds up to the nearest £10,000.

3.61 After considering the responses, the PRA has decided not to change the proposed policy. The PRA considers the approach as consulted on offers at least the same level of prudential benefit as the other options, taking into account proportionality and the potential impact on equivalence.

3.62 One respondent sought clarity with regard to two of the thresholds referenced in the CP. In particular, they queried the reference to the €15 billion threshold in the main body of the CP, whereas the question asked in the CP refers to firms with total assets below £15 billion expressed in sterling as opposed to euros.

3.63 In implementing CRD V, the PRA reviewed its thresholds for proportionality. The PRA's approach to date meant firms with total assets below £15 billion were out of scope of a proportion of the remuneration provisions, and input was sought on the costs and benefits of the proposals for these firms. The €15 billion threshold is one that was introduced in CRD V, and the PRA will convert it to £13 billion following the end of the TP, as consulted on in CP12/20.

3.64 Two respondents highlighted that the PRA has not provided a sterling equivalent amount for €750,000, and suggested alignment with the Financial Conduct Authority (FCA) threshold of £658,000. Respondents also noted that there are still instances in the PRA Rulebook where euro thresholds are retained.

3.65 The PRA notes that the €750,000 threshold is not used in the rules and guidance which are in the scope of this PS, but is derived from the EBA RTS on identifying MRTs. In September 2020, the PRA consulted on amendments to fix deficiencies in the MRT RTS, on the basis of the EBA's revised draft RTS, including a proposal to convert this threshold into sterling.[32] For technical reasons, the PRA cannot bring these proposals into effect before the end of the TP, but will work in coordination with the FCA to update the MRT RTS as soon as possible after the TP ends on Thursday 31 December 2020.

Other points raised in the consultation

3.66 Four respondents noted that the PRA and FCA have different approaches to the length of deferral and clawback for higher paid MRTs, such as PRA-designated SMFs and MRTs who are identified by certain qualitative criteria in the MRT RTS, as well as divergence in the criteria that define higher paid MRTs. The respondents suggested aligning definitions and approaches where possible.

3.67 The PRA has considered the responses received, and notes that most of the differences in definitions reflect divergent positions on the length of deferral (and therefore clawback) for certain MRTs that were not included in the proposals. The PRA and the FCA have aligned the rules to the extent possible, and apply the same principle to the proportionate application of those rules to MRTs whose variable remuneration is less than 33% of their total remuneration and whose total remuneration is below £500,000. The newly-introduced definition of higher paid MRTs in PRA rules, and the corresponding newly-introduced definition in the FCA Handbook, have now been aligned.

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32 CP13/20 paras 4.23–4.29, and Appendix 6: The Technical Standards (Capital Requirements) (EU Exit) (No. 4) Instrument 2020, Annex Y, available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/uk-withdrawal-from-the-eu-changes-before-the-end-of-the-transition-period.

3.68 Two respondents asked for clarity on whether the PRA plans to review the remuneration policy statement (RPS) tables and templates[33] to reflect proposed changes in the Remuneration Part and SS2/17. The respondents also sought clarity on whether the Remuneration Benchmarking and High Earners Reports will be required once the TP ends.

3.69 The PRA intends to review and update the RPS tables to reflect changes in remuneration rules in light of CRD V. At this time, the PRA will maintain its current approach to data collection for the purposes of the Remuneration Benchmarking and High Earners Reports, and will consider in due course whether collecting this data at a single country level is beneficial, given the aims of the policy and the data collection.

3.70 Two respondents asked for clarity on the extent to which the PRA expects risk adjustment policy to apply to non-MRTs. One of these respondents suggested SS2/17 should explicitly state that risk adjustment policy be applied to non-MRTs 'as appropriate'.

3.71 Paragraph 4.10 of SS2/17 states that the PRA generally expects firms to have a firm-wide policy on performance adjustment.[34] The PRA agrees that performance adjustments under this firm-wide policy should be applied to non-MRTs as appropriate. The PRA has decided not to add the wording it proposed to add to paragraph 4.10 of SS2/17, as the PRA considers that this is not needed for further clarity.

3.72 One respondent asked for clarity on whether the EBA approach for the minimum retention periods will be retained.

3.73 The PRA has no plans at present to amend the existing approach on retention periods as set out in the EBA Guidelines on Sound Remuneration Policies (2015).

3.74 The PRA also received several responses that are not related directly to the draft policy under consultation, including some areas where the PRA does not currently have discretion.

3.75 These responses included questions on: the use of role-based allowances for executive directors as deferred share awards; remuneration rules for trading desks; areas where the PRA's existing approach went beyond EU minima; and the definition of variable remuneration for the purposes of calculating maximum distributable amounts. The PRA also received questions on whether there are plans to review the remuneration rules in the future, the frequency with which proportionality thresholds may be reviewed in light of exchange rate fluctuations, and the timings of relevant EU policies.

3.76 The PRA has not provided feedback to these responses as they were outside the scope of the consultation, but may consider the points raised in the future, including in the light of any further domestic or international policy development.

3.77 The PRA has amended the definition of 'average total assets' in Remuneration 1.3 to adopt a more precise language that also aligns with the FCA's definition.

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33 https://www.bankofengland.co.uk/prudential-regulation/key-initiatives/strengthening-accountability.
34 SS2/17, paragraph 4.2.

4 Intermediate parent undertakings (IPUs)

4.1 The PRA proposed to introduce a requirement for an IPU to be in place by Tuesday 29 December 2020 for any third-country groups operating through two or more firms that have total EU assets of €40 billion or more, but which had total assets of less than €40 billion on Thursday 27 June 2019. The PRA also proposed to permit such groups to establish two IPUs, where a single IPU would be incompatible with mandatory structural separation requirements in the group's home jurisdiction, or would make it less efficient to resolve the group should it fail. The PRA proposed to remove these requirements at the end of the TP.

4.2 Two respondents were supportive of the PRA's proposed approach overall. However, they raised some specific points regarding the implementation of the requirement that will apply until the end of the TP, and its potential impact. Both respondents also considered IPU requirements to be unnecessary, given the PRA's powers to require an IPU to be established. One respondent commented that the PRA should work with any groups caught by the requirement that will enter into force on Tuesday 29 December 2020, should there be any, to enable them to meet the requirement in the least resource-intensive way possible. That respondent stated they had not gathered enough information to be able to estimate the costs of implementing the IPU requirement. The other respondent considered a mandatory IPU requirement could reduce the effectiveness of recovery and resolution strategies, and considered the costs of implementing an IPU for a temporary period could be significant, but did not provide an estimate of the potential costs.

4.3 After considering the responses, the PRA has decided not to change the draft policy. The PRA considers its proposed approach to be necessary, and proportionate, in order to transpose this aspect of CRD V effectively during the TP. After the end of the TP, the PRA would be able to effectively monitor the prudential risks arising from a group's operations without a requirement to always establish an IPU.

4.4 The PRA considers it important for firms that are required to establish a new IPU to contact their supervisor if they have any questions about the requirements.

5 Governance

Operational risk from outsourcing

5.1 The PRA proposed amendments to the Internal Capital Adequacy Assessment Part of the PRA Rulebook to give effect to the CRD V requirement for firms to implement policies and processes to evaluate and manage exposures to operational risk arising from outsourcing. The PRA also noted that it expected the proposed amendments would need to be reflected in any final version of Table 1 in the draft SS included in CP30/19 'Outsourcing and third-party risk management'.[35]

5.2 One respondent assumed that the amendments would have no practical effect on building societies, given that the EBA guidelines on outsourcing took effect in September 2019. The response also noted that the PRA's draft SS on outsourcing and third party risk management is currently under consultation.

5.3 After considering the response, the PRA has decided not to change the draft policy. The PRA did not receive objections to the proposal.

Loans to members of a firm's management body

5.4 The PRA proposed to implement the CRD V requirement for data on loans to members of a management body and their related parties to be properly documented, and made available to the supervisor on request, through amendments to the existing Related Party Transaction Risk (RPTR) Part of the PRA Rulebook.

5.5 Two respondents commented on these proposals. One respondent stated that they did not have general concerns with the PRA's proposals; the other stated they assumed that the requirements would not entail changes to current practices for building societies, as they are already subject to similar requirements under sectoral legislation.

5.6 One of the respondents requested more clarity on the level of information the PRA would expect, and what was meant by transactions being 'properly documented'. They also asked if the PRA expected that directors would be expected to disclose loans on a register similar to that for conflicts of interest.

5.7 After reviewing the responses, the PRA has decided not to change the draft policy. The PRA considers the level of information required for loans to members of the management body, and the meaning of 'properly documented', not to require further clarification. The RPTR Part sets requirements for reporting and documenting transactions with related parties. In order to meet those requirements, firms must already form a view of the level of information required. The PRA did not propose to set a different standard for information on loans to members of the management body. The PRA has no expectations that loans to directors are disclosed on a register.

5.8 In finalising its approach, the PRA noted that the proposed amendments to the RPTR Part did not contain a definition of the term 'qualifying holding'. The PRA has amended the RPTR Part to clarify that 'qualifying holding' has the meaning set out in the CRR.[36] The PRA considers that the changes to the final PRA rule are not significant and will not materially alter the cost benefit analysis presented in CP12/20. The PRA also considers this change will not have an impact on firms as it is

35 December 2019: https://www.bankofengland.co.uk/prudential-regulation/publication/2019/outsourcing-and-third-party-risk-management.
36 CRR Article 4(1)(36).

providing additional clarity to existing text, does not introduce any additional expectation, and is consistent with the defined term 'qualifying holding' used in CRD V.

Verification of fitness and propriety

5.9 CRD V requires supervisors to verify that members of a firm's management body continue to meet CRD requirements for fitness and propriety where supervisors have reasonable grounds to suspect that:

- MLTF is being or has been committed or attempted; or
- there is an increased risk of MLTF.

5.10 The PRA considered that its existing framework for assessing fitness and propriety aligns with the CRD V requirements. To ensure the PRA approach is clear in the circumstances envisaged by CRD V, the PRA proposed to amend SS28/15. The PRA also proposed taking a proportionate approach in assessing whether there is an increased risk of MLTF, and that it would determine on a case-by-case basis whether MLTF incidents or increased risk at a firm warranted the verification of fitness and propriety of members of the management body.

5.11 The PRA received two responses to its proposals. One respondent expressed their support, noting that the spirit of the proposals would already be met. Another respondent noted the approach proposed but did not provide further comment. The PRA has considered the responses and decided not to change its draft policy.

Independence of mind

5.12 To implement the clarification in CRD V that membership of affiliated companies or entities does not in itself constitute an obstacle to a members of the management body of a firm acting with independence of mind,[37] the PRA proposed amendments to the General Organisational Requirements Part of the PRA Rulebook.

5.13 The PRA received one response, welcoming the proposals. The PRA has considered the response and has decided not to amend its draft policy.

[37] CRD V Article 91(8).

6 Third-country branch reporting

6.1 The PRA proposed to update the Regulatory Reporting Part of the PRA Rulebook and amend SS34/15, SS4/16, and SS1/17 to implement the CRD V requirement for branches to report the following information to the PRA:

- information on the liquid assets available to the branch – in particular the availability of liquid assets in EU member state currencies;
- the own funds that are at the disposal of the branch;
- the deposit protection arrangements available to depositors in the branch;
- the risk management arrangements;
- the governance arrangements, including key function holders for the activities of the branch; and
- recovery plans covering the branch.

6.2 The PRA received comments from two respondents. One respondent did not anticipate issues in complying with most of the proposed additional reporting requirements for third-country branches.

6.3 Both respondents expressed concern about the proposed rule requiring third-country branches to submit to the PRA the group recovery plan covering the branch. Both respondents commented that not all third-country regulators require the submission of a recovery plan, which could make it impossible for a branch to comply. One respondent stated that some regulators may require a firm to keep the group recovery plan confidential, so permission might be required before it could be released to the PRA. They also stated that where such a plan exists, it would not typically refer to a specific branch (such as the UK branch). They also commented that it should be not necessary for a regulator supervising a branch to see the recovery plan; they should seek assurance from the home state regulator as part of information sharing. That respondent also stated they would welcome further, more detailed guidance on how the requirements might be met.

6.4 After considering the responses, the PRA has updated its approach. The PRA recognises that further clarification is needed when a recovery plan covering the branch is not required by the home jurisdiction. The PRA considers the situation where a group recovery plan cannot be shared with the PRA because of confidentiality concerns of a home state regulator to be exceptional. The PRA expects open communication with home state supervisors – a key consideration in the authorisation of third-country branches.[38] To address the concerns identified, the PRA has modified the expectations set out in SS34/15. Branches for which there is no requirement by the home resolution authority to prepare a recovery plan covering the branch would be expected to confirm that to the PRA on an annual basis, and would not be expected to provide a recovery plan to the PRA. The PRA has included additional expectations in SS34/15 to address circumstances in which a group recovery plan does not refer specifically to the third-country branch, or may not be shared for confidentiality reasons. These expectation set out the information the PRA would expect third-country branches to submit to the PRA in place of the group recovery plan.

38 SS1/18 'International banks: the Prudential Regulation Authority's approach to branch authorisation and supervision', March 2018: https://www.bankofengland.co.uk/prudential-regulation/publication/2018/international-banks-pras-approach-to-branch-authorisation-and-supervision-ss.

6.5 The PRA will continue to seek assurance from home supervisors and home resolution authorities on branch recovery planning, consistent with its expectations of the open, transparent, and proactive exchange of information on branches of international banks in the UK.

Part 2: Feedback to responses: CP17/20

Background

6.6 In CP17/20, the PRA proposed to implement elements of CRD V relating to holding company approval, the application of prudential requirements to approved holding companies, interest rate risk in the banking book (IRRBB), capital buffers, the maximum distributable amount (MDA), Pillar 2 and governance. It also proposed to update aspects of the UK regulatory framework as a result of amendments to the CRR, as amended by CRR II, which apply during the transition period in relation to variable risk weights for real estate exposures and methods of consolidation. The PRA proposed to:

- introduce a new process and information requirements to give effect to the statutory approval requirement for certain types of parent financial holding company (FHC) or parent mixed financial holding company (MFHC) that substantively control their group to be subject to supervisory approval and consolidated supervision;

- apply prudential requirements to approved holding companies on a consolidated or sub-consolidated basis;

- implement the Basel Committee on Banking Supervision (BCBS) IRRBB standards from the end of the transition period (TP), through a combination of PRA rules and supervisory expectations;

- implement an other systemically important institutions (O-SII) buffer to replace the function currently performed by the systemic risk buffer (SRB);

- amend the definition of the MDA that applies to certain distributions when a firm uses its capital buffers;

- require firms to meet Pillar 2A with 56.25% Common Equity Tier 1 (CET1) capital;

- apply governance requirements to approved holding companies and clarify the PRA's expectations of fitness and propriety of notified non-executive directors (NEDs);

- make administrative changes to apply the standardised approach to credit risk treatment of exposures secured by mortgages on commercial immovable property;

- implement requirements on methods of consolidation and amend PRA rules in respect of the treatment of certain participations.

Summary of responses

6.7 The PRA received four responses to CP17/20. Respondents in general were supportive in several areas, but asked for clarifications in some areas, provided comment on proposals that they suggested were difficult to operationalise, and opposed some of the proposals. The majority of the responses focused on the IRRBB proposals, but there were also comments on other aspects.

6.8 Details of the responses, and the PRA's feedback and final decisions, are set out in the following sections.

Changes to draft policy

6.9 Where the final rules differ from the drafts in the CP in a way that the PRA considers significant, the Financial Services and Markets Act 2000 (FSMA)[39] requires the PRA to publish:

(a) details of the difference together with a cost benefit analysis (CBA); and

(b) a statement setting out the PRA's opinion on whether or not the impact of the final rule on mutuals is significantly different to the impact that the draft rule would have had on mutuals, or the impact that the final rule will have on other PRA-authorised firms.

6.10 After considering responses to CP17/20, and taking into account minor corrections to the proposed draft policy, the PRA has amended the following aspects of its draft policy:

- the period in which the PRA would expect holding companies to submit formal applications for approval or exemption from approval has been moved from 3–31 May 2021 to 1–28 June 2021;

- the date of application for the proposed approach to IRRBB has been amended from Thursday 31 December 2020 to Friday 31 December 2021. This reflects the concern that some firms may require additional time prior to implementation to map, and ensure, their compliance with the revised PRA rules and expectations, and because of the additional operational pressures on firms from the Covid-19 pandemic;

- the Internal Capital Adequacy Assessment (ICAA) Part of the PRA Rulebook on the treatment of commercial margins in the standardised framework has been amended to recognise practical challenges in incorporating commercial margins into risk-free rates;

- the ICAA Part on the supervisory outlier test (SOT) has been amended to require firms to use appropriate shocks for currencies where shocks are not prescribed, rather than requiring them to 'develop' appropriate shocks. The PRA has amended SS31/15 to clarify that firms may use shocks determined by a third party where those shocks are consistent with the BCBS standard. These amendments seek to give a degree of flexibility to apply shocks that are appropriately conservative and consistent with the BCBS standard;

- the requirement in the ICAA Part that firms estimate the core portion of non-maturing deposits (NMDs) based on 'the past 10 years' has been amended to require estimation based on 'a sufficiently long period'. The PRA has introduced a new expectation in SS31/15 that firms are generally expected to consider the past 10 years. The amendment is intended to provide some flexibility for new and growing firms to potentially use a shorter period where 10 years' data are not available and a shorter period would be appropriate;

- SS31/15 has been amended to clarify that the PRA's expectations on the monitoring and evaluation of the potential impact of interest rates on earnings volatility should be considered where appropriate in relation to the nature, size, and complexity as well as business activities and overall risk profile of a firm. This seeks to ensure that the expectations are applied proportionately for smaller, less complex, or new firms; and

- certain formatting issues and typographical errors have been amended, references updated, definitions clarified, and other consequential administrative corrections made within the policy material contained in this PS. This includes amending the ICAA Part of the PRA Rulebook and

39 Section 138J(5) and 138K(4).

SS31/15 to correct a typographical error in the draft rules and align with the text of CP17/20, setting the threshold for the SOT at 15% of a firm's Tier 1 capital rather than 15% of its CET1 capital.

6.11 The PRA considers these changes not to be significant and not to materially alter the CBA presented in the CP. The PRA also does not consider that the impact of the changes will have a significantly different impact on mutuals.

Feedback on CP17/20

6.12 Before making any proposed rules, the PRA is required by FSMA to have regard to any representations made to it, and to publish an account, in general terms, of those representations and its feedback to them.[40]

6.13 The sections that follow provide the PRA's detailed response to the comments received on the different proposals, and have been structured along the same lines as the chapters of the CP.

40 Sections 138J(3) and 138J(4) of FSMA.

7 Holding companies

7.1 The PRA proposed 3–31 May 2021 as the period in which certain types of parent FHCs or MFHCs that substantively control their group are expected to submit their formal applications for approval or exemption. The PRA also provided a draft of the information requirements that applicants will be asked to prepare as part of the application process.

7.2 The PRA also stated that it intends to consider using its power of direction over qualifying parent undertakings to apply prudential requirements to intermediate holding companies of sub-groups that are required to meet CRR / CRD requirements on a sub-consolidated basis. As a consequence of any such exercise of powers, they would be required to apply for approval.

7.3 The PRA received one response to these proposals. The respondent stated that they generally supported the proposal to require approval of holding companies as well as the flexibility provided for exemption in certain circumstances. They raised a number of concerns about the apparent complexity of the holding company approval process, suggesting a system of automatic designation should be adopted instead. The respondent was concerned by a lack of detail in the CP on what would be required for day-to-day compliance following formal approval. They considered the lack of detail could make it more likely an application would need to be revised following submission, requiring additional time and resource. They proposed an alternative under which a holding company would confirm the necessary framework was in place to support ongoing supervision. They considered the costs of the application process would be significantly higher than those estimated by the PRA, and were also concerned firms would need further time to implement any changes required, which would likely be a minimum of 12 months.

7.4 Having considered this response, the PRA has decided to continue with its proposed approach to applications. The PRA received no comments on the information requirements and considers them an appropriate basis to ensure the PRA can assess an application in line with the requirements in Part 12B FSMA.

7.5 The PRA did not consult on implementing the requirements for holding company approval, as these are prescribed by the Statutory Instrument (SI), which implements the CRD V framework for the approval and supervision of certain parent holding companies in the UK. [41] The PRA's proposals were limited to those aspects of the regime which the PRA has scope to supplement, specifically the proposed approach to the process and information requirements for the application for holding company approval or exemption. A final version of the information requirements has not been published with this PS as it will be part of the formal application form, which will be published on the PRA website in due course.

7.6 The PRA has a statutory duty to undertake a CBA when carrying out its policy making functions. The CBA contained in CP17/20 was not intended to assess the costs involved in complying with the new holding company approval requirements as transposed by the SI. Instead, it was limited to assessing the costs associated with those elements of the application process which were proposed by the PRA pursuant to the power granted to it by the SI.

7.7 As a consequence, the PRA concluded that it did not expect the incremental costs of its proposals to extend beyond the standard administrative costs of preparing the application itself. Accordingly, the costs incurred as a result of firms' internal consultation and governance processes

41 The Financial Holding Companies (Approval etc.) and Capital Requirements (Capital Buffers and Macro-prudential Measures) (Amendment) (EU Exit) Regulations 2020.

to ensure compliance with the requirements as set out in the SI were beyond the scope of the PRA's CBA.

7.8 The PRA proposed that holding companies submit their formal applications in the period 3–31 May 2021, and that prior to May 2021 the PRA intended to engage with potential applicants in order to ensure they understand the PRA's expectations of the process and the information required. Furthermore, the PRA included a draft of the information requirements which have been designed to minimise the additional burden on applicants. The PRA will seek to ensure that its application and assessment processes are proportionate. The PRA will engage with firms via supervisory contacts, to provide further guidance on the application process.

7.9 After considering the response indicating concerns in respect of a potential need for applicants to rework an application after submission, with cost and time implications for both the PRA and applicant firms, the PRA has decided to move the suggested application period from the month of May to the month of June 2021. The SI requires applications to be submitted by Monday 28 June 2021.[42]

42 Regulation 5(3)(a) The Financial Holding Companies (Approval etc.) and Capital Requirements (Capital Buffers and Macro-prudential Measures) (Amendment) (EU Exit) Regulations 2020.

8 Application of prudential requirements to approved holding companies

8.1 The PRA proposed changes to its Rulebook to implement CRD V amendments to Articles 108 and 109 of the CRD to impose obligations on relevant holding companies.

8.2 No response was received in relation to this proposal. The PRA has decided not to change the proposed policy, but has amended the draft rules in Chapter 4 of the Remuneration Part.

8.3 The draft rules as published in CP17/20 included the voiding provisions in Remuneration Chapter 16 as one of the obligations for approved holding companies to comply with on a consolidated or sub-consolidated basis. However, the PRA's power to make the voiding rules under s137H FSMA relates only to rules made under the PRA's general rule-making power in s137G FSMA, and not rules made under the PRA's power to impose consolidated requirements on holding companies in s192V FSMA.

8.4 Therefore, the PRA's near-final rules exclude approved holding companies from (i) the direct obligation to comply on a consolidated or sub-consolidated basis, and (ii) ensuring the group complies, with the voiding provisions in Chapter 16. However, the PRA notes the obligation remains on firms to ensure other members of the group, including holding companies, comply on a consolidated or sub-consolidated basis with the Remuneration Part, including the voiding provisions in Chapter 16.

9 Interest rate risk in the banking book (IRRBB)

9.1 The PRA proposed to implement the BCBS IRRBB standards from the end of the TP through a combination of PRA rules and supervisory expectations. The PRA proposed these would replace its expectations regarding compliance with EBA Guidelines (GLs) after the TP, as set out in SS1/19.

9.2 The PRA proposed to implement parts of the IRRBB standards in ICAA Chapter 9, including the requirement to monitor credit spread risks from non-trading activities, the revised outlier tests, and the new standardised framework. The PRA proposed to set expectations covering the other aspects of IRRBB standards in SS31/15.

9.3 The PRA received three responses to its proposals on IRRBB. Two respondents indicated general support for the PRA's proposed approach for IRRBB implementation. They also raised a number of specific concerns on aspects of the rules and expectations. One respondent commented only on the simplified standardised framework.

Application of new rules and expectations

9.4 One respondent requested confirmation that the proposed ICAA rules would be binding from the implementation date, and that the proposed amendments to SS31/15 would have the status of supervisory expectations. The PRA confirms this is the case.

9.5 One respondent stated that the proposal contained a number of incremental requirements, compared to EBA GLs, which would take more time to implement. They stated that some firms may not comply fully with the proposed amendments to SS31/15 at the time of implementation. The respondent suggested that in such cases a firm should share a plan for compliance with its supervisor and provide details in its Internal Capital Adequacy Assessment Process, but that such instances should not be considered a rule breach. The PRA considers the substance of its proposals already to be covered by the EBA GLs on IRRBB and the PRA's existing supervisory expectations set out in SS31/15.

9.6 One respondent requested clarification of the level of application of the PRA's rules and expectations on IRRBB, stating that BCBS standards are intended to apply to large internationally active banks on a consolidated basis. The respondent recommended the PRA consider this and implement the proposals in a proportionate manner. After considering the response, the PRA agrees with the need to ensure proportionate application of prudential requirements, but does not consider it necessary to clarify the level of application of IRRBB requirements, as that is already set out in Chapter 14 of the ICAA Part; the PRA did not propose to amend these requirements. The PRA notes that BCBS standards also apply to internationally active banks below consolidated level.[43] The supervisory expectations on IRRBB already contain a general expectation that the systems and processes are proportionate to the nature, scale, and complexity of a firm's business.

9.7 One respondent suggested that the proposed approach would accelerate the UK adoption of the BCBS IRRBB standards ahead of that of the EU. The respondent stated that the proposed approach did not recognise that the EBA GLs were published as transitional guidance, and that banks may have decided to wait for confirmation of the PRA approach to transposition of CRD V before adopting all IRRBB requirements. They considered that the application of IRRBB standards in a fully binding way from the end of the transition period risked putting UK firms at a disadvantage to EU firms. The respondent also noted that the Covid-19 pandemic has increased operational pressures on firms,

43 Basel SCO10.2, footnote 1 and SCO10.3, footnote 2.

highlighting that the EBA has proposed to delay its IRRBB technical standards until Q1 or Q2 2022. The respondent proposed that the PRA should either delay the date of application of its IRRBB framework to June 2022, or consider a phased implementation from June 2021 to June 2022.

9.8 The PRA notes that firms are already required to make every effort to comply with the EBA GLs on IRRBB during the transition period. The PRA confirmed its intention to comply with the EBA GLs on IRRBB in September 2018. The EBA GLs have applied fully since June 2019 and the GLs have never had a transitional status. The PRA considers that UK firms' compliance with the EBA GLs will help to ensure they are well positioned to meet the PRA's proposed requirements and expectations on IRRBB. Nevertheless, the PRA acknowledges that all firms would need to undertake an analysis and reconciliation of the PRA's requirements and expectations against their current practice to ensure compliance, and that could be challenging to complete by the end of the TP, particularly given the operational pressures arising from Covid-19. The PRA has therefore decided to move the date of application of its amendments to the IRRBB rules in the ICAA Part, and its expectations in SS31/15, to Friday 31 December 2021.[44] From the end of the TP until then, the PRA will expect firms to continue to make every effort to comply with the EBA GLs on IRRBB, and to inform their supervisor if they consider that they are not able to comply with the GLs.

Outlier test

9.9 The PRA received two detailed responses on various aspects of the new outlier test. One respondent suggested that implementing the BCBS variant of the outlier test rather than the test specified in the EBA's GLs, or a future version of the outlier test, would create additional challenges for firms.

Definition of capital

9.10 One respondent highlighted that the PRA's proposed amendments to the rules and supervisory expectations specified a threshold of 15% of CET1 capital, rather than the 15% Tier 1 capital specified by the BCBS and EBA GLs.

9.11 The PRA considered the response and has amended the near-final rules and expectations to refer to 15% Tier 1 capital. This addresses a typographical error in CP17/20, which the PRA has corrected to align it with the proposal in the third bullet of paragraph 4.8 of that CP.

Use in managing IRRBB and breaches

9.12 One respondent stated that the outlier test should be used as an 'early warning indicator' to trigger discussion with supervisors, and should not trigger automatic changes in own funds requirements. The respondent proposed that the PRA confirm that the outlier test is not a management metric to which firms should actively manage. They stated that without guidance from the PRA, firms may be incentivised to manage IRRBB using regulatory metrics.

9.13 The PRA has considered the response and has decided not to amend its draft policy. The PRA sets out the use of the outlier test, and implications of breaching the threshold, in the amendments to 2.7B and 2.7C of SS31/15. Those paragraphs explain that a breach of the outlier test would result in a review of a firm's IRRBB to determine if it was excessive or inadequately managed. They make clear that additional capital under Pillar 2A is only one of the possible measures the PRA could take if it determined a firm's IRRBB to be excessive or inadequately managed. In addition, the PRA rules and supervisory statements do not require firms to use the outlier test as a management metric.

[44] The date of application for the minor changes to cross-references in SS20/15 remains unchanged: Friday 1 January 2021.

Mandatory use of the standardised framework

9.14 One respondent proposed that the PRA require all firms to implement the standardised framework for calculating the new outlier test, in order to improve comparability across firms and to provide a benchmark for assessing firms' internal systems for measuring IRRBB.

9.15 After considering the response, the PRA has decided not to change the draft policy. The PRA agrees that the respondent's proposed approach would improve comparability, but considers it would not be proportionate to require all firms to implement the standardised framework solely for the purposes of the outlier test, particularly as the outlier test is intended only as one indicator of potentially excessive IRRBB. In reaching that decision, the PRA also considered the fact that IRRBB is addressed through Pillar 2 rather than Pillar 1.

Cross-currency aggregation

9.16 The PRA received two responses on cross-currency aggregation. One respondent proposed that the PRA should not generally allow any offsetting benefit between gains and losses in different currencies except in limited cases, such as for pegged currencies. One respondent proposed more flexibility for firms to offset gains and losses in different currencies, arguing that the outlier test would otherwise be more stringent for firms with significant multicurrency balance sheets. The PRA considers that these concerns about the prudence and risk-sensitivity of cross-currency aggregation are both valid but conflicting concerns, and that consideration should also be given to the simplicity and comparability of cross-currency aggregation for all firms calculating the outlier test. The PRA therefore intends to maintain its proposed approach of permitting 50% of gains in an individual currency to offset losses in other currencies, noting that this represents a simple and consistent approach for allowing a limited degree of offsetting benefit between gains and losses in different currencies.

Prescribed shocks

9.17 The PRA received two responses on the prescribed shocks specified for the outlier test. One respondent indicated that the proposed floor on negative interest rates is unnecessary, and that the PRA could exercise ad-hoc supervisory judgement to allow firms to correct where the prescribed shocks would lead to an unrealistically negative interest rate scenario. The PRA considers that its proposed floor on negative interest rates is consistent with historical evidence and therefore appropriately avoids setting an unrealistic interest rate scenario. However, the PRA notes that it may revisit its expectation if future experience provides contrary evidence.

9.18 One respondent proposed that the PRA should adopt the EBA GLs' prescribed shocks for currencies that are not prescribed by the BCBS standards. The proposed rule required firms to develop appropriate shocks for currencies that were not specified. However, the proposed rule has been amended to simply require firms to use appropriate shocks, and SS31/15 sets out that firms may use shocks prescribed by other jurisdictions where the firm believes those shocks are appropriate and consistent with the PRA methodology.

Commercial margins

9.19 The PRA received two responses on the treatment of commercial margins. Both suggested that incorporating commercial margins into a discount rate is technically challenging, with one noting that the EBA GLs always expect firms to discount using the risk-free rate. The PRA considers that, in principle, firms should be consistent in either including or excluding commercial margins in both cash flows and discount rates, but acknowledges the practical challenges of including commercial margins in discount rates. The PRA will therefore maintain its expectation that firms take a consistent approach across cash flows and discount rates, but notes that, as highlighted above, this is a supervisory expectation and not a requirement.

Other comments

9.20 One respondent provided further detailed comments that:

- proposed further prescription on the treatment of non-performing exposures relating to provisions under International Financial Reporting Standards accounting standards as well as the estimated repricing date for non-performing exposures;

- raised concerns with the requirement in the EBA GLs for firms to consider instrument-specific floors; and

- stated that there is a requirement in the EBA GLs that non-maturity deposits from financial institutions should not be subject to behavioural modelling.

9.21 After considering the response, the PRA has decided not to change the draft policy to provide further prescription on the treatment of non-performing exposures, as the additional prescriptions proposed by the respondent are specific to only one accounting standard and may not be sufficiently general for all non-performing exposures. The PRA may consider if it is necessary to provide a more comprehensive set of additional prescriptions on the treatment of non-performing exposures. The PRA had not proposed any expectations on the latter two points.

Standardised framework

9.22 The PRA received two responses on the standardised framework.

Non-maturity deposits

9.23 One respondent highlighted potential difficulty for new and growing firms to meet the proposed rule that firms must consider a minimum of 10 years of data to model the behaviour of non-maturing deposits.

9.24 The PRA acknowledges that some firms, particularly newer firms, may not be able to meet this requirement. Therefore, after considering the response, the PRA has decided to amend ICAA 9.34 to remove the explicit 10-year data requirement, but update the SS to include 10 years as a supervisory expectation. This would allow some flexibility in individual cases where firms do not have 10 years of data, but retains the expectation for those firms that do have data for a sufficiently long period.

Commercial margins

9.25 Similar to the concern raised for the outlier test, one respondent identified that under the standardised framework, firms may struggle to meet the PRA's requirement that firms wanting to include commercial margins in their cash flows must also include commercial margins in the rates used for discounting those cash flows.

9.26 After considering the response, the PRA has decided to amend ICAA 9.18 to allow firms to use a risk-free rate that excludes commercial margins where the effect is not material. The SS implicitly contains this flexibility for the outlier test. This amendment recognises the practical challenges of incorporating commercial margins into risk-free rates.

Methodological simplification

9.27 One respondent proposed several detailed methodological changes. In particular, to avoid the need to introduce a simplified alternative to the standardised framework, the PRA could simplify the standardised framework by only requiring firms to consider notional cash flows and not interest cash flows, and could prescribe a base level of interest rates for firms to consider for each currency. After considering the response, the PRA has decided not to change the draft policy. The PRA considers that such simplifications would be substantively inconsistent with the BCBS standards and would

impede the use of the standardised framework for reasonably measuring IRRBB for mid-sized or larger firms, which may have substantial interest cash flows and may be more sensitive to differences in interest rates in different currencies.

Equity

9.28 One respondent suggested that equity positions should not be entirely excluded under the standardised framework calculation.

9.29 After considering the response, the PRA has decided not to change the draft policy. The PRA considers that determining the effective maturity of equity involves a degree of subjectivity that would not be appropriate for a standardised framework, and that its proposed approach is a simple, consistent, and generally conservative approach to ensure that the risks of funding equity positions are adequately considered.

Bought options

9.30 One respondent asked for clarification on how the value of an option is reflected in the capital ratio, and why a special treatment is offered for bought options.

9.31 Having considered the response, the PRA has decided not to change the draft policy. The PRA considers that the value of an option would be reflected in the capital ratio where, for example, an option is recognised on the balance sheet, and therefore a firm's own funds would change when the value of that option changes. The special treatment for bought options is a simpler approach that is conservative, insofar as it does not allow firms to recognise offsetting with other positions and it assumes that the full value of the option is lost.

Core deposits

9.32 One respondent suggested that, rather than setting caps on the proportion of non-maturing deposits that can be considered 'core' deposits, firms could be allowed to automatically set the proportion of 'core' deposits at the level of the cap.

9.33 After considering the response, the PRA has decided not to change the draft policy. The PRA notes that a preferential treatment is proposed for 'core' deposits, and that without seeing evidence that the proportion of 'core' deposits is comparable across all firms, it would not be prudent to make this assumption.

Further clarification

9.34 One respondent suggested that the option for firms to split initial repricing cash flows and assign them to adjacent bucket midpoints (termed 'time bucket midpoints' in the BCBS standards) could benefit from further explanation.

9.35 After considering this response, the PRA has decided not to change the draft policy. However, it notes the concern of this respondent and may consider whether further worked examples or expectations could help to clarify the requirements for firms using this option.

9.36 One respondent suggested that the PRA's framework could usefully set requirements on the treatment of certain other risks relating to IRRBB, such as pre-hedge, pipeline, and commitment risks.

9.37 After considering the response, the PRA has decided not to change the draft policy. The PRA considers that as a non-modelled framework, it is not straightforward to specify the standardised framework to reliably or accurately capture such risks. Per ICAA 9.1A, a firm may elect to implement the standardised framework only where appropriate to its nature, size, and complexity as well as

business activities and overall risk profile, and the PRA considers that a firm with material pre-hedge, pipeline, or commitment risks may not meet that condition.

Reporting and disclosure

9.38 Two respondents noted that the PRA does not propose to amend existing IRRBB disclosure requirements.

9.39 One respondent proposed that the PRA amend supervisory reporting on IRRBB (relating to FSA017, the interest rate gap report data item), and extend the reporting requirement to all PRA-regulated firms. One respondent agreed that FSA017 will need to be amended to support monitoring of IRRBB under the new PRA framework on IRRBB. The respondent asked for clarification on whether the PRA intends to extend the requirement to reporting FSA017 to PRA-designated investment firms, and requested that the PRA formally consult in advance of any future changes to current reporting requirements.

9.40 The PRA confirms that no changes to disclosure and reporting requirements were proposed, including to the scope of application of FSA017 reporting. The PRA agrees with both respondents that FSA017 will need to be amended to monitor IRRBB under the PRA's new rules and expectations. The PRA intends to consult publicly on any proposed changes to IRRBB reporting and disclosure requirements.

Credit spread risk from non-trading activities (CSRBB)

9.41 One respondent asked for confirmation that firms do not necessarily have to consider CSRBB in their ICAA, and suggested that the PRA could prescribe more explicit expectations for how firms should consider CSRBB. The respondent suggested that the PRA could clarify whether the definition of CSRBB is limited to fair-value positions and to asset positions.

9.42 The PRA confirms that the only rule on CSRBB is ICAA 9.1A, which requires that firms consider CSRBB as part of their internal management processes. After considering the response, the PRA has decided not to change the draft policy. At this time, the PRA does not intend to prescribe how firms should assess CSRBB for those purposes. The PRA also confirms that it does not consider that CSRBB is necessarily limited to only fair-valued assets.

Simplified standardised framework

9.43 The PRA proposed not to develop a simpler version of the standardised framework that smaller firms might use. However, the PRA explained that it intends to consider further the merits of developing such an approach in due course.

9.44 Respondents had differing views on the utility of a simplified standardised framework for IRRBB. One respondent stated that they did not see a need for such a framework. Another emphasised the importance of having a simplified standardised framework, as building societies generally have less complex IRRBB. One respondent proposed some simplifications to the standardised framework that would avoid the need for a separate simplified framework.

9.45 After considering the responses, the PRA has decided not to change its draft policy. The PRA will consider further the merits of developing a simplified standardised framework.[45]

45 'Strong and simple – speech by Sam Woods', November 2020: https://www.bankofengland.co.uk/speech/2020/sam-woods-city-banquet.

Other feedback

9.46 One respondent raised a concern that the expectation that firms consider a 3–5 year time horizon, when considering the impact of changes in interest rates on earnings volatility, may be unduly burdensome for smaller, less complex, or new and growing firms. The PRA notes that this expectation already exists in the current version of SS31/15, but amended the SS to explicitly state that this expectation should be considered where appropriate, depending on the nature, size, and complexity as well as business activities and overall risk profile of a firm.

9.47 One respondent asked the PRA to clarify when positions arising from 'small' trading book business and pension plans should be included in firms' calculation of IRRBB. The PRA clarifies that firms should include positions arising from small trading book business where they have chosen to use the derogation for small trading book business currently provided in Article 94 of the CRR. The PRA did not consult on any similar expectation to include positions arising from pension obligation risk, as the PRA has separate expectations on the treatment of pension obligation risk, set out in a distinct section of SS31/15.

9.48 One respondent suggested that the definition of embedded gains and losses are unclear, and could be excluded from IRRBB measures. The PRA considers that embedded gains and losses are used in the BCBS standard and EBA GLs, and are generally understood to refer to the difference between fair value and book value for non-trading book assets and liabilities. With this understanding, including embedded losses reflects the fact that a pure economic value of equity (EVE) measure of IRRBB risk does not pick up the difference between fair value and book value (and particularly that fair value of equity may already be less than book value, due to embedded losses). The PRA considers that it is appropriate risk management for firms to include embedded losses in their assessment of IRRBB risks, and has concluded to not the change the policy at this time.

9.49 One respondent proposed that firms should include all 'overt speculative positions' in the trading book, thereby excluding such positions from IRRBB requirements. The PRA notes that the split between the trading book and non-trading book was outside the scope of the proposals.

9.50 One respondent suggested that the EBA (as set out in its reply to firms' responses on the EBA GLs consultation) prescribed additional requirements for the sensitivity analysis that firms should perform for positions where they apply behavioural assumptions. The respondent suggested that this additional prescription might be unduly onerous, particularly for smaller firms. The PRA notes that it had not consulted on applying that additional level of prescription for its own expectations of sensitivity analysis for positions with behavioural assumptions.

10 Capital buffers

10.1 The PRA proposed to implement the O-SII buffer as the macroprudential tool it uses to address the domestic systemic importance of ring-fenced bodies and large building societies. Under this proposal, the O-SII buffer would take the role currently performed by the SRB. The PRA did not propose to amend its framework for the identification of O-SIIs, or to expand the range of firms to which a buffer rate applies.

10.2 The SI confers on the PRA the power to use the SRB to set sectoral capital requirements (SCRs) for firms and approved holding companies. The PRA did not propose to introduce an SRB, but stated that it would consult on implementing the SRB in future if it were necessary and appropriate to apply it. The PRA also noted that the PRA and Financial Policy Committee (FPC) would coordinate closely on any use of the tool.

10.3 One respondent commented that the PRA and FPC should each publish a policy as to how they will exercise their respective powers relating to SCRs.

10.4 Having considered the response, the PRA has decided not to change its proposed approach. The PRA does not plan to introduce an SRB at this time. Were the PRA to do so, it would consider the respondent's proposals as to how the PRA should exercise its powers relating to SCRs within the context of any implementation of the SRB.

10.5 The FPC's powers of direction and recommendation in relation to SCRs are not changed as a result of CRD V and were therefore out of scope of CP17/20.

10.6 The PRA proposed amendments to 'The PRA's approach to banking supervision'[46] to reflect that additional loss absorbency for ring-fenced bodies and large building societies will now be captured in the O-SII buffer rather than the SRB. The PRA did not receive responses to this proposal. The PRA will make these amendments when conducting its next review of this document, and therefore a revised version will not be published as part of this PS.

10.7 The PRA proposed amendments to the Capital Buffers and Pillar 2A Model Requirements, to refer to the O-SII buffer instead of the SRB; to implement amendments to the definition of the MDA; to reflect the designation of PRA-authorised firms as responsible for ensuring the compliance of groups headed by holding companies; to reflect an amendment to the terminology used to identify groups of firms as G-SIIs or O-SIIs; to require firms to meet Pillar 2A with 56.25% CET1; and to reflect changes at the end of the TP.

10.8 No response was received on this proposal. The PRA will therefore amend the Capital Buffers and Pillar 2A Model Requirements as proposed.

10.9 The PRA has also made consequential amendments to the Additional Leverage Ratio Buffer Model Requirements to refer to the O-SII additional leverage ratio buffer instead of the SRB additional leverage ratio buffer, and also to reflect changes at the end of the TP. These amendments were not included with the proposals in CP17/20 but are included in the near-final policy contained in this PS.

10.10 To give practical effect to both the policies by the CRD V implementation deadline, the PRA intends to apply these changes through own initiative powers under s55M(3) and s55Y(4) FSMA.

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46 October 2018: https://www.bankofengland.co.uk/prudential-regulation/publication/2018/pra-approach-documents-2018.

Firms will receive supervisory notices in December 2020 to that effect. This is a practical solution to facilitate transposition, with no additional burden on firms compared to the usual supervisory process for Capital Buffers and Pillar 2A and Additional Leverage Ratio Buffer changes.

11 Maximum distributable amount (MDA)

Amendments to the MDA that implement CRD V

11.1 CRD IV restricts firms' distributions to a percentage of profits made since their last distribution, where the firm uses its combined buffer. CRD V redefines the calculation of the MDA to allow firms to distribute interim and year-end profits (net of distributions) that are not included in CET1 capital resources, irrespective of the timing of the last distribution. The PRA proposed to implement this modification.

11.2 The PRA did not receive responses to this proposal, and will publish the policy as proposed.

Amendments to the MDA after the end of the transition period

Distributions that result in the combined buffer being used

11.3 CRD IV precludes firms making distributions that would cause their CET1 levels to fall into the combined buffer; CRD V does not amend that requirement.[47] The PRA proposed to remove the restriction after the TP ends.

11.4 One respondent commented that a footnote to paragraph 3.1 of SS6/14 should be removed, as it had not been amended to reflect the proposed removal of the restriction. After considering the response, the PRA has removed this footnote.

MDA definition

11.5 In order to balance buffer usability and capital conservation, the PRA proposed to amend, after the end of the TP, the definition of the MDA to include certain profits already recognised as CET1. To limit the amount of historically recognised CET1 included in the MDA, the PRA proposed to include profits from the past four calendar quarters, net of distributions.

11.6 One respondent proposed that a firm should be able to increase the size of its distributable amount by issuing CET1 capital, allowing the firm to distribute a certain percentage of that issuance. The respondent stated that this would be in line with BCBS standards.[48]

11.7 After considering the response, the PRA has decided not to change the draft policy. A key objective of the PRA's policy design was to ensure a consistent outcome across firms. Allowing firms to increase the size of their distributable amount by issuing CET1 capital could lead to inconsistencies across firms due to varying access to capital markets. This is particularly relevant to mutual or smaller firms with more limited access to capital markets.

11.8 The PRA recognises that the respondent's proposal could contribute to firms' safety and soundness if it incentivised firms to raise additional capital, and firms retained a proportion of the capital that they raise. The proposal could also contribute to an increase in the usability of capital buffers to support the economy in a stress. At this stage, there is insufficient evidence to weigh the potential benefits against the considerations above.

11.9 The PRA intends to consider further the merits of such an approach as part of its ongoing work on the usability of capital buffers.

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47 The PRA's current approach implements Article 141 of CRD IV. The approach is implemented by Capital Buffers 4.3 or (for firms subject to a Pillar 2A capital requirement, G-SII buffer, or SRB) the Voluntary Requirement (VREQ) – Capital Buffers and Pillar 2A Model Requirements (which applies in place of Rule 4.3).

48 The BCBS standards on buffers above the regulatory minimum: https://www.bis.org/basel_framework/chapter/RBC/30.htm?inforce=20191215.

12 Pillar 2

12.1 The PRA proposed to require firms to meet Pillar 2A with 56.25% CET1. This is consistent with the proportion of Pillar 1 requirements that CRR required to be met with CET1 capital.[49]

12.2 No response was received in relation to this proposal. The PRA will therefore publish the policy as proposed.

49 PS7/13 'Strengthening Capital Standards: Implementing CRD IV', December 2013: https://www.bankofengland.co.uk/prudential-regulation/publication/2013/strengthening-capital-standards-implementing-crd-4.

13 Governance

13.1 The PRA proposed to apply governance requirements to approved holding companies on a consolidated basis or sub-consolidated basis, including requirements on fitness and propriety, and obligations in respect of related party transactions. The PRA also proposed to clarify expectations for the fitness and propriety of notified non-executive directors (NEDs), where supervisors have reasonable grounds to suspect either money laundering or terrorist financing (MLTF) has been committed, or there is an increased risk of MLTF.

13.2 No response was received in relation to these proposals. The PRA will therefore publish the policy as proposed.

14 Variable risk weights for real estate exposures

14.1 The PRA proposed to maintain its policy for the risk weighting of exposures secured by mortgages on immovable property under the standardised approach to credit risk (SA-CR). To reflect changes in the framing of CRR II,[50] the PRA proposed to make consequential changes to PRA rules relating to the treatment of SA-CR exposures secured by mortgages on commercial immovable property.

14.2 One respondent requested further clarity on the PRA's approach to assessing the adequacy of risk weights for real estate exposures under the SA-CR, and made a proposal for when an appropriate data series should be available. Specifically, the respondent:

- asked the PRA to consider publishing the data on commercial real estate (CRE) lending it receives through the Common Reporting Framework (COREP) and Financial Reporting (FINREP), to allow the industry to track and understand the PRA's position better; and

- proposed that the period between the 2008 financial crisis and the 2020 Covid-19 pandemic should represent a full credit cycle, and therefore be a representative period of good and bad years.

14.3 After considering the response, the PRA has decided not to change its draft policy for the reasons set out below.

14.4 The PRA publishes aggregated data for the UK property market annually in line with CRR requirements,[51] but does not intend to publish data on CRE lending from COREP and FINREP at this stage. The PRA's assessment of the appropriateness of capital requirements for real estate exposures takes into consideration a non-exhaustive range of public and non-public sources of data and information. Examples include data collected by the PRA:

(i) under CRR Article 101(3) and COREP template C.15.00 on exposures and losses from lending collateralised by CRE;

(ii) on changes in UK CRE valuations; and

(iii) on write-off rates on lending to UK businesses.

14.5 The PRA also considers relevant forward-looking developments (eg public information on UK growth projections and UK CRE market projections) that could impact future financial stability, in addition to the backward-looking indicators. The sources of data and information taken into account and the weight placed on them in the PRA's analysis can vary over time; sources and weightings may differ depending on the economic climate.

14.6 It is not yet possible to determine whether the period from 2008 to 2020 would represent a full economic cycle for the purposes of the PRA's assessment, while the economic effects of the Covid-19 pandemic continue. Given the work out period for CRE exposures, it may be several years before it is possible to understand the extent and nature of any CRE losses resulting from the Covid-19 pandemic. In addition, government intervention and supervisory measures are likely to mitigate the impact of Covid-19 on loss rates. The PRA intends to keep the proposal under consideration in light

50 CRR II Article 124.
51 CRR Articles 430a and 101(3).

of developments in economic indicators, financial stability, and loss rates, including those resulting from the Covid-19 pandemic.

15 Methods of consolidation

15.1 The PRA made the following proposals in respect of the methods of consolidation:

- to highlight in the SS that firms may apply for permission to use a method other than the equity method, where certain criteria are met, to value subsidiaries that are not banks, investment firms, financial institutions, or ancillary service undertakings, or their participations in such entities;

- to set out in the SS that the PRA will consider on a case-by-case basis whether the full or proportional consolidation of an entity is necessary to address substantial step-in risk;[52]

- to amend PRA rules so as to require proportional rather than full consolidation for the treatment of certain participations that are not joint operations or joint ventures (an 'Article 18(5) relationship'); and

- to amend cross-referencing within the PRA Rulebook to the appropriate definition of a 'common management' relationship between relevant undertakings.

15.2 No responses were received in relation to these proposals. The PRA will therefore publish the policy as proposed.

52 (Substantial) step-in risk is defined in CRR II Article 18(8) as 'a substantial risk that the institution decides to provide financial support to that undertaking in stressed conditions, in the absence of, or in excess of any contractual obligations to provide such support'.

Appendices

1	PRA RULEBOOK: CRR FIRMS: GLOSSARY (CAPITAL REQUIREMENTS DIRECTIVE V) INSTRUMENT 2020, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app1.pdf
2	PRA RULEBOOK: CRR FIRMS: CAPITAL BUFFERS (CAPITAL REQUIREMENTS DIRECTIVE V) INSTRUMENT 2020, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app2.pdf
3	PRA RULEBOOK: CRR FIRMS: CAPITAL BUFFERS (CAPITAL REQUIREMENTS DIRECTIVE V) (No 2) INSTRUMENT 2020, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app3.pdf
4	PRA RULEBOOK: CRR FIRMS: ARRANGEMENTS, PROCESSES AND MECHANISMS (CAPITAL REQUIREMENTS DIRECTIVE V) (No.2) INSTRUMENT 2020, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app4.pdf
5	PRA RULEBOOK: CRR FIRMS: CREDIT RISK (CAPITAL REQUIREMENTS DIRECTIVE V) INSTRUMENT 2020, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app5.pdf
6	PRA RULEBOOK: CRR FIRMS: GROUPS (CAPITAL REQUIREMENTS DIRECTIVE V) INSTRUMENT 2020, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app6.pdf
7	PRA RULEBOOK: CRR FIRMS: GROUPS (CAPITAL REQUIREMENTS DIRECTIVE V) (No 2) INSTRUMENT 2020, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app7.pdf
8	PRA RULEBOOK: CRR FIRMS: INTEREST RATE RISK ARISING FROM NON TRADING ACTIVITIES INSTRUMENT 2020, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app8.pdf
9	PRA RULEBOOK: CRR FIRMS: GENERAL ORGANISATIONAL REQUIREMENTS (CAPITAL REQUIREMENTS DIRECTIVE V) INSTRUMENT 2020, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app9.pdf
10	PRA RULEBOOK: CRR FIRMS: REPORTING PILLAR 2 (CAPITAL REQUIREMENTS DIRECTIVE V) INSTRUMENT 2020, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app10.pdf
11	PRA RULEBOOK: CRR FIRMS: REGULATORY REPORTING – BRANCH REPORTING (CAPITAL REQUIREMENTS DIRECTIVE V) INSTRUMENT 2020, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app11.pdf
12	PRA RULEBOOK: CRR FIRMS: RELATED PARTY TRANSACTION RISK (CAPITAL REQUIREMENTS DIRECTIVE V) INSTRUMENT 2020, available at:

	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app12.pdf
13	PRA RULEBOOK: CRR FIRMS: REMUNERATION (CAPITAL REQUIREMENTS DIRECTIVE V) INSTRUMENT 2020, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app13.pdf
14	FSA079 'Pillar 2 Concentration risk additional data requirements' data item, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app14.pdf
15	FSA079 'Pillar 2 Concentration risk additional data requirements' instructions, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app15.pdf
16	Statement of Policy 'The PRA's methodologies for setting Pillar 2 capital', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app16.pdf
17	SS31/15 'The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app17.pdf
18	Post-transition period (TP) SS31/15 'The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app18.pdf
19	SS2/17 'Remuneration' available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app19.pdf
20	SS28/15 'Strengthening accountability in banking', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app20.pdf
21	SS15/13 'Groups', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app21.pdf
22	Post-TP SS15/13 'Groups', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app22.pdf
23	SS34/15 'Guidelines for completing regulatory reports', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app23.pdf
24	SS4/16 'Internal governance of third country branches', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app24.pdf
25	SS1/17 'Supervising international banks: the PRA's approach to branch supervision – liquidity reporting', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app25.pdf

26	Statement of Policy 'The PRA's approach to the implementation of the other systemically important institutions (O-SII) buffer', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app26.pdf
27	Statement of Policy 'The PRA's approach to identifying other systemically important institutions (O-SIIs)', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app27.pdf
28	SS45/15 'The UK leverage ratio framework', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app28.pdf
29	SS16/16 'The minimum requirement for own funds and eligible liabilities (MREL) – buffers and Threshold Conditions', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app29.pdf
30	SS6/14 'Implementing CRD IV: Capital buffers', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app30.pdf
31	Post-TP SS6/14 'Implementing Capital buffers', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app31.pdf
32	SS20/15 'Supervising building societies' treasury and lending activities', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app32.pdf
33	SS32/15 'Pillar 2 reporting, including instructions for completing data items FSA071 to FSA082, and PRA111', available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2020/ps2620app33.pdf
34	Capital Buffers and Pillar 2A Model Requirements, available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/modification-by-consent-pra-rulebook-capital-buffers
35	Additional Leverage Ratio Buffer Model Requirements, available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2020/vreq-additional-leverage-buffers-model-requirements