CP13/24 – Remainder of CRR: Restatement of assimilated law

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The response will be assessed to inform our work as a regulator and central bank, both in the public interest and in the exercise of our official authority. We may use your details to contact you to clarify any aspects of your response.

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Responses are requested by 15 January 2025.

Consent to publication

In the policy statement for this consultation, the PRA will publish an account, in general terms, of the representations made as part of this consultation and its response to them. In the policy statement, the PRA is also required to publish a list of respondents to its consultations, where respondents have consented to such publication.

When you respond to this consultation paper, please tell us in your response if you agree to the publication of your name, or the name of the organisation you are responding on behalf of, in the PRA's feedback response to this consultation.

Please make it clear if you are responding as an individual or on behalf of an organisation.

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You have the right to withdraw, amend or revoke your consent at any time. If you would like to do this, please contact the PRA using the contact details set out below.

Responses can be sent by email to: CP13_24@bankofengland.co.uk.

Alternatively, please address any comments or enquiries to:
Banking Capital Policy Division
Prudential Regulation Authority
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London
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1: Overview

1.1 This consultation paper (CP) sets out the Prudential Regulation Authority's (PRA's) proposals to restate the relevant provisions in the **assimilated Capital Requirements Regulation No 575/2013** (the CRR) in the PRA Rulebook and other policy material such as supervisory statements (SSs) or statements of policy (SoPs) ('PRA policy material').

1.2 The PRA also proposes to update the credit ratings mapping tables in some assimilated Technical Standards and to restate them in the PRA Rulebook.

Proposed changes to PRA rules and policy material

Policy material	Proposals
PRA Rulebook: CRR Firms: (CRR) Instrument [2025]	**The instrument would introduce new Parts of the PRA Rulebook, as follows:** • Securitisation (CRR); and • Settlement Risk (CRR).
PRA Rulebook: CRR Firms: (CRR) Instrument [2025]	**The instrument would amend the following Parts of the PRA Rulebook:** • Groups; • Non-performing Exposures Securitisation (CRR); • Counterparty Credit Risk (CRR); • Credit Risk; • Required Level of Own Funds (CRR); • Near-final Credit Risk: Standardised Approach (CRR); • Near-final Credit Risk: General Provisions (CRR); • Near-final Credit Risk Mitigation (CRR); • Near-final Credit Risk: Internal Ratings Based Approach (CRR); • Own Funds (CRR); • Leverage Ratio (CRR); • SDDT Regime – Interim Capital Regime Part; and • Glossary.

Policy material	Proposals
	The instrument would also make consequential amendments to the Parts of the PRA Rulebook listed in Appendix 2.
PRA Rulebook: Solvency II Firms: Credit Quality Steps Mapping Instrument [2025]	**The instrument would amend the following Parts of the PRA Rulebook:** • Glossary; • Solvency Capital Requirement – Standard Formula; and • Matching Adjustment.
PRA Standards Instrument: The Technical Standards (Credit Quality Steps Mapping) Instrument [2025]	**The instrument would amend the following Technical Standard:** • Commission Implementing Regulation (EU) 2016/1799
Supervisory statements (SS)	**This CP would amend:** • SS15/13 – Groups; • Near-final SS4/24 – Credit risk: Internal ratings based approach; • SS9/13 – Securitisation: Significant Risk Transfer; • SS10/18 – Securitisation: General requirements and capital framework; • SS10/13 – Standardised Approach; • Near-final SS3/24 – Credit risk definition of default; and • SS3/17: Solvency II: Illiquid unrated assets.
Statements of policy (SoP)	**This CP would introduce:** • Draft SoP – The PRA's approach to waivers and permissions under the Securitisation (CRR) Part of the PRA Rulebook; • Draft SoP – The PRA's approach to permissions under the Counterparty Credit Risk (CRR) Part of the PRA Rulebook; and • Draft SoP – The PRA's approach to the exercise of powers referred to in Articles 244(3)(b), 245(3)(b), 254(4) and

Policy material	Proposals
	258(2) of the Securitisation (CRR) Part of the PRA Rulebook.

Background

1.3 Sections 1 and 4 of the **Financial Services and Markets Act 2023** (FSMA 2023) provide for the revocation and restatement of financial services assimilated law in secondary legislation.[1] This is to give way to a **'comprehensive FSMA model of regulation'**. It facilitates the adaptation of the UK's prudential regime for deposit-takers and designated investment firms (referred collectively in this CP as 'firms') inherited from the European Union (EU) into a framework consistent with the UK's approach to financial services regulation.

1.4 The PRA has already restated and amended or consulted on restatements and amendments of parts of the CRR. They are set out in the following publications:

- PS22/21 – **Implementation of Basel Standards: Final rules** (published on 14 October 2021)
- PS17/23 – **Implementation of the Basel 3.1 standards near-final part 1** (published on 12 December 2023)
- PS9/24 – **Implementation of the Basel 3.1 standards near-final part 2** (published on 12 September 2024)
- CP8/24 – **Definition of Capital: restatement of CRR requirements in PRA Rulebook** (published on 12 September 2024)

1.5 On 12 September 2024, HM Treasury (HMT) stated its intention to revoke the remainder of assimilated law in the CRR.[2] [3] This CP sets out how the PRA proposes to restate and, in

[1] Retained EU law that continues to apply in the UK was renamed 'assimilated law' by section 5 of the **Retained EU Law (Revocation and Reform) Act 2023**.
[2] **Applying the FSMA 2000 model of regulation to the Capital Requirements Regulation**.
[3] HMT intends to restate in legislation certain CRR assimilated law provisions under FSMA 2023: the CRR equivalence regimes, and some of the key CRR definitions which are needed to ensure that the overall legislative framework for regulation of banks, building societies and investment firms continues to operate as intended once the CRR is fully revoked.

some cases modify, these CRR requirements in the PRA Rulebook and other policy material.[4] [5]

1.6 The PRA also proposes to update the credit ratings mapping tables in some assimilated Technical Standards (TS) which were incorporated into UK law following UK's exit from the EU, and consequently revoke these TS, in part or in full, and to restate them in the PRA Rulebook. See Chapter 7 of this CP for details. As noted at paragraph 2.6 of CP5/24 – **Review of Solvency II: Restatement of assimilated law**, this includes the mapping tables applicable to insurers under the Solvency II framework in addition to those applicable to CRR firms.

1.7 The proposed restatements and modifications, and the key benefits that the PRA considers will arise from them, are set out below.

The PRA's proposals

1.8 The proposals included in this CP consist primarily of the restatement of assimilated law into PRA rules and policy materials without modifications. There are a few instances where this CP proposes to modify certain areas as part of their restatement, as detailed below.

Restatement of elements of assimilated law without policy change

1.9 The PRA proposes to restate the relevant CRR provisions into PRA policy material without material changes to the policy substance, unless explicitly mentioned. The intention of these proposals is to maintain both the requirements on firms as well as the PRA's approach as they currently operate.

1.10 Under the PRA's policy framework, requirements on firms are set out in PRA rules. Accordingly, where the CRR sets out provisions that firms are required to comply with, the PRA proposes to restate these requirements into the relevant part of the PRA Rulebook. In some instances, the PRA proposes to make some changes to the provisions to ensure their operability in the PRA Rulebook, and to omit some provisions that provide for PRA discretions which the PRA has never exercised or does not plan to exercise in the future.

[4] This CP does not cover the PRA's restatement of CRR definitions (Articles 4, 4A, 4B and 5 of the CRR). The PRA will consult in due course on the restatement of CRR definitions in the PRA Rulebook, taking account of HMT's restatement provisions referred to in the preceding footnote. Subject to that consultation, in accordance with the Interpretation Part of the PRA Rulebook CRR definitions will apply to PRA rules which replace provisions of the CRR unless the rule provides otherwise.

[5] When HMT has legislated for the restatement of CRR equivalence regimes, the PRA will make consequential updates to rules which relate to those provisions.

1.11 Where the CRR currently specifies how the PRA should exercise its discretion, or where it currently provides further expectations or clarifications for firms, the PRA proposes to restate these provisions in an applicable SS or SoP.

1.12 The CRR includes a number of provisions that set requirements relating to Total Loss Absorbing Capacity (TLAC) for certain banks. These TLAC provisions are to be implemented by the Bank of England (BoE) as the UK resolution authority. The BoE is consulting separately on the restatement, with modifications, of these provisions in the BoE's SoP on its approach to setting a minimum requirement for own Funds and eligible liabilities (MREL) for firms.[6] Consequently, any references to articles in CRR relating to TLAC requirements are now redirected to their corresponding replacements in the BoE's SoP.[7]

1.13 Nevertheless, some of the PRA rules will continue to make references to 'eligible liabilities item' or 'eligible liabilities instrument'. Following the restatement, with modifications, of the CRR provisions relating to eligible liabilities items and instruments in the BoE's MREL SoP, the PRA proposes to introduce definitions of 'eligible liabilities item' and 'eligible liabilities instrument' in the Glossary Part of the PRA Rulebook which cross-refer to the MREL SoP. These terms will have the same meanings in PRA rules as they had in the CRR prior to their revocation and are merely being re-stated in order to improve the comprehensiveness of the PRA rulebook.

1.14 The proposed rules have been written in a style and structure that maintains consistency with the CRR, with Article numbers that, where possible, correspond to the CRR and related assimilated laws.[8] The table of revoked CRR provisions and their corresponding PRA rules will be updated in due course.

Areas of policy changes

1.15 In restating the relevant CRR provisions in the PRA Rulebook, the PRA proposes some changes to a number of areas. These are set out in the respective chapters. The more substantive proposals relate to proposed changes to the securitisation requirements. They are set out in Chapter 3 of this CP. They include:

- Proposal 1: A formulaic p-factor for the securitisation standardised approach (SEC-SA);

[6] **Consultation: Amendments to the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL).**
[7] References to TLAC in provisions relating to Reporting and Disclosure will be updated separately as referred to in paragraph 1.18.
[8] In some cases, where a provision from the assimilated law is not needed in the PRA rules, the PRA proposes to include the article number and title without any text. This has been done to maintain the same numbering as the assimilated laws and is indicated by a note in the instrument that the provision has been left blank.

- Proposal 2: A new capital treatment of retail residential mortgage loans under the Mortgage Guarantee Scheme (MGS) and private mortgage insurance schemes with similar contractual features to MGS; and
- Proposal 3: Supervisory expectations relating to the use of unfunded credit protection in synthetic significant risk transfer (SRT) securitisations.

Updating cross-references to the EU framework

1.16 One of the aims of this CP is to reflect the Government's overall plans to transfer the relevant assimilated laws to the relevant regulators and to update cross references to assimilated law which exist within PRA policy material. Accordingly, this CP proposes to update references to other CRR provisions within the restated CRR provisions with references to the relevant parts of the PRA's policy materials which now restate those same provisions.

1.17 This CP also proposes to update some references elsewhere in the Rulebook to CRR provisions that will be revoked with references to their replacement provisions. Where references to revoked CRR provisions remain in the Rulebook, those references will, in accordance with the Interpretation Part of the PRA Rulebook, be treated as a reference to their replacement provisions.

1.18 The PRA notes that many reporting and disclosure templates and instructions contain cross references to the CRR and they may need to be updated following the proposed restatement of the CRR provisions in the PRA Rulebook. The PRA intends to consult on these changes at a later date.

Scope

1.19 This CP is relevant to PRA-authorised UK banks, building societies, PRA-designated UK investment firms, and their qualifying parent undertakings, which for this purpose comprise financial holding companies and mixed financial holding companies (collectively 'firms'), including Small Domestic Deposit Takers (SDDTs) and SDDT consolidation entities.[9] It is not relevant to credit unions or third-country branches.

1.20 In addition to the above scope of application, Chapter 7 on credit rating mapping tables is also relevant to UK Solvency II firms, the society of Lloyds and its managing agents, and insurance and reinsurance undertakings that have a UK branch (third country branch

[9] The full definition of an SDDT and an SDDT consolidation entity, including the SDDT and SDDT consolidation entity criteria, are set out in the **SDDT Regime – General Application Rules** in the PRA Rulebook.

undertakings), in particular relating to the proposed updates to the mapping table applicable within the Solvency II framework.

Legislative dependencies

1.21 The proposals in this CP are dependent on anticipated legislation in relation to commencement regulations to bring into force the provisions of FSMA 2023 to revoke the relevant provisions in the CRR.

1.22 Further PRA policy amendments may be necessary to take into account any other secondary legislation made by HMT under FSMA 2023, for example in relation to equivalence regimes, savings provisions, and any other restatement of CRR provisions outside the scope of this CP.

Section 138BA permissions

1.23 Section 138BA of the Financial Services and Markets Act 2000 (FSMA) allows the PRA, on the application or with the consent of a person who is subject to the PRA rules, to give the person a permission that enables them not to apply the rules, or to apply the rules with a modification specified in the permission.[10] This new power is available in relation to PRA rules specified by HMT, as set out in the **Financial Services and Markets Act 2000 (Disapplication or Modification of Financial Regulator Rules in Individual Cases) Regulations 2024**.

1.24 The PRA proposes to use this power to give effect to the permission requirements in the parts of the CRR within the scope of this CP.

1.25 On 25 July 2024, the PRA published a **statement of policy** that sets out its approach to rule permission and waivers. The proposals in this CP are consistent with that approach.

1.26 In order to ensure continuity, the PRA understands that HMT will introduce legislation to ‘save’ all permissions granted under the parts of CRR within the scope of this CP so that firms’ existing permissions under the CRR will continue to be valid following the revocation of the CRR provisions. Consequently, the PRA has no plans to require firms to reapply for these permissions.

[10] Applications can also be made to vary a permission that has been granted to a firm.

Accountability framework

1.27 The PRA has a statutory duty to consult when introducing new rules and changing existing rules (section 138J of FSMA), or new standards instruments (section 138S of FSMA). When not making rules, the PRA has a public law duty to consult widely where it would be fair to do so.

1.28 The Banking Practitioner Panel and the Cost Benefit Analysis (CBA) Panel were consulted about the proposals in this CP. A summary of the CBA Panel's main recommendations and our subsequent changes are included below in Chapter 3.

1.29 In carrying out its policymaking functions, the PRA is required to comply with several legal obligations. The analysis in this CP explains how the proposals have had regard to the most significant matters, including an explanation of the ways in which having regard to these matters has affected the proposals.

Chapter 1: PRA objectives analysis

1.30 The paragraphs below analyse the impact of the PRA's proposals for restating assimilated law into its policy material. Where proposals involve policy changes, analysis against the PRA's objectives is contained in the relevant chapters rather than in this opening analysis. Accordingly, the PRA objective analysis on the main changes to the securitisation requirements are set out in Chapter 3 of this CP.

Analysis against the PRA's primary objectives:

1.31 The PRA considers that the proposals would continue to advance its primary objective of safety and soundness of UK firms and contribute to securing an appropriate degree of protection for policyholders. Restating the CRR provisions in the PRA Rulebook and other policy materials would enhance the clarity and coherence of the regulatory framework for firms by locating all the requirements and expectations for PRA-regulated firms at one place, making it easier for firms to understand the totality of the new prudential regime that would apply to them.

1.32 Currently, many obligations on firms are fixed in on-shored regulations and cannot be easily amended to address changing circumstances – whether through rule making or through waivers and modifications. The proposed restatement of remaining CRR provisions into PRA Rulebook and policy materials would enable the PRA to consider more easily in future whether any further policy changes might be warranted, and if so it would enable the PRA to consult on any such changes through its usual policymaking processes. This would enable the PRA to be more responsive and flexible to the need to evolve the PRA Rulebook

to reflect prudential risks in UK firms and to financial markets in the future, thereby further advancing its primary objectives.

1.33 The proposals in this CP are also intended to promote a sound prudential regime for firms by restating relevant provisions that are part of the key elements of the regulatory framework.

Analysis against the PRA's secondary objectives:

1.34 The PRA has assessed whether the proposals in this CP facilitate its secondary objectives relating to competition, and competitiveness and growth.

1.35 The proposals in the CP would continue to advance the PRA's secondary objective to facilitate effective competition in the markets for services provided by PRA authorised persons in carrying on regulated activities, by providing a clearer and more comprehensive PRA Rulebook and associated policy material for PRA-regulated firms. This could further contribute to rational and disciplined market behaviour which is a key driver of effective competition. Ensuring that the current prudential regime continues to have effect in PRA policy material should help support market confidence in firms, thereby enabling firms to continue to support a growing economy.

1.36 The proposals would also advance the PRA's secondary objectives to facilitate, subject to aligning with the relevant international standards, the international competitiveness of the economy of the UK and its growth in the medium to longer term. A more accessible PRA Rulebook makes it more attractive for firms to operate in the UK because it enables firms to better understand their obligations. The proposals in this CP are also aligned with international standards.

1.37 In addition, the proposals would enable the UK to maintain its reputation as a sound place to conduct business and to facilitate the efficient allocation of capital and investment within the economy by firms through ensuring that current CRR provisions are largely maintained in the PRA's policy material.

Chapter 1: Cost benefit analysis

1.38 In developing the proposals set out in this CP, the PRA has had regard to its objectives and a range of factors that contribute to the cost benefit analysis (CBA). The baseline for the CBA is the current CRR and the PRA rules as set out in the PRA near final policy statements to implement Basel 3.1 standards.

1.39 For areas where the PRA is proposing to restate the CRR provisions without changes to the policy substance or intention, the PRA considers that there would be minimal additional costs or benefits for the proposals compared to the baseline.

1.40 Where proposals introduce some changes to existing policy, the PRA has considered the additional costs and benefits in the relevant chapters, particularly in Chapter 3 of this CP for the CBA on the main changes to the securitisation requirements.

1.41 Overall, relative to the baseline, the PRA considers that the benefits of these proposals exceed the costs involved.

Costs

1.42 The proposed changes would not affect the PRA's approach to the regulation of the UK firms. The PRA is proposing that most provisions are restated unchanged in PRA policy material and so any administrative costs to the UK firms of updating their knowledge of these changes is expected to be minimal. The PRA considers that the costs of these proposals are proportionate to the benefits of the proposals, as outlined above in terms of advancing its primary and secondary objectives.

Benefits

1.43 Relative to the baseline, the proposals in this CP would lead to some improved efficiency and clarity for firms, through:

- Restating relevant parts of the CRR in PRA rules and other policy materials would make it easier for firms to access and understand the rules that apply to them. This is relative to the current baseline in which requirements are split across legislation and the PRA Rulebook.
- Creating a more accessible PRA Rulebook would make it more attractive to operate in the UK because firms would have greater clarity as to their obligations.
- As discussed in the analysis of PRA's primary objectives above, restating obligations into the PRA Rulebook would enable the PRA to be more responsive and flexible, by enabling the PRA to evolve the PRA Rulebook to reflect future changes in UK firms and financial markets.

1.44 The proposals are expected to continue facilitating international competitiveness and growth, through improved clarity for firms. This would also contribute to a level playing field, thereby helping to facilitate the PRA's secondary competition objective.

Chapter 1: ‘Have regards’ analysis

1.45 In developing these proposals, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material for areas where the PRA is proposing to restate the CRR provisions without changes to the policy substance or intention include:

1. **The need to use the PRA’s resources in the most efficient and economical way:** The PRA considers that the proposals are in line with efficient use of PRA resources. The proposals in this CP have generally been limited to a restatement of the CRR provisions (except in areas described in the respective chapters to this CP) because the PRA has judged this to be the most efficient and economic approach to ensure that the PRA can publish this CP by the end of 2024.

2. **The principle that the PRA should exercise its functions as transparently as possible:** The restatement of CRR provisions into the PRA rulebook and other policy materials is intended to give increased clarity to firms over the PRA’s intended approach and its expectations of firms, and to ensure that all relevant policy requirements affecting firms are contained and are accessible within PRA policy material.

3. **To promote: (i) the international competitiveness of the UK; and (ii) medium to long-term economic growth in the interests of consumers and businesses:** As discussed in the secondary objectives analysis above, the proposals would make it easier for firms to access and understand the rules that apply to them hence promoting competitiveness and growth.

1.46 Where proposals result in significant changes to existing policy, the PRA has set out additional have regards analysis in the relevant chapters, including Chapter 3 of this CP for the analysis on the main changes to the securitisation requirements.

1.47 The PRA has had regard to other factors as required, including the coherence of the overall framework for the regulation of securitisation. Where analysis has not been provided against a ‘have regard’ for these proposals, it is because the PRA considers that ‘have regard’ to not be a significant factor for these proposals.

1.48 In addition, the PRA has a statutory obligation to give an opinion on the impact of its proposals on **mutual societies (section 138K of FSMA)**, hereafter ‘mutuals’. For the purpose of this CP, all references to ‘mutuals’ refer to building societies, which are the only group of mutuals within the proposed scope of application as set out in Chapter 2. The PRA considers that mutuals as a group would not be impacted differently to other types of firms.

This is because the restatement is carried in a consistent way across all assimilated law so would impact mutuals and other firms in a similar manner.

1.49 The PRA has considered its obligation to have 'due regard' to the need to promote equality of opportunity, eliminate discrimination and foster good relations between those with protected characteristics and others set out in the Equality Act 2010 in the context of the proposals set out in this CP, and has not identified any adverse impacts.

Structure of the CP

1.50 The proposals in this CP are structured into the following chapters. The draft rules and related policy materials are included in the relevant appendices.

- Chapter 2 – Level of application of requirements
- Chapter 3 – Securitisation requirements
- Chapter 4 – Counterparty credit risk
- Chapter 5 – Settlement risk
- Chapter 6 – Other CRR requirements
- Chapter 7 – Mapping of external credit rating agency ratings to credit quality steps

Chapter 1: Implementation

1.51 Except for firms that are subject to the PRA's Interim Capital Regime (ICR)[11] (ICR firms[12]) (as explained in paragraph 1.55 below), the PRA proposes that the implementation date for the draft PRA rules set out in this CP (except for the proposals to amend CRR requirements consequential to the proposed simplification of requirements for SDDTs (see paragraph 1.52) and credit ratings mapping tables set out in Chapter 7 (see paragraph 1.53)), and the draft PRA rules set out in CP8/24 would be 1 January 2026, alongside the PRA rules implementing the Basel 3.1 standards as shown in Chart 1 below.

1.52 In some areas, the PRA proposes to amend certain CRR requirements consequential to the proposed simplification of requirements for SDDTs[13] as consulted in CP7/24. The PRA

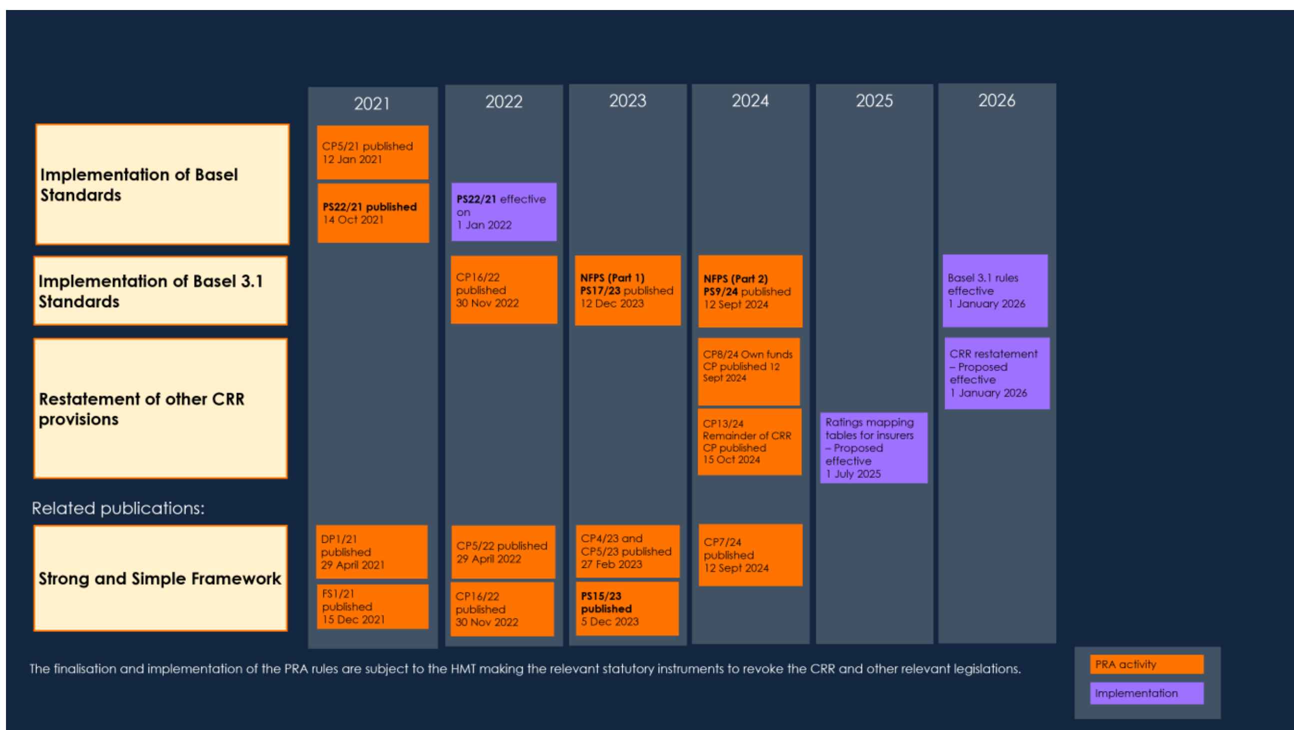
[11] As explained in Chapter 8 of PS17/23 and Chapter 9 of PS9/24.
[12] And ICR consolidation entities. For ease of reading, any references to ICR firm(s) hereafter in this CP should be treated as applicable to both ICR firms and ICR consolidation entities. Similarly, any references to SDDT(s) hereafter in this CP should be treated as applicable to both SDDTs and SDDT consolidation entities. References to SDDT(s) hereafter in this CP should be treated as applicable to both SDDTs and SDDT.
[13] Proposed amendments to Articles 244, 245 and 253 in Chapter 3; Articles 271 and 283 in Chapter 4; and Article 379 in Chapter 5.

proposes that these requirements would come into effect on 1 January 2027, at the same time as the simplified capital regime for SDDTs as consulted in CP7/24.

1.53 For the credit ratings mapping tables set out in Chapter 7, the PRA proposes that the implementation date for the insurance-related mapping rule changes would be 1 July 2025, and the implementation date for the banking and securitisation mapping rule changes should be 1 January 2026. This applies to all firms in-scope of this CP, including the ICR firms.

1.54 The PRA considers these proposed implementation dates would give firms and the PRA sufficient time to consider responses to this CP and sufficient time for the resulting final rules to be implemented by firms.

Chart 1: Timeline of rules transfers



Implementation for firms subject to the PRA's Interim Capital Regime

1.55 The PRA proposes that ICR firms would be subject to the draft PRA rules in this CP and the draft PRA rules in CP8/24 from 1 January 2027, at the same time as the implementation of the SDDT capital regime as set out in CP7/24 (this is except for the proposed changes set out in paragraph 1.58, which would apply to ICR firms from 1 January 2026). Similar to the Basel 3.1 risk-based capital requirements, ICR firms would be subject to rules which are substantively the same as those currently applicable under the CRR during the interim period between 1 January 2026 and 1 January 2027.

1.56 The reason that most of the rules in this CP will apply from January 2027 is that many of the draft PRA rules in this CP are dependent on the implementation of the Basel 3.1 rules and the SDDT capital regime, which SDDTs would not be subject to until 1 January 2027. It will also help to ensure that for small firms the adjustment from the existing CRR provisions to the replacement PRA rules will take place at the same time across most of the CRR regime.

1.57 This proposal would amend the SDDT Regime – Interim Capital Regime Part of the PRA Rulebook[14] by extending the reproduced CRR provisions set out in Annex 1 of that Part to include various CRR provisions being revoked by HMT, subject to some modifications. The reproduced CRR provisions in the ICR are subject to certain amendments to ensure that they are legally operable as PRA rules, including amendment to ensure that the PRA has power to grant permissions where appropriate. Other modifications reflect that certain provisions will not be available to ICR firms and so are omitted, ie the credit risk – internal ratings based (IRB) approach, the Securitisation internal ratings-based approach (Sec-IRBA), the Internal Assessment approach and the Internal Model Method. Provisions relating to eligible liabilities are made by reference to the BoE's SoP on its approach to setting a minimum requirement for own funds and eligible liabilities, and provisions which will be reflected in that statement of policy are not reinstated in the ICR. The rule instrument specifies other modifications relating to specific articles. The PRA considers that these modifications would not be substantial, and would only entail what is needed for the continuation, in effect, of the existing requirements during the interim period.

1.58 The PRA proposes that ICR firms shall implement the below proposals from 1 January 2026:

- Draft PRA rules on level of application of requirements as set out in Chapter 2. This is because these proposed changes do not depend on the implementation of the Basel 3.1 rules and the SDDT capital regime;
- Certain proposed changes to SS9/13 and SS10/18 as set out in Proposal 3 and Proposal 4 in Chapter 3. This is because these relate to supervisory expectations that are as relevant to the proposed rules for ICR firms as they are to the proposed rules for other firms within the scope of this CP. Subject to the responses to this CP, the PRA may also consider implementing these proposals before 1 January 2026 for all firms within the scope of this CP. This is because these proposed changes to supervisory expectations do not depend on the implementation of the proposed rules; and

[14] **Appendix 17: PRA Rulebook: CRR Firms: SDDT Regime (Interim Capital Regime) Instrument 2024**.

- Updated banking and securitisation mapping tables as set out in Chapter 7.

1.59 Extending the ICR in the manner proposed in this CP may result in modest benefits and costs. The ICR provides certainty about capital requirements during the interim period and helps firms avoid costs of adjusting business models and balance sheets under two different capital regimes (ie first under the Basel 3.1 standards and the proposals in this CP and then under the subsequent simpler regime). During the interim period, it is possible that ICR firms incur opportunity costs to the extent that capital requirements are higher under the ICR compared with the proposals in this CP, for example due to a later implementation of certain proposed changes to the securitisation requirements. These costs; however, would depend on the degree of the relevant securitisation exposures in ICR firms. Since firms meeting the SDDT criteria would have the option of not opting into the ICR, such costs would be expected to be minimal.

1.60 The PRA considers extending the ICR in the manner proposed in this CP advances its primary objective as it allows the PRA to maintain the safety and soundness of ICR firms while developing a regime appropriate for small firms. The PRA also considers that this would advance its secondary competition objective because extending the ICR regime for the Basel 3.1 rules to the relevant proposals in this CP would avoid the unnecessary regulatory burden of having to make changes at two different points in time.

1.61 The PRA also has had regards to the following factors in its proposal to extend the ICR to the draft PRA rules in this CP (except for the proposed changes set out in paragraph 1.58) and the draft PRA rules on definition of capital in CP8/24:

1. **Proportionality, different business models, and sustainable growth:** The ICR recognises differences in the nature of the small domestically focused deposit takers in the UK. The PRA considers that the ICR avoids placing unnecessary burden and costs on these firms of having to go through two changes to the applicable capital framework. This would avoid disruption to these firms and; therefore, allows these firms to continue supporting sustainable economic growth.

1.62 With regards to the impact of its proposals on mutual societies (section138K of FSMA), (‘mutuals’), the PRA expects building societies (the only group of mutuals within the scope of the proposals) to be among the firms eligible to enter the ICR. The PRA does not expect the impact on mutuals to be significantly different to other ICR firms.

Responses and next steps

1.63 This consultation closes on 15 January 2025. The PRA invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to **CP13_24@bankofengland.co.uk**.

1.64 When providing your response, please tell us whether or not you consent to the PRA publishing your name, and/or the name of your organisation, as a respondent to this CP.

1.65 Please also indicate in your response if you believe any of the proposals in this consultation paper are likely to impact persons who share protected characteristics under the Equality Act 2010, and if so, please explain which groups and what the impact on such groups might be.

1.66 The SS and SoPs covered by this CP have been updated as part of these proposals to reflect the UK's withdrawal from the EU. Unless otherwise stated, any remaining references to EU or EU-derived legislation refer to the version of that legislation which forms part of assimilated EU law.[15]

[15] For further information please see **Transitioning to post-exit rules and standards**.

2: Level of application of requirements

Chapter 2: Introduction

2.1 This chapter sets out the PRA's proposals to restate rules relating to the level of application of CRR requirements in the PRA Rulebook with no significant substantive changes.

2.2 The proposals in this chapter would result in amendments to:
- the Groups Part of the PRA Rulebook;
- PRA Rulebook Glossary;
- PRA supervisory statement (SS) 15/13 – Groups;
- PRA near-final Credit Risk: Internal Ratings Based Approach (CRR) Part of the PRA Rulebook; and
- PRA near-final supervisory statement (SS) 4/24 – Credit risk: Internal ratings based approach.

They would also make consequential amendments to the Parts of the PRA Rulebook listed in Appendix 2.

Chapter 2: Areas covered

2.3 The scope of this chapter is CRR Title II Level of application of requirements, Articles 6 to 24.[16]

Proposal 1: Restatement of rules relating to level of application of CRR requirements

CRR provisions restated without policy changes

2.4 The PRA proposes to restate the following CRR provisions in the Groups Part of the PRA Rulebook:

- the individual consolidation method (CRR Article 9);
- the general requirement for firms to apply rules on a consolidated basis (CRR Article 11);
- the methods of prudential consolidation (CRR Article 18);
- the discretion for firms to exclude certain small entities from consolidation (CRR Article 19(1) and (3));

[16] CRR Articles 8, 10, 12, 13, 15, 16, 17, 21 and 22, together with certain limbs of other Articles, have already been revoked from the CRR.

- the application of consolidated requirements relating to undertakings in third countries (CRR Article 23); and
- the valuation of assets and off-balance sheet items (CRR Article 24).

Equity method waiver

2.5 In restating CRR Article 18(7), which requires firms to use the equity method to value certain holdings[17], the PRA is proposing not to restate the specific conditions in the CRR under which a firm may apply for permission to use another valuation method. The PRA does not consider some of these specific restrictive conditions to be relevant (eg that a holding was not valued using the equity method in 2020) in deciding whether to grant a waiver or modification, whilst another condition (undue burden) already forms part of the statutory tests for granting a waiver pursuant to section138A of FSMA. A firm would; therefore, be permitted to apply for a waiver of the rule without being bound by specific conditions beyond those applicable under s138A of FSMA. The PRA proposes to update SS15/13 – **Groups** to reflect this proposed amendment.

Excluding entities from consolidation

2.6 In restating CRR Article 19(1) in the PRA Rulebook, the PRA proposes to convert the EUR 10 million threshold for excluding entities from consolidation from euro to sterling using the method that the PRA has previously used for such translation purposes.[18] The PRA proposes to use this method for consistency. The new threshold would; therefore, be GBP 8.8 million.

2.7 The PRA would note that this threshold relates to the exclusion of either a single entity or the aggregate size of multiple entities. The proposed Article 19(3) of the Groups Part of the Rulebook would clarify the existing CRR Article 19(3) relating to the exclusion of entities. This is by clarifying that a firm may choose to exclude an entity or entities from consolidation, but only where the balance sheet size of the entity being excluded, or the aggregate balance sheet size of the entities being excluded (where more than one entity is being excluded) is less than the relevant threshold. (The relevant threshold, as set out in the restated CRR Article 19(1), being the lower of GBP 8.8 million and 1% of the total amount of assets and off-balance sheet items of the parent undertaking or the undertaking that holds the participation.)

Other amendments

2.8 CRR Article 6(1) requires certain prudential requirements to be applied on an individual basis. The PRA proposes to restate these requirements in the Groups Part of the PRA

[17] A holding of a subsidiary which is an undertaking other than an institution, a financial institution or an ancillary services undertaking or a participation in such an undertaking.
[18] PS17/21 – **Implementation of Basel Standards: Part I**, on 9 July 2021. See paragraphs 15.2 and 15.5. As explained in CP5/21, the PRA used the same average daily GBP/EUR spot exchange rate as that used when transposing CRD V, covering the 12-month period prior to Friday 10 July 2020, rounded to the nearest integer: £1 = €1.14. The PRA then rounded the redenominated GBP values to 2 significant figures.

Rulebook (incorporated within Article 9) and the level of application sections of relevant Parts of the PRA Rulebook.[19]

2.9 The PRA proposes some consequential amendments to the PRA Rulebook Glossary. These will amend certain definitions and create additional definitions relating to the level of application of the PRA Rulebook (eg 'consolidated situation'). The purpose of these proposed amendments would be to ensure the operability of the Rulebook once the level of application requirements is deleted from the CRR. (This would be achieved by ensuring that references to consolidation, for example, are to PRA consolidation in accordance with the updated Groups Part of the PRA Rulebook rather than under the CRR.)

2.10 The PRA proposes, as part of its update to the Glossary, to amend the definition of 'UK parent institution' to make it consistent with the CRR definition. This amendment would mean that any firm whose only subsidiary is an ancillary service undertaking (ASU) would be required to meet all of the relevant Parts of the PRA Rulebook on a consolidated basis – ie not just those being transferred from the CRR. To introduce consistency, the PRA also proposes amendments to a large number of relevant Parts of the PRA Rulebook to set the level of application for each of them. Changes to the Groups and Glossary Parts of the Rulebook would also be reflected in these Parts.

2.11 In addition, the PRA proposes to update a number of Parts of the PRA Rulebook to clarify which parts of the PRA Rulebook apply on a sub-consolidated basis where a firm is subject to a sub-consolidation requirement. The PRA would note that the existing requirements placed on firms to comply with requirements on a sub-consolidated basis would need to be reissued following the adoption of these proposed restatements.

CRR provisions to be restated in other parts of the PRA Rulebook

2.12 Certain provisions within the existing CRR Articles 6 to 24 explain the way that individual or consolidated requirements apply in specific circumstances, as they relate to particular subject-matter areas rather than applying generally. The PRA proposes that these will be restated in specific parts of the PRA Rulebook. These include the following:

- CRR Article 6(2) will be restated in the Own Funds (CRR) Part of the PRA Rulebook;
- CRR Article 14 will be restated with modification in the Securitisation (CRR) Part of the PRA Rulebook; and
- CRR Article 20(6) will be restated in the Credit Risk: Internal Ratings Based Approach (CRR) Part of the PRA Rulebook. The PRA proposes a consequential amendment to near-final SS4/24 – **Credit risk: Internal ratings based approach** to replace

[19] CRR Article 6(1) as it relates to the Securitisation Regulation is not being restated in the PRA Rulebook, but the new Securitisation Part (the rules replacing relevant provisions of the Securitisation Regulation) will apply on an individual basis consistent with Article 6(1).

references to CRR Article 20(6) with Rule 2.1A of the Credit Risk: Internal Ratings Based Approach (CRR) Part of the PRA Rulebook instead.

Individual consolidation method and permission

2.13 Under the CRR, firms must apply to the PRA for approvals or permissions before undertaking certain actions in relation to the level of application of the CRR requirements. As noted in Chapter 1 – Overview, following the restatement of the CRR articles in the PRA Rulebook, the PRA proposes that it would grant certain approvals relating to the level of application of CRR requirements using the new permission power under s138BA of FSMA.[20] This includes the proposed restatement of the individual consolidation permission within the PRA Rulebook.

2.14 Consequently, the PRA proposes to restate the following:

- The PRA proposes to restate CRR Article 9, with modification, in the Groups Part of the PRA Rulebook. This would allow a firm to apply for an individual consolidation permission. The permission would allow a firm to meet its capital requirements on an individual consolidation basis rather than on an individual basis.

- To supplement the Rulebook restatement, the PRA proposes to restate in SS15/13 parts of CRR Article 7 (without restating CRR Article 7 itself as noted below) and parts of Article 9 that set out conditions for the PRA to grant the individual consolidation permission. The proposed criterion requires a parent undertaking to include the activities of the subsidiary in its risk evaluation, measurement, and control procedures. The PRA expects a firm to demonstrate that it meets these conditions when applying for the permission.

- The PRA also proposes to add further criteria to the restated individual consolidation permission criteria in SS15/13 to reflect its current approach. This information would assist the PRA in understanding the size and impact of the entities included in the scope of individual consolidation and the impact on recovery and resolution.
  This would set expectations for a firm to:

  - provide information on the balance sheet of each subsidiary within the individual consolidation application and, where appropriate, explain how that has evolved since the last application;

  - confirm whether, based on the firm's recovery plans and other relevant information, there are any impediments to the firm's ability to undertake recovery actions or to the implementation of the firm's preferred resolution strategy arising from the individual consolidation; and

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[20] PS12/24 – **The Prudential Regulation Authority's approach to rule permissions and waivers.**

- provide a breakdown of the firm's regulatory capital ratios and risk-weighted assets (RWAs) with and without the Article 9 permission.

Certain CRR discretions

2.15 The PRA proposes to update parts of SS15/13 to clarify its approach in relation to certain CRR discretions. These will continue to form part of the PRA's approach. These include the following:

- Restating CRR Article 11(6) to specify the conditions under which the PRA may require firms to apply prudential requirements on a sub-consolidated basis using its powers under s55M or s192C of FSMA. One of these conditions being that the PRA may require sub-consolidation for structural reform purposes, which would include requiring Ring-Fenced Bodies to meet requirements on a sub-consolidated basis.

- Restating CRR Article 18(7)(2) which sets out conditions under which the PRA may allow a firm to apply a different consolidation method for certain subsidiaries where it applies for a waiver under s138A of FSMA. It also states that the PRA may require a firm to apply a different consolidation method for such subsidiaries by using its powers pursuant to s55M or s192C of FSMA.

- Restating CRR Article 18(8) which states that the PRA may require full or proportional consolidation of certain entities that are subsidiaries or where a firm has a participation where substantial step-in risk is identified by using its powers pursuant to s55M or s192C of FSMA.

CRR provisions not restated

2.16 The PRA also proposes to not restate the following CRR provisions. These are provisions that are not part of, or consistent with, the PRA's approach to consolidation. These include the following:

- CRR Article 7, which permits the PRA to waive individual requirements;[21]
- CRR Article 10A, which states that FCA investment firms are to be considered UK parent financial holding companies where they are parent undertakings of an institution;
- CRR Article 19(2), which permits the PRA to agree the exclusion of firms from consolidation for certain specific circumstances. Consequently, the PRA proposes to delete references to CRR Article 19(2) from SS15/13; and
- CRR Article 24(2), which permits the PRA to require institutions to use specific accounting standards of certain assets.

[21] CRR Articles 84(3), 85(3) and 87(3), which will become Article 84(3), 85(3) and 87(3), respectively, of the Own Funds (CRR) Part of the PRA Rulebook, will also be deleted, as it refers to CRR Article 7.

2.17 The PRA considers that none of these proposals constitute a change to the PRA's current approach, and so the PRA does not expect them to have any impact on CRR firms. The PRA would note that a firm could, for example, apply for a waiver under s138A of FSMA if it considered that any of the specific circumstances in the current CRR Article 19(2) were relevant to the statutory tests in such a waiver application (eg if one of those circumstances applied and supported an argument that consolidation was unduly burdensome as a result).

2.18 As noted in Chapter 1 – Overview, CRR provisions that relate to eligible liabilities requirements will not be restated in the PRA Rulebook. These include CRR Articles 6(1a), 11(3a), 12a, and part of 18(1). The Bank of England, as the UK resolution authority, is consulting separately on these.

Chapter 2: PRA objectives analysis

2.19 The assessment of most of these proposals in terms of the PRA's primary and secondary objectives is described in Chapter 1 – Overview. The exceptions are the proposals to: include some additional conditions in relation to individual consolidation permission requests (Article 9); remove the conditions relating to a firm applying to vary the valuation method it uses relating to certain holdings (Article 18(7)); and to make consequential amendments to the PRA Rulebook Glossary and to several Parts of the PRA Rulebook, including to the definition of a 'UK parent institution'.

2.20 The additional conditions relating to individual consolidation permissions would improve the safety and soundness of firms by requiring firms to consider the impact of the permission on their resolvability. The consequential amendments to the PRA Rulebook Glossary and Parts of the PRA Rulebook would also improve the safety and soundness of firms by clarifying the application of the rules to them.

2.21 The removal of conditions relating to firms applying to vary the valuation of certain holdings is unlikely to affect the safety and soundness of firms.

2.22 The PRA considers that these proposals are unlikely to have an impact on the PRA's secondary competition or competitiveness and growth objectives.

Chapter 2: Cost benefit analysis (CBA)

2.23 Most of the proposals in this chapter relate to the restatement of the CRR into the PRA's existing policy materials and PRA rules. Accordingly, the costs and benefits of these proposals are as set out in Chapter 1 – Overview.

2.24 The PRA notes the following in relation to the costs and benefits of other amendments covered in this chapter:

- The PRA does not expect the proposals to include additional individual consolidation provisions and to remove the conditions on firms applying to vary the valuation of

certain holdings to increase costs to firms. The PRA currently requests additional information relating to individual consolidation permissions from firms when reviewing individual consolidation. This information is typically produced by firms, so is not expected to increase firms' costs.

- The PRA expects that there will be de minimis costs to firms and the PRA associated with reissuing requirements where firms must meet these requirements on a sub-consolidated basis under the current CRR Article 11(6).

- The PRA expects the consequential amendments to the PRA Rulebook Glossary and Parts of the PRA Rulebook to benefit firms by making the rulebook easier to understand, which may in turn reduce firms' costs. The specific amendment to the definition of 'UK parent institution' could involve costs to firms if they have to meet additional parts of the PRA Rulebook on a consolidated basis if their only subsidiary is an ASU. The proposed changes would have the benefit of making the PRA Rulebook consistent, as it would be clear that such firms would have to meet all relevant Parts of the PRA Rulebook on a consolidated basis. However, the PRA expects that these impacts are likely to be limited, as it has been unable to identify firms with such group structures in practice.

Chapter 2: 'Have regards' analysis

2.25 For most of the proposals in this chapter, the 'have regards' analysis is the same as the analysis described in Chapter 1 – Overview.

2.26 In developing the proposals relating to individual consolidation conditions, removing certain conditions on firms applying to vary the valuation of certain holdings and making consequential amendments to the PRA Rulebook Glossary and Parts of the PRA Rulebook, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material for areas where the PRA is proposing to restate the CRR provisions without changes to the policy substance or intention include:

1. **The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden**: The PRA considers that the proposals to include some additional provisions in relation to individual consolidation requests are proportionate. They reflect the PRA's current approach to considering such requests and firms are likely to be producing the additional information being requested for their own purposes. The removal of certain restrictive conditions relating to a firm applying to vary the valuation method it uses and the consequential amendments to the PRA Rulebook Glossary and Parts of the PRA Rulebook are also proportionate to the benefits.

2. **The principles that regulators should ensure clear information, guidance, and advice is available to help those they regulate meet their responsibilities to comply, and should ensure that their approach to their regulatory activities is transparent**: The PRA’s proposals to include additional individual consolidation provisions and to remove the conditions on firms applying to vary the valuation of certain holdings should also increase transparency. The proposals clarify the information and considerations that the PRA expects when a firm is submitting an application for an individual consolidation permission. They also clarify that a firm would not need to meet the particular conditions currently set out in CRR Article 18(7) when applying for a waiver to vary the use of the equity method under that rule. The proposals to make consequential amendments to the PRA Rulebook Glossary and Parts of the PRA Rulebook should also increase transparency. The proposals clarify the level of application of the PRA’s rules and simplify some of the rules through removing redundant and inconsistent material.

3. **The need to use the PRA’s resources in the most efficient and economical way:** The PRA's proposals relating to including additional individual consolidation provisions, removing restrictive conditions on firms applying to vary the valuation of certain holdings and consequential rule amendments would ensure it was using its resources in an efficient and economical way. The additional individual consolidation provisions include information that the PRA typically requests from firms in considering such permission requests. The submission of this information upfront is; therefore, likely to improve the efficiency of the PRA’s processes. The clarification provided in making consequential amendments to the PRA’s rules and in removing restrictive conditions relating to a firm applying to vary the valuation method it uses is also likely to ensure that the PRA’s resources are used in an efficient and economical way. These proposals may reduce the amount of time and resource the PRA needs to spend in understanding how firms have interpreted its rules.

3: Securitisation requirements

Chapter 3: Introduction

3.1 This chapter sets out the PRA's proposals for rules to restate firm-facing requirements in Chapter 5 (the 'Securitisation Chapter'), Title II, Part Three of the CRR in the PRA Rulebook and for related policy materials. The chapter also proposes minor changes to the Non-Performing Exposures Securitisation (CRR) Part of the PRA Rulebook. The PRA's proposed approach would largely preserve current requirements and supervisory expectations. However, the PRA also proposes some targeted policy changes.

3.2 In particular, this chapter covers the following proposed substantive policy changes and clarifications:

- Proposal 1: A formulaic p-factor for the securitisation standardised approach (SEC-SA);
- Proposal 2: A new capital treatment of retail residential mortgage loans under the Mortgage Guarantee Scheme (MGS) and private mortgage insurance schemes with similar contractual features to MGS; and
- Proposal 3: Supervisory expectations relating to the use of unfunded credit protection in synthetic significant risk transfer (SRT) securitisations.

3.3 It also covers the following relatively minor proposed policy changes, clarifications and drafting changes:

- Proposal 4: Other changes to supervisory expectations relating to securitisations;
- Proposal 5: Changes to the criteria for STS securitisations qualifying for differentiated capital treatment;
- Proposal 6: Change to the exposure value for certain undrawn portions of cash advance facilities;
- Proposal 7: Changes and clarifications relating to the recognition of credit risk mitigation for securitisation positions;
- Proposal 8: Simplifications for Small Domestic Deposit Takers (SDDTs);
- Proposal 9: Clarification of the circumstances for the application of the external ratings-based approach (SEC-ERBA) instead of the SEC-SA to all rated securitisation positions or positions in respect of which an inferred rating may be used;
- Proposal 10: Statement of policy (SoP) in relation to permissions in the Securitisation (CRR) Part;
- Proposal 11: SoP in relation to the use of powers referred to in the Securitisation (CRR) Part;

- Proposal 12: Minor modification and clarifications to the securitisation internal ratings-based approach (SEC-IRBA) and/or SEC-SA;
- Proposal 13: Change to the SEC-SA in relation to exposures in default;
- Proposal 14: Change to the calculation of maximum capital requirements for securitisation positions;
- Proposal 15: Notification of breaches of certain securitisation requirements; and
- Proposal 16: Other minor changes.

Please refer to Chapter 7 of this CP on ‘Mapping of External Credit Rating Agency Ratings to Credit Quality Steps’ for a discussion of the proposed changes to the mapping of credit quality steps for securitisation positions.

3.4 The proposals in this chapter are informed by responses to the PRA’s DP3/23 – **Securitisation: capital requirements**. These were helpful when developing the substantive proposals on the p-factor for the SEC-SA and on the use of unfunded credit protection for SRT. The PRA is not at this point proposing to take forward changes to the securitisation hierarchy of methods as, based on the responses received and data analysis undertaken to date, the PRA considers that the overall impact is too uncertain. The PRA remains of the view, taking account of responses to DP3/23, that extending the preferential capital treatment for STS securitisations currently set out in the Securitisation Chapter of the CRR to synthetic securitisations when replacing it with PRA rules would not, on the whole, advance its objectives.

3.5 The proposals in this chapter would result in:

- a new Securitisation (CRR) Part of the PRA Rulebook;
- amendments to the Non-Performing Exposures Securitisation (CRR) Part of the PRA Rulebook;
- amendments to supervisory statement (SS) 9/13 – Securitisation: Significant Risk Transfer;
- amendments to SS10/18 – Securitisation: General requirements and capital framework;
- a new statement of policy (SoP) – The PRA’s approach to waivers and permissions under the Securitisation (CRR) Part of the PRA Rulebook; and
- a new SoP – The PRA’s approach to the exercise of powers referred to in Articles 244(3)(b), 245(3)(b), 254(4) and 258(2) of the Securitisation (CRR) Part of the PRA Rulebook.

Areas covered

3.6 The scope of this chapter is the Securitisation Chapter, Title II, Part Three of the CRR and related policy materials and the Non-Performing Exposures Securitisation (CRR) Part of the PRA Rulebook.

Proposal 1: A formulaic p-factor for the securitisation standardised approach

3.7 The PRA proposes to modify the SEC-SA so that, for each securitisation, firms may choose to use either the existing fixed p-factor (which is p=1 for securitisations that are not simple, transparent and standardised (STS) and p=0.5 for STS securitisations) or the proposed formulaic p-factor provided below. The new SEC-SA option would be available both for capital calculations under the SEC-SA and for output floor calculations.

3.8 The proposed formulaic p-factor for the SEC-SA would be based on the p-factor in the SEC-IRBA calculation and is given below.

For non-STS securitisations:

$$p = \min\left(1,\ \max\left[0.5,\ A + B \cdot \left(\frac{1}{N}\right) + C \cdot K_A + D \cdot LGD + E \cdot M_T\right]\right)$$

And for STS securitisations:

$$p = \min\left(0.5,\ \max\left[0.3,\ 0.5 \cdot \left\{A + B \cdot \left(\frac{1}{N}\right) + C \cdot K_A + D \cdot LGD + E \cdot M_T\right\}\right]\right)$$

3.9 Where A, B, C, D and E would have the same values as currently specified in Article 259 for calculation of risk-weighted exposure amounts under the SEC-IRBA. N and M_T would have the same meaning as in the SEC-IRBA calculation and firms would be able to determine these values. Firms would use an LGD value based on the type of underlying exposures as specified in the table below. For mixed exposure pools, firms would calculate an exposure-weighted average LGD. K_A would be based on the underlying SA risk weights, rather than the IRB ones.

Exposure type	LGD
Regulatory residential real estate exposures with LTV at most 100%	20%
Other exposures secured on immovable property with LTV at most 100%	30%
Senior purchased corporate receivables	50%
Other senior exposures to non-financial corporates	40%
Other senior non-retail exposures	45%
Subordinated purchased corporate receivables	100%
Other subordinated non-retail exposures	75%
Other exposures	100%

3.10 Provided the largest exposure in the pool is no more than 3% of the total, the firm could use 50% as the value of LGD, as allowed in the SEC-IRBA under Article 259(6) CRR.

3.11 Note that the formulaic p-factor for the SEC-SA would be subject to:

- a floor of 0.5 and a cap of 1 for non-STS securitisations; and
- a floor of 0.3 and a cap of 0.5 for STS securitisations.

3.12 In paragraph 2.40 of DP3/23, the PRA recognised that the level of non-neutrality[22] in the SEC-SA is calibrated conservatively relative to the SEC-IRBA. By allowing the p-factor in the SEC-SA to reflect the features of the securitisation through the formula, it would be possible to reduce the overall level of conservatism in the SEC-SA relative to the SEC-IRBA without increasing prudential risk from firms' exposures to securitisations.

3.13 There are benefits to the PRA's objectives from the faithful implementation of international standards. The PRA may consider adjustments to its implementation in certain circumstances. In particular, the PRA wishes to ensure that capital requirements are proportionate to the associated risks and not excessive. The PRA also compares its approach with those taken in other jurisdictions to identify where the implementations of

[22] Non-neutrality refers to the capital surcharge from holding all tranches of a securitisation relative to holding the underlying pool assets.

standards have implications for the PRA's secondary competitiveness and growth objective or regulatory principles. Subject to the PRA's general objective, the PRA is prepared to undertake careful and limited deviations from the Basel standards where necessary to achieve a proportionate implementation that facilitates international competitiveness and to ensure that risk weights are neither too low nor too high. The PRA has taken an evidence-based approach in considering possible adjustments to the calculation of capital requirements for securitisation positions.

3.14 In PS9/24 – **Implementation of the Basel 3.1 standards near-final part 2**, the PRA published near-final rules implementing the Basel 3.1 output floor, which applies on an aggregate basis to ensure that a firm's total risk weighted assets (RWAs) are a minimum of 72.5% of the RWAs calculated only using standardised approaches. For securitisations, the SEC-SA and the SEC-ERBA are the standardised approaches, but the SEC-IRBA is not. The output floor is an aggregate measure and does not apply at the transaction level. The PRA has engaged with firms and other organisations, including via DP3/23, to better understand the impact of the output floor on securitisations and to evaluate potential options. The PRA has carefully considered data and analysis on the relative capital requirements produced by SEC-SA and SEC-IRBA. The PRA considers that in many cases the risk weights produced by SEC-SA are disproportionately high relative to the SEC-IRBA and not justified by the risk associated with the securitisation positions. This affects firms using the SEC-SA and firms using the SEC-IRBA when bound by the output floor.

3.15 The purpose of the output floor is to ensure that modelled capital requirements as a whole do not fall too far below capital requirements under the standardised approaches. However, the substantial increase in capital requirements that can arise due to the generally higher degree of non-neutrality inherent in the SEC-SA as currently calibrated does not appear to advance the safety and soundness of PRA-authorised CRR firms. The PRA considers that keeping the SEC-SA as currently calibrated would reduce the economic viability of securitisation as a risk-transfer mechanism, and also weaken the competitive position of UK firms internationally.

3.16 The relative risk-level of more junior and more senior securitisation positions depends not just on the securitisation structure, but also on the characteristics of the underlying pool of exposures. The PRA considers that some degree of non-neutrality is generally necessary to avoid the undercapitalisation of risks from securitisation positions. The cost of preventing undercapitalisation of individual positions is, almost unavoidably, overcapitalisation in aggregate. The PRA considers that this degree of overcapitalisation is not primarily driven by the degree of model and agency risk although this may also be a consideration.

3.17 Under the Basel SEC-SA and SEC-IRBA, the p-factor is a key determinant of the degree of non-neutrality. Mechanistically, higher p-factors increase the degree of risk assigned to more senior parts of the securitisation structure, while not affecting the degree of

risk assigned to the most junior part. The PRA considers that higher p-factors in SEC-IRBA generally reflect higher risk-levels in more senior parts of the structure and so justify higher capital requirements for those parts. The PRA recognises that there is an argument that the higher p-factor should also result in lower capital requirements for the most junior part of the structure, and so not necessarily result in an overall increase in non-neutrality. However, in the Basel standards there is a fixed 1250% risk weight up to the capital requirements on the underlying exposures. The PRA would support a review by the Basel Committee on Banking Supervision (BCBS) of Basel standards relating to the Pillar 1 securitisation capital requirements[23] and this point could usefully be considered as part of such a review. However, the PRA does not consider that a unilateral deviation from this aspect of the standard is justified at the current time.

3.18 The PRA considers that the current p-factor floors in the SEC-IRBA are appropriate to avoid the risk of undercapitalisation for retained senior tranches in synthetic SRT securitisations in particular. Because synthetic SRT can be undertaken for capital management purposes, undercapitalisation of these retained senior tranches would undermine the capital treatment of credit risk more widely, with a significant negative impact on the PRA's general objective.

3.19 The PRA also notes that the current Basel securitisation risk-weight floors are insensitive to the underlying exposures, and generally do not support risk-sensitivity. The PRA would support reconsideration of this point by the BCBS. However, the PRA does not consider that a unilateral deviation from this aspect of the standard is justified at the current time.

3.20 In DP3/23, the PRA suggested 0.7 as a fixed value for the p-factor in the SEC-SA (with some potential restrictions) could remain sufficiently prudent. However, further data analysis suggests that for most transactions, this would be substantially higher than the p-factors produced by SEC-IRBA. Also, a reduction in the p-factor to a new fixed value could in some cases cause undercapitalisation for some tranches. This is a consequence of different characteristics of those securitisations as seen in the very variable p-factors that different securitisations would receive from the SEC-IRBA formula. The PRA considers that providing the option of using the SEC-IRBA formula, with some simplifying adjustments, to produce the SEC-SA p-factor would be an approach that better supports the PRA's objectives. This option would reduce the gap between the SEC-SA and the SEC-IRBA p-factors to a greater extent than a reduction in the SEC-SA p-factor to a fixed value of 0.7 and so decrease the typical degree of overcapitalisation in the SEC-SA relative to the SEC-IRBA.

3.21 The PRA considers that with a floor of 0.5 for the non-STS SEC-SA p-factor, the unintended component of the impact of the output floor on securitisations is substantially

[23] See **DP3/23**, Executive Summary.

mitigated, and the disruption to risk transfer that would result from the interaction of a SEC-SA p-factor of 1 with the output floor is avoided. The PRA also considers that a floor of 0.5 for the non-STS SEC-SA p-factor would represent a large change in the incentive for synthetic SRT of SA exposures compared to the current fixed p-factor of 1. The PRA has considered the scale of deviation from the Basel standards in these proposals in both absolute terms and relative to other jurisdictions. Any further reduction in the proposed p-factor floor would represent a larger deviation from the Basel standards.

Chapter 3: Proposal 1– PRA objectives analysis

3.22 The proposal would advance the safety and soundness of PRA-authorised CRR firms. A more risk-sensitive SEC-SA could incentivise lower-risk SRT securitisations relative to higher-risk ones. The modifications to the SEC-SA would also improve the proportionality of the capital requirements for originating and investing in traditional funding transactions. This could result in a more liquid market for these securitisation positions.

3.23 Furthermore, without modifications to the SEC-SA, the output floor would be likely to lead to a reduction in the economic viability of synthetic securitisations. Even if the output floor is non-binding in aggregate terms firms have indicated that the output floor RWAs would be a consideration in structuring transactions. This could cause PRA-authorised CRR firms to make less use of synthetic securitisations as an efficient tool for transferring credit risk. The PRA's analysis suggests that with the proposed formulaic p-factor, firms bound by the output floor would be unlikely to incur substantial increases in the capital requirements for securitisation positions using SEC-IRBA (see section on 'Cost benefit analysis (CBA)' below for details), thus preserving the existing incentives for these securitisations. The combined impact of the output floor and the changes proposed in this CP for these securitisations would be broadly neutral in aggregate. Although the proposed formulaic SEC-SA p-factor reduces the impact of the output floor, it faithfully pursues the principles of the output floor, making its application across different exposure classes consistent and reducing any distortionary effects.

3.24 As noted above, there are benefits to the PRA's objectives from the implementation of international standards. However, a fully Basel-aligned implementation of the SEC-SA p-factor (including for output floor purposes) would be out-of-line with the approach currently taken in other jurisdictions. These deviations in other jurisdictions make it more difficult to facilitate the UK economy's international competitiveness and its growth over the medium to long term, subject to alignment with international standards. If the PRA fully aligns with the Basel standards, then PRA-authorised CRR firms would be at a competitive disadvantage with higher capital requirements and reduced ability to efficiently transfer risk. The proposal is not markedly misaligned with the actual international approach and would overall tend to remove a competitive disadvantage and support the capacity of PRA-authorised CRR firms to finance lending without compromising the PRA's primary objective.

3.25 By bringing the SEC-SA capital requirements closer to the SEC-IRBA requirements, the proposal would reduce the disparity in treatment of securitisations by smaller and larger firms. This would facilitate competition, in line with the PRA's secondary competition objective, and potentially make securitisation an economically viable mechanism of risk transfer for a wider range of firms.

Chapter 3: Proposal 1 – Cost benefit analysis (CBA)

Overview

3.26 Securitisation can support greater funding diversification, free up capital to allow banks to extend new credit to the real economy, and provide non-bank investors, such as insurance companies and pension funds, with access to a broader pool of assets. The PRA proposes to provide PRA-authorised CRR firms with an additional option when determining capital requirements for securitisations. For some securitisations, this option would result in lower capital requirements. This option would be available to all firms and would lead to capital requirements which are more risk-sensitive and proportionate. If firms choose to use the proposed option, this might reduce current total capital requirements by about £240 million. Additionally, firms using internal models for securitisations could use the new option when calculating the value of the output floor introduced in PS9/24.

3.27 Without the proposed option, firms would be less likely to undertake some securitisations due to substantially increased capital requirements associated with the output floor. The proposed option would help to address this concern by restoring the post-output floor capital requirements for these securitisations to a position which in practice is broadly in-line with the status quo, i.e. before the output floor introduced by PS9/24 is fully phased in. As noted above, the proposals aim to avoid placing PRA-authorised firms at a competitive disadvantage internationally and promote competition between firms which use which internal models for securitisations and those which do not. The PRA expects these effects to support the use of securitisations with benefits to lending and real economy.

3.28 The PRA considers that, despite reducing capital requirements for some securitisations, the proposal would advance the safety and soundness of PRA-authorised CRR firms. This is because the proposal would result in more proportionate and risk-sensitive capital requirements. By recognising where risks are lower and where risks have been transferred, the incentives for appropriate risk-management by firms are improved.

3.29 Firms would benefit from a reduction in their capital requirements. It is uncertain what proportion of firms would make use of the proposed option. However, since firms would not be obliged to use it, the PRA considers that the costs would necessarily be limited and less than the benefits.

3.30 The PRA has considered separately the impacts of the proposal due to the change in the effect of the Basel 3.1 output floor and the direct impacts of the change to SEC-SA risk weights below.

Impact from change in output floor risk weights

3.31 For securitisation positions risk-weighted by SEC-IRBA, the PRA has used Common Reporting (COREP) returns and data received in response to DP3/23 to estimate the output floor RWAs that would result from the current SEC-SA. The PRA estimates the output floor RWAs (ie 72.5% of the corresponding SEC-SA RWAs) to be 2.25 times the SEC-IRBA RWAs.

3.32 The PRA estimates that therefore, without this proposal, the output floor RWAs for SEC-IRBA positions would be about £22 billion greater than the SEC-IRBA RWAs. With the proposal, the output floor RWAs for these positions would be about £1 billion greater than the SEC-IRBA RWAs. There is significant uncertainty in these estimates. However, the PRA's analysis nonetheless shows that without this proposal, the output floor would provide a significant disincentive for synthetic SRT securitisations using SEC-IRBA relative to the status quo and market activity could reduce significantly, with constraining effects on overall lending to the real economy. The PRA estimates that the effect of the proposal would be to almost entirely remove this disincentive in aggregate, so that market activity would be likely to remain at current levels, ceteris paribus.

3.33 The estimated change in the output floor RWAs does not translate directly into a change in capital requirements as not all firms to which the output floor applies will in practice be bound by the output floor. Due to the small number of firms affected, to maintain confidentiality, the PRA cannot provide further estimates of the effect on capital requirements.

3.34 Firms that would not have been bound by the output floor may still benefit, if they determine that costly actions they would have taken to prevent the output floor from binding are no longer necessary.

Impact on firms from change in SEC-SA risk weights

3.35 According to COREP returns for 2023 Q4, there are 39 PRA-authorised CRR firms that are risk weighting securitisation exposures using the Standardised Approach (SEC-SA), this includes firms which also use SEC-IRBA for other securitisations. RWAs from all securitisation positions (whether retained or acquired) total £49.1 billion, representing 1.70% of their total RWAs. Of the securitisation RWAs, 35% comes from positions risk weighted by the SEC-IRBA, 34% from positions risk weighted by the SEC-SA, 18% from the SEC-ERBA, 7% from the securitisation internal assessment approach (SEC-IAA) and 5% in the 'other'

category (that is, being assigned a 1250% risk weight). A change in the SEC-SA capital calculations would therefore potentially lead to lower Pillar I capital requirements (prior to the application of the output floor) affecting 34% of CRR firms' exposures to securitisations, which corresponds to RWAs of £16.8 billion. If firms were to apply the proposed formulaic p-factor to all SEC-SA securitisation positions, the PRA estimates the total SEC-SA RWAs would be reduced on a static basis by around 18%. This gives a reduction in SEC-SA RWAs of about £3.0 billion, corresponding to a reduction in Pillar 1 capital requirements of £240 million. Based on standard PRA assumptions, this translates to a £4 million to £12 million saving in the cost of capital per annum.[24] The change in RWAs is set out in the table below.

Amounts in £ billions	**Without proposal**	**With proposal**	**Change**	**Change (%)**
Total RWAs for all assets across all firms	2,897	2,894	-3.0	-0.1%
… of which securitisation RWAs	49.1	46.1	-3.0	-6.1%
… … of which using SEC-SA method	16.8	13.7	-3.0	-18%

3.36 Firms would need to familiarise themselves with and apply the proposed formulaic p-factor for the SEC-SA. However, firms could choose not to use the proposed formulaic p-factor for calculating the SEC-SA for some or all their securitisation exposures if they consider that these operational costs would outweigh the benefits of the associated reduction in their regulatory capital requirements. This makes the benefits calculated above uncertain.

CBA Panel Feedback

3.37 The Panel provided feedback on the way the draft CBA addressed: the drivers for the proposals; the proposals' impact on financial stability; the uncertainty of the benefits; and the overall accessibility of the CBA to non-specialist readers:

- The Panel recommended the CBA more clearly address the main drivers for the proposals. Paragraphs 3.22 to 3.25 explain the benefits to safety and soundness from

[24] This figure is calculated by assuming that the £3.0 billion change in RWAs translates to a £240 million change in firms' capital requirements because Pillar 1 capital requirements are calculated as 8% of RWAs. Using parameters derived from empirical research the PRA then estimates that firms reduce their actual capital in response to this change in requirements by between £120 million and £192 million. The PRA assumes that this capital was costing firms between 9% and 15% per annum and is replaced by debt which costs firms 3% per annum after their ability to offset interest payments against corporation tax is taken into account. On the basis of empirical research, the PRA also assumes a 50% reduction in the potential cost saving due to the 'Modigliani-Miller effect' – ie, as firms' leverage increases, what they need to pay to raise capital also increases. Under these assumptions, it follows that £120 million x (9% - 3%) x 50% ≈ £4 million is a lower bound and £192 million x (15% - 3%) x 50% ≈ £12 million is an upper bound.

increasing the proportionality and risk-sensitivity of securitisation capital requirements and note the intended impact on the competitive position of PRA firms internationally and competition between PRA firms. The PRA has referenced these points in the CBA.

- The Panel recommended the CBA more clearly address the financial stability impacts of the proposals. Paragraphs 3.23 and 3.32 explain that the combined impact on capital of the output floor (introduced by Basel 3.1) and the changes proposed in this CP for securitisation positions risk weighted under SEC-IRBA would be broadly neutral. The PRA has also referenced this in the CBA and has provided additional context around the anticipated scale of the impact on capital requirements. These amendments aim to clarify why the PRA does not anticipate any negative impact on financial stability.

- The Panel also noted that the benefits arising from the change relating to securitisations risk-weighted using the Standardised Approach (which are quantified in the CBA) depend on firms choosing to use a new p-factor. The Panel recommended that the CBA address how certain the PRA is that these benefits will arise, given this dependency. The PRA has clarified in the CBA that these benefits are uncertain and welcome feedback from firms on this point in response to this CP.

- The CBA Panel also noted the proposals are complex and technical. The Panel recommended the CBA be made more accessible to readers who lack prior familiarity with securitisation capital requirements. The PRA has amended the CBA with a view to making it more accessible, including by providing a plain language overview which also provides more context.

Chapter 3: Proposal 1 – 'Have regards' analysis

3.38 In developing the proposal, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material in the PRA's analysis of the proposal include:

1. **Encouraging economic growth in the interests of consumers and businesses:** The PRA has had regard to supporting medium to long-term economic growth in the interests of consumers and businesses. This analysis is set out in the discussion of the competitiveness and growth objective in the PRA's objective analysis above. The PRA also considers that the proposals might have a (probably small) beneficial impact on economic growth. The more risk-sensitive p-factor would, in the case of many securitisations, make the cost/benefit of less risky securitisations more favourable (it would allow for greater risk-sensitivity and therefore lower risk products would get

lower capital treatment). This could provide greater potential for firms to lend to the real economy.

2. **International Competitiveness:** The PRA considers that the proposed targeted changes to firm-facing requirements would have a beneficial impact on the relative standing of the UK. This analysis is set out in the discussion of the competitiveness and growth objective in the PRA's objective analysis above. The PRA notes in particular that the US regime for securitisation currently has p=0.5. The EU regime for securitisation has p=1 in the SEC-SA, although p=0.5 for 'STS for synthetics', which are not recognised in the Basel standards. The EU regime for securitisation also has a lower value of p=0.5 for the output floor calculation (p=0.25 for STS).[25] The current position in the UK is p=1 including for the output floor calculation. This currently puts the UK firms at a competitive disadvantage. The proposals in this CP would put the UK firms on a different, but similar, standing to the EU and US firms. The proposed treatment would be more risk-sensitive and would apply to the SEC-SA in general (not just for the output floor calculation).

3.39 The PRA has had regard to other factors as required. Where analysis has not been provided against a 'have regard' for this proposal, it is because the PRA considers that 'have regard' to not be a significant factor for this proposal.

Proposal 2: Capital treatment of retail residential mortgage loans under the MGS and private mortgage insurance schemes with similar contractual features to MGS

3.40 The PRA has previously clarified (and also simplified certain aspects of) the regulatory treatment of retail residential mortgage loans under the MGS[26] and certain private mortgage insurance schemes with similar contractual features.[27,28] For brevity, those mortgage loans under these schemes that meet the definition of a 'securitisation' (features include tranching of credit risk) are referred to as 'Loans'. The PRA considers that the current regulatory capital treatment of these Loans is not properly calibrated. The PRA proposes to make available an

[25] In **DP3/23** the PRA explained the disadvantages of an output floor specific carveout. The PRA considers that if the higher capital requirements from SEC-SA are justified, then the output floor is working correctly and does not need modifying. If the higher capital requirements from SEC-SA are not justified, then SEC-SA should be changed, not the operation of the output floor. The PRA has applied this principle across the entire Basel 3.1 package.
[26] **The mortgage guarantee scheme**.
[27] **PRA statement on the regulatory treatment of retail residential mortgage loans under the Mortgage Guarantee Scheme**.
[28] **Regulatory treatment of retail residential mortgages provided under private mortgage insurance schemes with similar contractual features to MGS**.

alternative standardised approach (SA) and an internal ratings-based approach (IRB) for regulatory capital treatments for these Loans.

Current regulatory capital treatment

3.41 The UK CRR allows a firm, subject to meeting the SRT requirements, to reduce risk-weighted capital requirements for the Loans. In cases where firms choose not to recognise the credit protection ('guarantee') for the purpose of calculating capital requirements or where the SRT requirements are not met, firms should calculate capital requirements as if the guarantee did not exist, and as if the underlying loan exposure had not been securitised.

3.42 For illustrative purposes, if a 95% loan to value (LTV) mortgage under MGS met the SRT requirements, then it would achieve a 0% risk weight (RW) on the guaranteed portion (which is an exposure to the UK Government) and a 15% RW on the remaining unprotected tranche under the SEC-SA.[29]

3.43 For a typical 95% LTV mortgage under MGS, the guarantee applies down to 80% of the original value of the property. Therefore, from the lender's perspective, the exposure resembles an 80% LTV mortgage at origination. The RW for an 80% LTV exposure is 37% under the near-final rules on the SA credit risk framework in PS9/24. This is much higher than the 15% RW under SEC-SA mentioned above.

3.44 The PRA considers that this inconsistent RW outcome between the SEC-SA and credit risk SA is caused by the poor calibration of the SEC-SA.[30] The PRA understands that the calibration, derived from the Basel standards, assumes a large diverse pool of underlying exposures, which is not true for single loan securitisations such as the Loans.

3.45 The difference in RW under SEC-SA and credit risk SA alone implies that the Loans under the MGS would not generally achieve SRT, because the reduction in capital requirements would not be justified by the commensurate transfer of risk.[31] In principle, similar considerations apply in relation to Loans under private schemes although the RW difference between the SEC-SA and credit risk SA may be less stark depending on, for example, the credit quality of the protection provider.

Proposed alternative capital treatment

Firms using the SA

[29] The PRA has focused on the SEC-SA for simplicity, but the PRA notes similar RWs can be achieved under the SEC-IRBA.
[30] This type of issue also arises in relation to the SEC-IRBA, which is insensitive to the effective number of loans in the underlying retail exposure pools.
[31] SS9/13 – **Securitisation – Significant Risk Transfer**, Paragraph 2.1.

3.46 The near-final rules in PS9/24 set out a loan splitting approach to residential mortgage exposures as part of the credit risk SA. The PRA proposes to allow SA firms to apply the loan splitting approach to the Loans. For 95% LTV MGS Loans this would mean: for the part of the exposure up to 55% LTV the RW is 20%, from 55% to 80% LTV the RW is 75% and then from 80% to 95% LTV the RW is 0% (exposure to the UK government).[32] For Loans under private schemes, the RW of 0% would instead be the appropriate RW for the protection provider. The treatment of the protected tranche of the Loans under the MGS and private schemes here assumes that the requirements for the recognition of the protection under the proposed rules replacing Article 249 of the CRR are met, but firms would need to assure themselves that this is true for each relevant securitisation transaction.

3.47 The proposal reflects the fact that, in economic substance (though not in legal form), each Loan is similar to a first charge mortgage held by the firm and a second charge mortgage exposure to HMT or the protection provider.[33]

Firms using the IRB approach

3.48 The loan splitting approach to residential mortgage exposures is not available for IRB firms (except for the purposes of the output floor). The PRA proposes to allow IRB firms to instead treat the protection for each Loan in certain circumstances as if it was a pari passu protection. This would entail treating the protection as a 'vertical', risk sharing agreement. This would allow firms to recognise some reduction in RW from the protection, assuming again the requirements for the recognition of the protection under the proposed rules replacing Article 249 of the CRR are met.

3.49 This proposed pari passu approach would be available only if:

- there are two tranches in the Loan and the originator institution holds the entirety of the senior tranche; or
- there are more than two tranches in the Loan and the originator institution holds the entirety of all tranches in the Loan for which $5 \cdot A + D > 1$, where A is the attachment point and D the detachment point of the tranche.

Broadly, this condition is to ensure that this approach to the Loans delivers outcomes that are generally at least as conservative as those achieved by the SA loan splitting approach set out above.

[32] When describing the SA loan splitting approach, the PRA uses the term LTV as a shorthand for the exposure value divided by the value of the property.
[33] Mutatis mutandis where the protection relates to another tranche than the first tranche.

3.50 The PRA recognises that the pari passu approach may not adequately reflect the economics of the protection. It would be insensitive to the protection covering the subordinated first loss tranche, therefore better protecting the lender than a pari passu protection. Hence, the pari passu treatment for the Loans would result in somewhat conservative RWs, albeit less conservative RWs than if the protection were not recognised at all.

3.51 The PRA is open to considering alternative options for IRB firms that would better reflect the nature of the protection. In particular, the PRA would welcome views and evidence on whether it might be possible to develop an approach where a first loss (or perhaps other) tranched protection for a Loan can be reflected in adjustments to LGDs or changes to estimated LGDs, and how such an approach would compare with the proposed pari passu approach. The PRA would want to ensure that such an approach would not result in imprudent RWs.

Chapter 3: Proposal 2 – PRA objectives analysis

3.52 The proposed approaches to the capital treatment for the Loans would better reflect the credit risk of these exposures. These RW outcomes would also be consistent with advancing the safety and soundness of PRA-authorised CRR firms.

3.53 The proposed approaches would allow PRA-authorised CRR firms to recognise capital reduction from the protection provided by the Government or other protection provider where relevant conditions are met. If this frees up more capital for overall lending (not limited to mortgage lending), the proposed approach could facilitate competitiveness and growth.

3.54 The competition implications of the proposed approaches are less clear. The proposed loan splitting approach to the Loans for SA firms is more risk-sensitive than the proposed pari passu approach to the Loans for IRB firms. However, the PRA does not have comprehensive data on the extent to which SA firms and IRB firms respectively act as lenders of these Loans.

Chapter 3: Proposal 2 – Cost benefit analysis (CBA)

3.55 According to HMT (2024) **Mortgage Guarantee Scheme Quarterly Statistics**, which covers data from scheme launch on 19 April 2021 to 31 December 2023, the overall value of Loans under the MGS was approximately £8.2 billion at issuance.[34],[35] The PRA does not have corresponding aggregate data for Loans under private schemes similar to the MGS.

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[34] HMT (2024) **Mortgage Guarantee Scheme Quarterly Statistics.**
[35] Please refer to page 4 of HMT (2024) **Mortgage Guarantee Scheme Quarterly Statistics** for details.

3.56 Mortgage Product Sales Data (PSD001)[36] indicates that the total value of mortgage loans issued that have 'attached indemnity insurance to protect the lender in the case of default, whether arranged by the lender privately or through a government scheme' amounted to approximately £2.2 billion per quarter when taking an average across the four quarters from 2023 Q1 to 2023 Q4. This flow data does not include Loans under MGS and may not include all Loans under all private schemes similar to the MGS. It is also not stated to be limited to loans under private schemes that are securitisations.

3.57 For the reasons set out above, the protection for the Loans under the MGS or the private schemes is generally not recognised. The proposed approaches to the capital treatment of the Loans would allow firms to recognise a reduction in capital from the protection obtained.

3.58 Due to data limitations, the PRA is unable to estimate the aggregate impacts of the proposed approaches. Charts 2 and 3 below illustrate the potential benefits of the proposed capital treatments of Loans under the MGS assuming a 95% LTV mortgage with a 15% (95-80% LTV) first loss UK government guarantee and using SA and illustrative IRB risk weights under the near-final rules in PS9/24. The calculated risk weight is a weighted average of the risk weights for the protected and unprotected portions of the mortgage. For higher LTVs, the government guarantee represents a larger proportion of the total amount of the mortgage. Consequently, under the proposed loan-splitting approach, the calculated risk weight reduces as the LTV increases. Please also refer to the assumptions set out in the section 'Proposed alternative capital treatment' above.

[36] See **Product sales data reporting | FCA** for details.

Chart 2: SA risk weights for (the protected and unprotected tranches of) an example MGS Loan

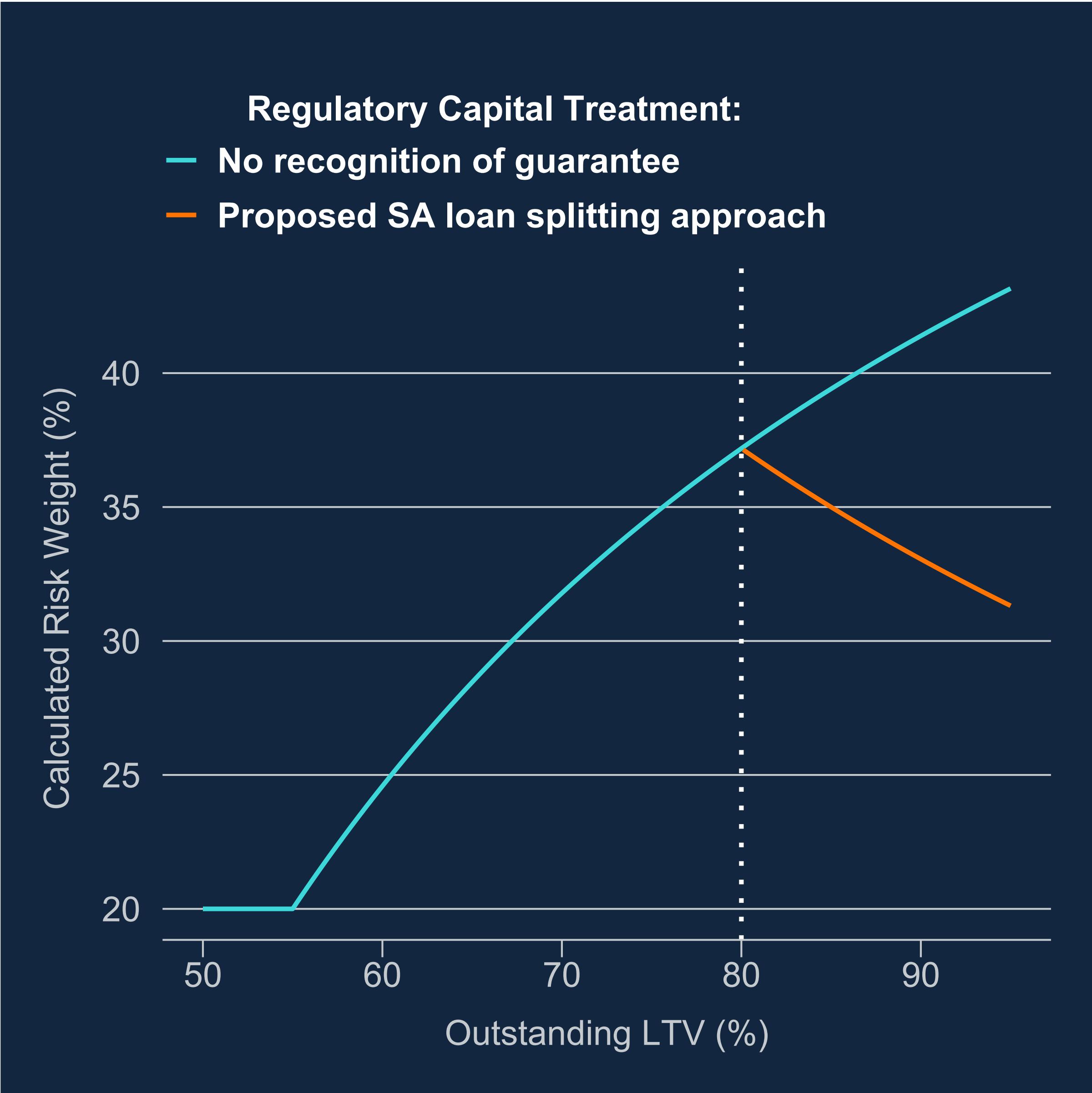
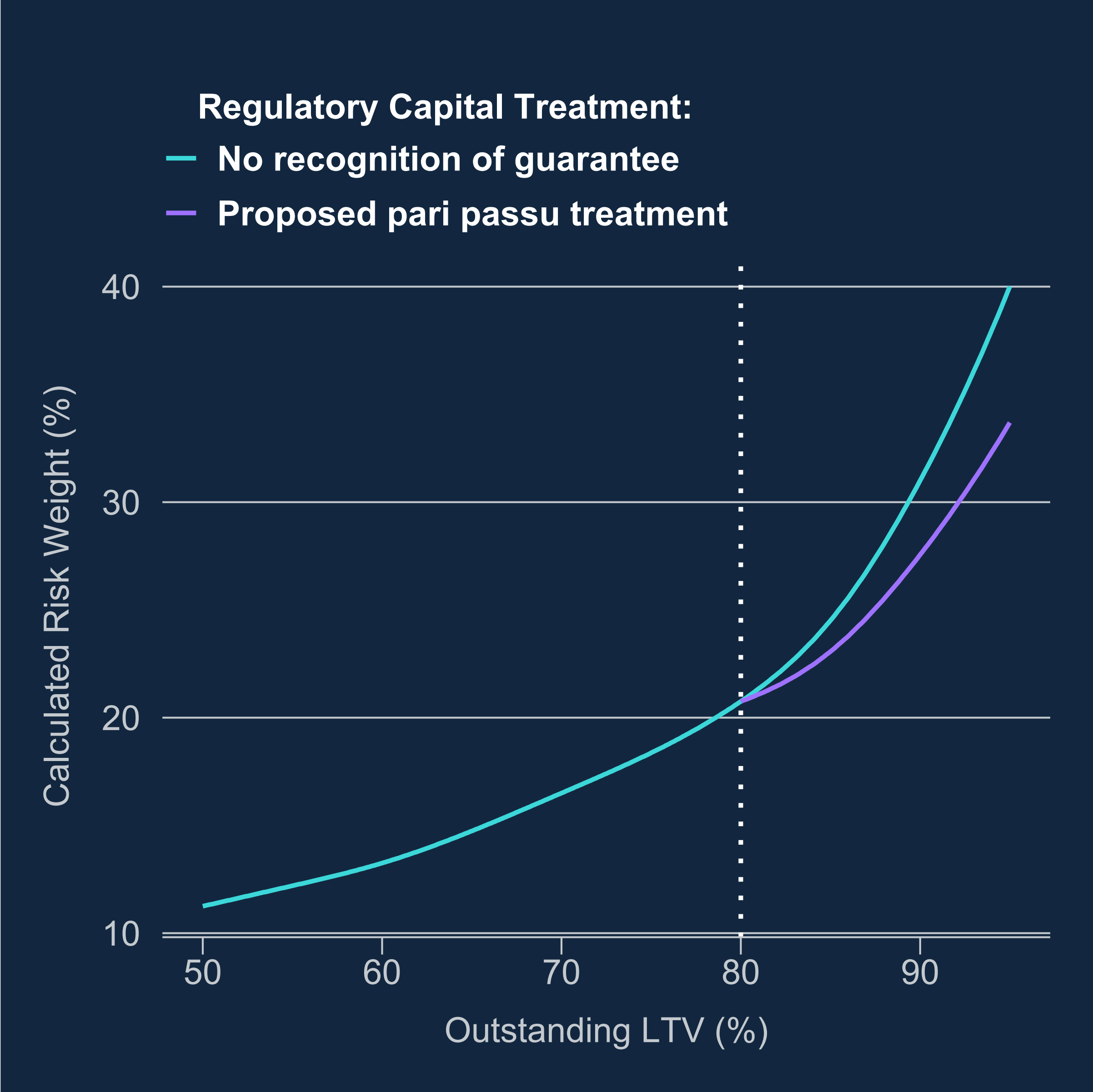


Chart 3: IRB risk weights for (the protected and unprotected tranches of) an example MGS Loan



3.59 The proposed approaches may give rise to additional operational costs for firms. Firms would need to familiarise themselves with and implement these approaches. However, the proposed rules would allow firms to choose not to recognise the protection if they consider that the operational costs outweigh the potential regulatory capital reduction of applying the proposed approaches.

Chapter 3: Proposal 2 – 'Have regards' analysis

3.60 In developing the proposal, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material in the PRA's analysis of the proposal include:

1. **The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden:** The PRA considers that the proposed approaches to the capital treatment for the Loans would contribute to proportionality by allowing firms to recognise some capital reduction from the protection obtained. This is in comparison to the treatment under the credit risk framework where no capital reduction can be recognised.

2. **Encouraging economic growth in the interests of consumers and businesses and promoting competitiveness**: Please refer to the discussion of how the proposed approaches to the capital treatment of the Loans facilitate competitiveness and growth in the section 'PRA objectives analysis' above.

3. **Efficient and economic use of PRA resources:** Supervising the proposed approaches to the capital treatment of the Loans will have resource implications for the PRA. However, the PRA considers these are justified in light of the objectives analysis and other considerations in favour of the proposed approaches.

4. **Different Business models:** The PRA considers the desirability of recognising differences in the nature and objectives of businesses carried on by different persons. The Loans are important to the business models of many PRA-authorised CRR firms, particularly those engaged in high LTV residential mortgage lending. All PRA-authorised CRR firms participating in the relevant schemes should be able to recognise capital reduction from the proposed changes in relation to the Loans. Further, in developing this proposal, the PRA has considered the credit risk requirements currently applicable to firms using the SA and the IRB approach respectively, building on them to the extent appropriate.

3.61 The PRA has had regard to other factors as required. Where analysis has not been provided against a 'have regard' for the proposal, it is because the PRA considers that 'have regard' to not be a significant factor for the proposal.

Proposal 3: Supervisory expectations relating to the use of unfunded credit protection in synthetic SRT securitisations

3.62 The PRA proposes to clarify its supervisory approach to the use of unfunded credit protection in SRT securitisations by adding supervisory expectations to SS9/13 – **Securitisation – Significant Risk Transfer**.

3.63 Credit protection is used by firms to reduce the credit risk associated with their exposures. The near-final rules replacing Chapter 4 of Title II, Part Three of the CRR (see PS9/24) allow institutions to reflect two forms of credit protection in their RWAs where applicable conditions are met:

- unfunded credit protection, a type of credit risk mitigation that reflects the promise from a third party to pay when a borrower or counterparty defaults; and
- funded credit protection, a type of credit risk mitigation that reflects financial or non-financial collateral held against an exposure, which the firm can retain or liquidate in case of the default of a borrower or counterparty. It also includes the use of on-balance sheet netting and master netting agreements.

3.64 Originator institutions can use tranched funded or unfunded credit protection to create a synthetic securitisation. If recognising capital reduction from a synthetic securitisation in accordance with Chapter 5 of Part Three Title II of the CRR, firms need to provide an SRT notification to the PRA. The PRA assesses these notifications against requirements in the CRR and SS9/13 and can object or non-object to the capital reduction.

3.65 The PRA understands that UK originators of SRT securitisations generally use funded credit protection for SRT. However, market participants have, including in response to DP3/23, sought clarity on whether the PRA would generally object to the use of unfunded credit protection for achieving SRT.

3.66 The PRA considers that using unfunded credit protection for SRT could pose certain prudential risks relative to the use of funded credit protection. These include: (i) a potentially higher risk of late payment or non-payment of the credit protection amount when a borrower or counterparty defaults; and (ii) a risk that the unfunded credit protection provider may be downgraded and then cease to be eligible to provide unfunded credit protection, necessitating alternative arrangements to continue to achieve SRT. The PRA considers that it is likely these risks can be mitigated by a combination of the near-final rules in PS9/24 and the proposed rules in Article 249 of the Securitisation (CRR) Part in this CP to replace CRR requirements relating to the use of unfunded credit protection generally and its use specifically for SRT, together with related supervisory expectations and stress testing by firms.

3.67 Therefore, the PRA takes the view that in principle it should be possible for originator institutions to use unfunded credit protection for achieving SRT where relevant requirements and supervisory expectations are met. Having regard to transparency, the PRA proposes to add supervisory expectations to SS9/13 relating to the use of unfunded credit protection for SRT (see Appendix 5). The expectations would note that unfunded credit protection is a complex feature which the PRA expects a firm to discuss with its supervisor at an early stage. The expectations would also remind firms of requirements relating to the use of unfunded credit protection (and related expectations in SS17/13 – **Credit risk mitigation**). SS9/13 already includes expectations on firms to monitor risks relating to their SRT transactions and to conduct stress testing of their securitisation activities, and the PRA proposes to expand on these expectations in relation to unfunded credit protection.

Chapter 3: Proposal 3 – PRA objectives analysis

3.68 The PRA considers that the proposed approach to unfunded credit protection for SRT would be consistent with advancing the safety and soundness of PRA-authorised CRR firms. SRT securitisation is a credit risk and regulatory capital management tool for firms. Clarifying expectations around the use of unfunded credit protection for SRT would allow firms to better explore additional options for structuring SRT securitisations.

3.69 The proposed approach could also, without deviating from international standards, facilitate competitiveness and growth. The use of unfunded credit protection for both mezzanine and first loss tranches in SRT securitisations is established practice in the EU. As an element of efficient credit risk and capital management, unfunded credit protection for SRT could put PRA-authorised CRR originator institutions in a better position to compete internationally and increase lending to the real economy. Insurers could grow their business by providing unfunded credit protection for SRT.

3.70 The proposed approach would be unlikely to have material effects on competition between PRA-authorised firms.

Chapter 3: Proposal 3 – Cost benefit analysis (CBA)

3.71 The data available to the PRA indicates that there are six PRA-authorised CRR firms that are established SRT originators. The proposed approach would enhance clarity for these established SRT originators and any new entrants about the PRA's supervisory expectations relating to the use of unfunded credit protection for SRT. The PRA does not consider that the additional supervisory expectations on the use of unfunded credit protection would impose material costs on firms as they are linked to existing requirements on unfunded credit protection, existing stress testing expectations and to the PRA's wider supervisory approach to SRT assessments.

3.72 The proposed approach may result in notifications to the PRA of SRT transactions that involve unfunded credit protection which the PRA would need to assess. While compliance with applicable regulatory requirements is the responsibility of the firms concerned, the PRA would likely need to devote additional resources to supervising PRA-authorised originator institutions using unfunded SRT and providers of unfunded credit protection for SRT. Please also refer to the discussion above on the potential risks of funded credit protection relative to unfunded credit protection for SRT and mitigants.

Chapter 3: Proposal 3 – 'Have regards' analysis

3.73 In developing this proposal, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material in the PRA's analysis of the proposal include:

1. **The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden:** The PRA considers that the proposed approach to unfunded credit protection for SRT is proportionate. As noted above, the proposed additional supervisory expectations relating to the use of unfunded credit protection to achieve SRT would enhance clarity for firms without imposing undue costs on them.

2. **Encouraging economic growth in the interests of consumers and businesses and promoting competitiveness:** Please refer to the discussion of how the proposed approach facilitates competitiveness and growth in the section 'PRA objectives analysis' above.

3. **The principle that the regulators should exercise their functions as transparently as possible:** The PRA considers that additional supervisory expectations on the use of unfunded credit protection for SRT would enhance transparency for firms.

4. **Efficient and economic use of PRA resources:** As noted above, there may be implications for PRA resourcing, which need to be weighed against the other considerations in favour of the proposed approach.

3.74 The PRA has had regard to other factors as required. Where analysis has not been provided against a 'have regard' for this proposal, it is because the PRA considers that 'have regard' to not be a significant factor for this proposal.

Proposal 4: Other changes to supervisory expectations relating to securitisations

3.75 The PRA proposes to make other changes to SS9/13 (see Appendix 5) to strengthen its supervisory expectations relating to senior management oversight of SRT transactions and to SRT notifications. Specifically, the proposed revisions to SS9/13 would include expectations that:

- the oversight and approval of the features that affect commensurate risk transfer and, hence, the amount of reduction in RWA that may be achieved should be performed by the chief finance function (SMF 2) and any senior manager holding Prescribed Responsibility (PR) O (on 'managing the allocation and maintenance of the firm's capital, funding and liquidity'), or AA (on 'implementing and managing the firm's risk management policies and procedures') and CC (on 'managing the firm's financial resources'), if a different person. The existing wording stating that the level of senior management engagement may vary in line with the complexity of the transaction and the amount of reduction in RWA would be deleted, as this proposal would further specify senior management responsibility in relation to SRT securitisations.
- SRT notifications include a summary of the transaction that contains sufficient information for the PRA to understand its structure, economics and regulatory implications, including an attestation by the relevant senior manager mentioned above that the information provided in the summary is accurate and complete and that SRT has been achieved; and
- SRT notifications include a comparison with relevant previous transactions, highlighting changes that may be relevant to the PRA's assessment and commenting on their rationale.

For the avoidance of doubt, these changes would not be limited to SRT transactions involving the use of unfunded credit protection.

3.76 Please refer to Chapter 7 of this CP on 'Mapping of external credit rating agency ratings to credit quality steps' for a discussion of consequential amendments to SS10/18 – **Securitisation: General requirements and capital framework** (see Appendix 6) that the PRA proposes.

3.77 The PRA also proposes to make amendments to SS9/13 and SS10/18 that are consequential on other proposals described in this CP. These would include:

- updating cross-references;

- transferring supervisory expectations on the permissions process for SRT in SS9/13, with small adjustments, to the proposed SoP in Appendix 7 (see section 'Proposal 10: A Statement of Policy (SoP) in relation to permissions processes in the Securitisation (CRR) Part of the CRR' below); and
- transferring supervisory expectations relating to the hierarchy of methods in SS10/18, with small adjustments, to the proposed SoP in Appendix 8 (see section 'Proposal 11: SoP in relation to other powers referred to in the Securitisation (CRR) Part' below). Please also refer to the section 'Proposal 11: SoP in relation to other powers referred to in the Securitisation (CRR) Part' below for other changes reflected in SS9/13.

Chapter 3: Proposal 4 – PRA objectives analysis

3.78 The PRA considers that the proposed changes to SS9/13 would advance the safety and soundness of PRA-authorised CRR firms by clarifying the PRA expectations regarding appropriate senior management oversight of SRT transactions and SRT notifications. This could in some cases encourage more robust analysis by originator institutions of whether such transactions achieve SRT and/or facilitate PRA review of SRT notifications.

3.79 The PRA does not consider that the proposed changes to SS9/13 would have material implications for competitiveness and growth or for competition.

Chapter 3: Proposal 4 – Cost benefit analysis (CBA)

3.80 The proposed changes to SS9/13 could in some cases result in better senior management oversight of SRT transactions and improved quality of SRT notifications.

3.81 It might impose limited additional costs on firms. In particular, senior managers would need to take additional steps to meet the expectations regarding oversight of SRT transactions, including providing an attestation as part of the SRT notification.

3.82 Firms would also need to prepare documentation to meet the proposed supervisory expectations regarding a summary of the SRT transaction and comparisons to relevant previous transactions upfront. However, the PRA notes that it already commonly asks firms to provide such documentation during its assessment of SRT notifications.

Chapter 3: Proposal 4 – 'Have regards' analysis

3.83 In developing this proposal, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material in the PRA's analysis of the proposal include:

1. **The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden:** The PRA considers that the proposed supervisory

expectations are proportionate. As noted above, while they might impose some additional costs on firms, they could encourage better senior management oversight of SRT transaction and better SRT notifications.

2. **The responsibilities of firms' senior management for compliance:** The PRA considers that the proposed supervisory expectations clarify the responsibilities of senior management in relation to SRT transactions and SRT notifications.

3. **The principle that the regulators should exercise their functions as transparently as possible:** The PRA considers that the proposed supervisory expectations relating to the responsibilities of senior management in relation to SRT transactions and SRT notifications would enhance transparency for firms.

4. **Efficient and economic use of PRA resources:** The PRA considers that the proposed supervisory expectations relating to senior management oversight of SRT transactions, including the provision of an attestation as part of SRT notification, and the requirement to provide comparisons to previous transactions, could enhance the quality of SRT notifications. This could reduce the resources the PRA would need to spend on review of and further engagement in relation to SRT notifications.

3.84 The PRA has had regard to other factors as required. Where analysis has not been provided against a 'have regard' for this proposal, it is because the PRA considers that 'have regard' to not be a significant factor for this proposal.

Proposal 5: Changes to the criteria for STS securitisations qualifying for differentiated capital treatment

3.85 The proposed rules restating firm-facing requirements in the Securitisation Chapter of the CRR include consequential amendments to reflect the near-final rules in PS9/24. Apart from Proposal 7 covered below, the most material of these are the following proposed changes to the criteria for STS securitisations qualifying for differentiated capital treatment currently set out in Article 243 of the CRR:

- updating the terminology in Article 243, particularly for purposes of specifying criteria relating to the credit risk of underlying exposures in Article 243(1)(a) and 243(2)(b), to align with the near-final rules in PS9/24. This includes clarifying that the exposure classes referred to in Article 243(2)(b)(i) and (ii) in relation to non-ABCP STS securitisations are not available in relation to ABCP STS securitisations and therefore not covered in Article 243(1)(a). This is broadly consistent with the near-final FCA

rules on STS criteria for ABCP transactions, but better reflects the updated terminology used in Article 243;

- in the criterion relating to the loan-to-value ratio in Article 243(2)(d), restating a cross-reference to Article 129(1)(d)(i) and Article 229(1) of the CRR to align with the corresponding near-final rules in PS9/24. The PRA proposes to clarify that the exclusion in Article 129(3)(b) of the near-final Credit Risk: Standardised Approach (CRR) Part of the PRA Rulebook of the adjustments in Article 229(1)(b) and (c) of the near-final Credit Risk Mitigation (CRR) Part of the PRA Rulebook applies for the purposes of this criterion to avoid potential overlap in the treatment of prior charges between Article 129(1)(d) of the near-final Credit Risk: Standardised Approach (CRR) Part and Article 229(1) of the near-final Credit Risk Mitigation (CRR) Part of the PRA Rulebook; and
- deleting a reference to 'fully guaranteed residential loans, as referred to in point (e) of Article 129(1) of the CRR' as this would give special treatment to particular exposures related to residential property located in France without a clear prudential rationale. The PRA notes that Article 129(1)(e) of the CRR was revoked when the CRR was onshored.

Chapter 3: Proposal 5 – PRA objectives analysis

3.86 The PRA considers that these changes would be consistent with advancing the safety and soundness of PRA-authorised CRR firms. The PRA does not expect that they would materially affect competitiveness or growth, or competition between firms.

Chapter 3: Proposal 5 – Cost benefit analysis (CBA)

3.87 The PRA does not expect these changes would lead to material additional costs or benefits for firms. However, the PRA lacks data on precise impacts on firms in terms of capital requirements or operational costs, and would welcome feedback from any firms that consider themselves to be affected by the changes.

Chapter 3: Proposal 5 – 'Have regards' analysis

3.88 In developing this proposal, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material in the PRA's analysis of the proposal include:

1. **The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden:** The PRA considers that any additional costs on firms resulting from the proposal are proportionate to the benefits in terms of a clearer and more coherent set of PRA rules.

2. **The principle that the regulators should exercise their functions as transparently as possible:** The PRA considers that the small changes would result in a clearer and more coherent set of PRA rules.

3.89 The PRA has had regard to other factors as required. Where analysis has not been provided against a 'have regard' for this proposal, it is because the PRA considers that 'have regard' to not be a significant factor for this proposal.

Proposal 6: Change to the exposure value for certain undrawn portions of cash advance facilities

3.90 Broadly, Article 248(1)(b) of the CRR states that the exposure value of an off-balance sheet securitisation position is its nominal value less any relevant specific credit risk adjustments on the securitisation position, multiplied by the relevant conversion factor. The conversion factor is generally 100%. However, to determine the exposure value of the undrawn portion of a cash advance facility, a conversion factor of 0% may be applied to the nominal amount of the facility that is unconditionally cancellable provided certain conditions are met. In particular, repayment of draws on the facility must be senior to any other claims on the cash flows arising from the underlying exposures and the institution must have demonstrated to the satisfaction of the PRA that it is applying an appropriately conservative method for measuring the amount of the undrawn portion.

3.91 The PRA proposes to make two changes to this provision when replacing it with PRA rules:

- The PRA proposes to increase the conversion factor used to determine the exposure value of the undrawn portion of a cash advance facility in the relevant circumstances from 0% to 10%. This would recognise that even where the undrawn portions of cash advance facilities are unconditionally cancellable, in practice there may be factors such as risk management capabilities and reputational risk that can prevent or discourage firms from cancelling them. This means that they should not be treated as riskless. This would also align with Basel standards.[37]

- The PRA also proposes to delete the requirement on institutions to demonstrate that it is applying an appropriately conservative method for measuring the amount of the undrawn portion. This is because Article 248(1)(b) already clarifies that the nominal amount of the undrawn portion has to be used, and this would be calculated as the difference between the total nominal amount of the liquidity facility and the amount of

[37] CRE 40.20.

the drawn portion. There does not appear to be scope for methodological variation that would need to be further constrained.

Chapter 3: Proposal 6 – PRA objectives analysis

3.92 The PRA considers that the proposed increase in the conversion factor used to determine the exposure value of the undrawn portion of a cash advance facility in the relevant circumstances would result in more prudent and risk-sensitive capital requirements, for the reasons set out above. This would advance the safety and soundness of PRA-authorised CRR firms. The PRA considers that deletion of the requirement on firms to demonstrate for these purposes that it is applying an appropriately conservative method for measuring the amount of the undrawn portion would not make a difference. Therefore, this deletion would be consistent with advancing the safety and soundness of PRA-authorised CRR firms.

3.93 The PRA does not consider that the proposed changes, which would result in better alignment with Basel standards, would have material effects on competitiveness and growth (please also refer to the CBA below). The PRA also does not consider that the proposals would have a material impact on competition between PRA-authorised CRR firms.

Chapter 3: Proposal 6 – Cost benefit analysis (CBA)

3.94 The proposals would result in capital requirements for the undrawn portion of a cash advance facility in the relevant circumstances that better reflect risk. There would be a small increase in costs for any affected firms overall, associated with the need to update policies and procedures and adjust capital resources where necessary. 2023 Q4 COREP returns showed only one instance where a firm reported a credit conversion factor of 0% for an exposure.

Chapter 3: Proposal 6 – 'Have regards' analysis

3.95 In developing this proposal, the PRA has had its framework of regulatory principles. The regulatory principles that the PRA considers are most material include:

1. **The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden:** The PRA considers that additional capital costs on firms resulting from the proposal would be proportionate to the benefit of more risk-sensitive capital requirements for the relevant exposures.

3.96 The PRA has had regard to other factors as required. Where analysis has not been provided against a 'have regard' for this proposal, it is because the PRA considers that 'have regard' to not be a significant factor for this proposal.

Proposal 7: Changes and clarifications relating to the recognition of credit risk mitigation for securitisation positions

3.97 Article 249 of the CRR specifies the recognition of credit risk mitigation for securitisation positions. Article 249 currently refers to Chapter 4 (the 'Credit Risk Mitigation Chapter'), Title II, Part Three of the CRR but the proposed replacement of Article 249 in PRA rules will refer instead to the Credit Risk Mitigation (CRR) Part of the PRA Rulebook included in near-final form in PS9/24. However, this revision may not address more nuanced questions about the interaction between Article 249 and the near-final Credit Risk Mitigation (CRR) Part.

Application of methods for recognising credit protection in relation to securitisation positions

3.98 As part of replacing Article 249 of the CRR with PRA rules, the PRA proposes to clarify how certain near-final rules in the near-final Credit Risk Mitigation (CRR) Part of the PRA Rulebook on funded credit protection, unfunded credit protection and unfunded credit protection covered by funded protection apply in relation to securitisation positions. For these purposes, the PRA proposes to use securitisation-specific variants of the decision trees in Appendix 1 of the near-final Credit Risk Mitigation (CRR) Part of the PRA Rulebook to show which methods for the recognition of credit protection may be used in what circumstances. The PRA also proposes to clarify the formulation of the methods for purposes of applying them to securitisation positions.

3.99 In relation to **funded credit protection** covering a securitisation position, the PRA proposes that an institution would have to follow a securitisation-specific variant of the decision tree in Appendix 1 Part Two of the near-final Credit Risk Mitigation (CRR) Part. The proposed decision tree would specify that for securitisation positions risk-weighted using SEC-IRBA or SEC-IAA the financial collateral comprehensive method shall be used. For other securitisation positions, the firm would use the financial collateral comprehensive method unless it chooses, in accordance with Article 222(1), to use the financial collateral simple method. If a firm chooses to use the financial collateral simple method, then it may not use the foundation collateral comprehensive method for any securitisation exposures other than those to which SEC-IRBA or SEC-IAA apply, or for any non-securitisation exposures for which it uses the Standardised Approach. The PRA also proposes to clarify that eligible funded credit protection would be limited to financial collateral which is eligible for the calculation of risk-weighted exposure amounts under the method applicable under the proposed decision tree.

3.100 In relation to **unfunded credit protection**, the PRA proposes that an institution would have to follow a securitisation-specific variant of the decision tree in Appendix 1 Part Three of the near-final Credit Risk Mitigation (CRR) Part, reflecting the following clarifications:

- The PRA proposes to clarify that the LGD adjustment method would not be available in relation to any securitisation positions. This is because the SEC-SA and SEC-ERBA do not include an LGD whereas the LGD in the SEC-IRBA relates to the underlying exposures. While in theory it might be possible to apply the LGD adjustment method in relation to Loans for which the proposed pari passu approach is used, the PRA expects that firms would in practice generally lack the data to do so prudently.[38]
- The PRA proposes to clarify that where the RW of the securitisation position without credit risk protection would be determined by the SEC-SA or by the SEC-ERBA or by assigning 1250%, then the method for recognising unfunded credit protection in relation to that securitisation position would have to be the risk-weight substitution method. This is consistent with the treatment in the Credit Risk Mitigation (CRR) Part of the PRA Rulebook included in near-final form in PS9/24 of credit protection for exposures that are risk weighted using the Standardised Approach.
- By contrast, where the RW of the securitisation position without credit risk protection would be determined by the SEC-IRBA or the SEC-IAA, then the method for recognising unfunded credit protection in relation to that securitisation position would be the parameter substitution method where the firm would risk weight a direct exposure to the protection provider using the IRB Approach. Where the firm would risk weight a direct exposure to the protection provider using the Standardised Approach, then the risk weight substitution method would be used. This is consistent with the treatment in the Credit Risk Mitigation (CRR) Part of the PRA Rulebook included in near-final form in PS9/24 of credit protection for exposures that are risk weighted using the Foundation IRB Approach. The PRA considers that this clarification, alongside the specification of the parameter substitution method in the near-final Credit Risk Mitigation Part of the PRA Rulebook, would also address a request from respondents to DP3/23 for clarification of how this method should be applied in relation to securitisation positions.

3.101 The PRA also proposes to clarify that when using any of these methods for funded or unfunded credit protection to determine the effect of the credit risk protection, the institution would have to determine the exposure value in accordance with the proposed PRA rules replacing Article 248 of the CRR, except that the conversion factor in Article 248(1)(b) should be deemed to be 100%. This would be consistent with the approach taken in relation to other exposures in the near-final Credit Risk Mitigation Part of the PRA Rulebook.

3.102 The PRA also proposes to clarify that when the risk-weight substitution method is used to determine the effect of the credit risk protection, Article 235 of the near-final Credit Risk

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[38] The proposed clarification would not affect the treatment of loans that, unlike the Loans, benefit from genuine pari passu protection.

Mitigation Part of the PRA Rulebook would be modified so that expected loss amounts would not be calculated under Article 235(1A).

3.103 The PRA also proposes to clarify that where the parameter substitution method is used to determine the effect of the credit risk protection, the following modifications would apply to the application of Article 236 of the near-final Credit Risk Mitigation Part of the PRA Rulebook:

- The LGD of the exposure would be 100%, except as provided for in Article 262A, to reflect the fact that for securitisation positions generally no LGD applicable to the exposure is available. The PRA anticipates that firms may wish to use the LGD of the guarantor, where available, in place of the 100% value for the securitisation position as allowed for in the parameter substitution method.
- The maturity of the exposure would be the maturity of the tranche determined in accordance with Article 257.
- Expected loss amounts would not be calculated under Article 236(1A); however, the expected loss that would result from the protection provider would have to be incorporated into the risk weight.

3.104 In relation to unfunded credit protection covered by funded credit protection, the PRA proposes to clarify that an institution would need to use a securitisation-specific variant of the decision tree in Appendix 1 Part Four of the near-final Credit Risk Mitigation (CRR) Part. This decision tree would reflect the fact that Article 249(3) of the CRR and the proposed replacement rules impose additional eligibility requirements for unfunded credit protection, which would be preserved in the rules replacing Article 249(3) of the CRR. It would provide that:

- if the institution would not be permitted to recognise the unfunded credit protection even if the criteria in Article 201 of the near-final Credit Risk Mitigation (CRR) Part and Article 249(3) were disregarded, then neither the unfunded credit protection nor the funded credit protection would be taken into account;
- otherwise if the institution wished to disregard the unfunded credit protection or the institution was prevented from taking the unfunded credit protection into account by Article 201 of the near-final Credit Risk Mitigation (CRR) Part or Article 249(3), then the institution would not take into account the unfunded credit protection. However, the institution could take into account the funded credit protection by applying the proposed securitisation-specific funded credit protection decision tree as if the exposure to the obligor were directly secured by the funded credit protection; and
- if the institution did not wish to disregard the unfunded credit protection and was not prevented from taking it into account by Article 201 of the near-final Credit Risk Mitigation (CRR) Part or Article 249(3), then the institution could take into account both

the unfunded and funded credit protection. The unfunded credit protection would be taken into account using the proposed securitisation-specific unfunded credit protection decision tree. The funded credit protection would be taken into account as if the covered part of the exposure, as determined by Article 235 or 236 of the near-final Credit Risk Mitigation (CRR) Part where relevant, were a direct exposure to the protection provider secured by the funded credit protection.

3.105 For these purposes, the PRA also proposes to clarify that where the funded credit protection is taken into account (and regardless of whether the unfunded credit protection is also taken into account), consistent with the near-final Credit Risk Mitigation (CRR) Part:

- the maturity and currency mismatch adjustments for the funded credit protection would have to be determined by comparing the funded credit protection to the unfunded credit protection; and
- the value of any recognised funded credit protection (after applying any applicable haircuts) would have to be capped at the value of the unfunded credit protection as determined under Article 233 of the Credit Risk Mitigation (CRR) Part, further adjusted for any maturity mismatch.

3.106 For the scenario where both the unfunded credit protection and the funded credit protection are recognised, the PRA also proposes to clarify that when determining the effect of the funded credit protection, the institution would:

- where the parameter substitution method is used to recognise the unfunded credit protection, have to take into account the effect of the funded credit protection using the foundation collateral method; and
- where the risk weight substitution method is used to recognise the unfunded credit protection, have to take into account the effect of the funded credit protection using either the financial collateral simple method or the financial collateral comprehensive method in accordance with the proposed decision tree for funded credit protection.

Treatment of the scenario envisaged in Article 249(4) of the CRR

3.107 The PRA also proposes to delete Article 249(4) and (5) of the CRR. As further detailed in Article 249(4), these provisions relate to certain circumstances in which a securitisation special purpose entity (SSPE) may provide unfunded credit protection because it has financial collateral and the requirements for the recognition of the financial collateral are met. Article 249(5) specifies a tailored method for recognising the credit protection provided by the SSPE in these circumstances. This method has structural features in common with the risk weight substitution method but also reflects the amount of financial collateral provided. Specifically, Article 249(5) provides that the amount of the protection adjusted for any currency and maturity mismatches is limited to the volatility adjusted market value of the

SSPE's financial assets and that the risk weight of exposures to the protection provider as specified under the SA is determined as the weighted-average risk weight that would apply to those assets as financial collateral under the SA.

3.108 The PRA notes that the protection provided by the SSPE in these circumstances could be treated instead in accordance with the proposed securitisation-specific variant of the decision tree in Appendix 1 Part Four of the near-final Credit Risk Mitigation (CRR) Part on unfunded credit protection covered by funded credit protection described above, subject to meeting relevant conditions. Specifically, while the originator would not be able to take the unfunded credit protection provided by the SSPE into account due to the SSPE not meeting eligibility requirements, the originator may take any funded credit protection provided by the SSPE that covers this unfunded credit protection into account subject to the conditions and specifications in this decision tree.

3.109 The PRA considers that this approach would be better aligned with the near-final rules in PS9/24 than the treatment in the current Article 249(5) of the CRR. The PRA also notes that the current Article 249(5) of the CRR might not make it sufficiently clear to firms that they need to apply the liquidation periods for determining volatility adjustments for currency mismatch that are applicable to funded rather than unfunded credit protection. This lack of clarity would not arise when applying the proposed securitisation-specific variant of the decision tree in Appendix 1 Part Four of the near-final Credit Risk Mitigation (CRR) Part on unfunded credit protection covered by funded credit protection, which clarifies that the currency mismatch adjustments for the funded credit protection need to be used but determined by comparing the funded credit protection to the unfunded credit protection.

Chapter 3: Proposal 7 – PRA objectives analysis

3.110 The proposals would advance the safety and soundness of PRA-authorised CRR firms by enhancing the clarity of the provisions on the recognition of credit protection in relation to securitisation positions and ensuring coherence with the near-final rules in PS9/24.

3.111 The PRA does not consider that the proposed clarification would have material effects on competition or on competitiveness and growth, but please refer to the CBA for a discussion of some potential impacts on firms.

Chapter 3: Proposal 7 – Cost benefit analysis (CBA)

3.112 Based on its review of SRT notifications, the PRA expects that the proposed deletion of Article 249(4) and (5) of the CRR would be relevant to a large proportion of synthetic SRT securitisations. If instead of relying on Article 249(4) and (5) of the CRR, originators recognised the protection provided by the SSPE in accordance with the decision tree in Appendix 1 Part Four of the near-final Credit Risk Mitigation (CRR) Part on unfunded credit protection covered by funded credit protection, originators would be likely to be able to achieve a reduction in RWA that is the same or more as with the method in Article 249(5) of

the CRR. This is because the proposed securitisation-specific variant of the decision tree in Appendix 1 Part Four of the near-final Credit Risk Mitigation (CRR) Part would allow the use of the financial collateral comprehensive method, which is in many circumstances more favourable to originators than the method in Article 249(5) of the CRR, which is more similar to the foundation collateral simple method. This assumes the conditions for recognising the funded credit protection covering the unfunded credit protection are met. It also assumes that originators relying on Article 249(5) currently apply the liquidation periods for determining the volatility adjustments for currency mismatch that are applicable to funded rather than unfunded credit protection. If these assumptions are not correct, the impacts might be different. The PRA also notes that, whilst there may be one-off adjustment costs, firms may be able to save on operational costs by following an approach consistent with the decision tree in Appendix 1 Part Four of the near-final Credit Risk Mitigation (CRR) Part rather than the tailored approach in Article 249(5).

3.113 The PRA considers that the other proposed clarifications are likely to broadly correspond with how firms might interpret Article 249 of the CRR in light of the near-final rules in PS9/24 (which are part of the baseline for this CBA). Nevertheless, they may benefit firms by clarifying the position.

Chapter 3: Proposal 7 – 'Have regards' analysis

3.114 In developing these proposals, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material in the PRA's analysis of the proposals include:

1. **The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden:** The PRA considers that additional costs on firms resulting from the proposals would be proportionate to the benefits in terms of clearer and more coherent rules.

2. **The principle that the regulators should exercise their functions as transparently as possible:** The PRA considers that the proposals and accompanying decision trees would contribute to the clarity of the proposed rules.

3.115 The PRA has had regard to other factors as required. Where analysis has not been provided against a 'have regard' for these proposals, it is because the PRA considers that 'have regard' to not be a significant factor for these proposals.

Proposal 8: Simplifications for Small Domestic Deposit Takers (SDDTs)

3.116 The PRA's proposed rules replacing Articles 244, 245 and 253 of the CRR[39] would make amendments to remove the optionality for SDDTs between fully deducting certain securitisation positions from Common Equity Tier 1 (CET1) capital and risk weighting them at 1250%. Instead, under the proposals in CP7/24, for SDDTs these securitisation positions together with certain other items (see Chapter 6 of CP7/24 – **The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers (SDDTs)** for details) would be assessed against a threshold of 25% of the firm's net CET1 capital. An SDDT would need to deduct the aggregate amount of these items that exceeds the 25% threshold from CET1. Below that threshold, an SDDT would need to risk weight the relevant securitisation positions at 1250%. These proposed changes would be consistent with, and would come into effect at the same time as, other proposed changes consulted on in CP7/24 (1 January 2027).

Chapter 3: Proposal 8 – PRA objectives analysis

3.117 The assessment of Proposal 8 is set out in Chapter 6 of CP7/24.

Chapter 3: Proposal 8 – Cost benefit analysis (CBA)

3.118 The costs and benefits analysis relating to Proposal 8 is set out in Chapter 6 of CP7/24.

Chapter 3: Proposal 8 – 'Have regards' analysis

3.119 The relevant 'have regards' analysis relating to Proposal 8 is set out in Chapter 6 of CP7/24.

Proposal 9: Clarification of the circumstances for the application of the SEC-ERBA instead of the SEC-SA to all rated securitisation positions or positions in respect of which an inferred rating may be used

3.120 Under Article 254(3) of the CRR, a firm may notify the PRA once a year of a decision to apply the SEC-ERBA instead of the SEC-SA to all rated securitisation positions or positions in respect of which an inferred rating (as described in Article 263(7)) may be used.

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[39] The PRA also proposes clarificatory changes to the rules replacing Articles 247 and 248 of the CRR.

In the absence of an objection of the PRA, this decision will remain valid until a subsequently notified decision comes into effect, and the firm must act accordingly.

3.121 The PRA proposes to clarify that this choice is available regardless of whether a decision to apply the SEC-ERBA to all relevant positions has been notified to the PRA 'on or before 17 November 2018'. The PRA considers that this clarification is likely to be consistent with how firms currently interpret the provision.

3.122 Connected with this clarification, the PRA proposes to specify in the draft rules (and in SS10/18) that firms need to submit notifications regarding such a decision no less than 1 month prior to it coming into effect. Similarly, a firm would need to notify the PRA about any subsequent decision to further change the approach applied to all of its rated securitisation positions no less than 1 month prior to that decision coming into effect. As currently, a firm would not be allowed to use different approaches in the same year.

Chapter 3: Proposal 9 – PRA objectives analysis

3.123 The PRA considers that the proposed clarification would be consistent with advancing the safety and soundness of PRA-authorised CRR firms. As discussed in DP3/23, the PRA considers that the SEC-ERBA is generally more risk-sensitive than the SEC-SA. In any event, the PRA would not wish to constrain the use of SEC-ERBA by means of an arbitrary reference to firms' historical choices. The PRA considers that the proposed notification deadline is appropriate to give supervisors an opportunity to consider the notification.

3.124 The PRA does not consider that the proposed clarification would have material effects on competition or on competitiveness and growth, although firms would need to take note of the proposed notification deadlines.

Chapter 3: Proposal 9 – Cost benefit analysis (CBA)

3.125 The proposed clarification would ensure a consistent interpretation of the relevant provision and facilitate its application. There could be a small one-off cost impact because some firms might need to adjust their policies and procedures to take account of the proposed notification deadlines.

Chapter 3: Proposal 9 – 'Have regards' analysis

3.126 In developing this proposal, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material in the PRA's analysis of the proposal include:

1. **The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden:** The PRA considers that the potential costs for firms of the

proposed notification deadlines would be proportionate to the benefits of giving supervisors time to consider the information contained in the notifications.

2. **The principle that the regulators should exercise their functions as transparently as possible:** The PRA considers that the proposal would contribute to the clarity of the proposed rules.

3.127 The PRA has had regard to other factors as required. Where analysis has not been provided against a 'have regard' for this proposal, it is because the PRA considers that 'have regard' to not be a significant factor for this proposal.

Proposal 10: SoP in relation to permissions in the Securitisation (CRR) Part

3.128 The PRA proposes to restate the following permissions processes in the Securitisation Chapter of the CRR in a draft SoP – The PRA's approach to waivers and permissions under the Securitisation (CRR) Part of the PRA Rulebook (Appendix 7):

- The permission processes relating to significant risk transfer currently contained in Articles 244(3) and Article 245(3) of CRR. The SoP would set out the PRA's approach to allowing an originator institution, by way of derogation from Article 244(2) and Article 245(2) of the Securitisation (CRR) Part of the PRA Rulebook, to recognise significant credit risk transfer in relation to a securitisation where certain conditions are met. The current process in Article 244(3) and 245(3) of the CRR has not so far been used in practice as originator institutions generally rely on Article 244(2) and 245(2) of the CRR and submit an SRT notification to the PRA for review. However, the SoP would set out the PRA's approach in relation to the option, preserved in the proposed replacement rules, for originator institutions to seek permission from the PRA. The SoP would state that the PRA expects to receive additional items as part of an individual transaction permission in line with the proposed changes to supervisory expectations on SRT notifications (see section on 'Proposal 4: Other changes to supervisory expectations relating to securitisations').
- The permission processes relating to the use of the internal assessment approach (IAA) currently contained in Article 265 of the CRR. The SoP would set out the PRA's approach to allowing firms to calculate the risk-weighted exposure amounts for unrated positions in ABCP programmes or ABCP transactions under the IAA. It would also set out the PRA's approach to allowing a firm that has received the permission to revert to the use of other methods for positions that fall within scope of application of the IAA.

Chapter 3: Proposal 10 – PRA objectives analysis

3.129 The assessment of the impact of this proposal on the PRA's primary and secondary objectives is described in Chapter 1 - Overview.

Chapter 3: Proposal 10 – Cost benefit analysis (CBA)

3.130 The PRA does not expect the proposal to have material additional costs or benefits for firms.

Chapter 3: Proposal 10 – 'Have regards' analysis

3.131 In developing this proposal, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material include:

1. **The principle that the regulators should exercise their functions as transparently as possible:** The PRA considers that the proposed SoP would enhance transparency for firms on the PRA's approach to granting the relevant permissions.

3.132 The PRA has had regard to other factors as required. Where analysis has not been provided against a 'have regard' for this proposal, it is because the PRA considers that 'have regard' to not be a significant factor for this proposal.

Proposal 11: SoP in relation to other powers referred to in the Securitisation (CRR) Part

3.133 Articles 244(2), 245(2), 254(4) and 258(2) of the CRR currently give the PRA the following discretions:

- Under Article 244(2) and 245(2) CRR, the PRA may decide on a case-by-case basis that significant credit risk must not be considered as transferred to third parties where the possible reduction in RWA, which the originator institution would achieve by a securitisation, is not justified by a commensurate transfer of credit risk to third parties;
- Under Article 254(4), the PRA may on a case-by-case basis prohibit the use of the SEC-SA when the RWA resulting from the application of the SEC-SA is not commensurate to the risks posed to the institution or to financial stability; and
- Under Article 258(2) of the CRR, the PRA may on a case-by-case basis prohibit the use of the SEC-IRBA where securitisations have highly complex or risky features.

3.134 These discretions for the PRA cannot be included in the proposed PRA rules, which set out firm-facing requirements. Instead, the PRA proposes to replace these discretions with reference to its powers in section 55M (Imposition of requirements by PRA) and section 192C

(Power to direct qualifying parent undertaking) of FSMA. A proposed SoP 'The PRA's approach to the exercise of powers referred to in Articles 244(3)(b), 245(3)(b), 254(4) and 258(2) of the Securitisation (CRR) Part of the PRA Rulebook' (Appendix 8) would restate details in the CRR and SS9/13 and SS10/18 on how the PRA would expect to exercise its powers in the context of the rules replacing Articles 244(2), 245(2), 254(4) and 258(2). Also, the PRA proposes to include in the PRA rules replacing Articles 244(2) and 245(2) a requirement on originator institutions that the possible reduction in RWA resulting from SRT must be justified by a commensurate transfer of credit risk to third parties.

Chapter 3: Proposal 11 – PRA objectives analysis

3.135 To the extent that this proposal restates current provisions without policy changes, the assessment of their impact on the PRA's primary and secondary objectives is set out in Chapter 1 - Overview.

3.136 The only potentially new element of the proposal is the requirement on originator institutions that the possible reduction in RWA resulting from SRT must be justified by a commensurate transfer of credit risk to third parties. However, the PRA considers that this requirement is consistent with the PRA's current supervisory practice of expecting relevant details to be included in SRT notifications, which inform the PRA's SRT assessments. The PRA considers that making it clear that there is an underlying obligation on originator institutions would be consistent with advancing the safety and soundness of PRA-authorised CRR firms. The PRA does not consider that the proposal would have material impacts on international competitiveness and growth or on competition.

Chapter 3: Proposal 11 – Cost benefit analysis (CBA)

3.137 The PRA does not expect the proposal to have material additional costs or benefits for firms.

Chapter 3: Proposal 11 – 'Have regards' analysis

3.138 In developing this proposal, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material include:

1. **The principle that the regulators should exercise their functions as transparently as possible:** The PRA considers that the proposed SoP would enhance transparency for firms on the PRA's approach to exercising the relevant powers.

3.139 The PRA has had regard to other factors as required. Where analysis has not been provided against a 'have regard' for this proposal, it is because the PRA considers that 'have regard' to not be a significant factor for this proposal.

Proposal 12: Minor modification and clarifications to the SEC-IRBA and/or SEC-SA

3.140 The PRA's proposed rules replacing Article 259 of the CRR in relation to the SEC-IRBA would:

- clarify the calculation in the case where the attachment point A is equal to the detachment point D;
- clarify the calculation of the effective number of exposures; and
- clarify and modify the treatment of mixed pools.

The proposed specification of the calculation in the case where A=D and the proposed clarification of the calculation for the effective number of exposures would also apply to the new SEC-SA formula approach in PRA rules replacing Article 261 of the CRR.

3.141 Firms may need to ascribe a risk weight to a securitisation position where A=D. The PRA considers that it would be appropriate to use (in mathematical terms) the limit of an infinitesimally small tranche approximating A=D to determine the risk weight of the securitisation position in this case and proposes to specify this in the rules replacing Article 259(1) (and Article 261(1)).

3.142 The PRA proposes to clarify that firms can set 'm' in the rules replacing Article 259(6) (and Article 261) separately for each securitisation.

3.143 The PRA proposes to specify that K_A would have to be used in place of K_{SA} in rules replacing Article 259(7) for calculating the risk weights for mixed pools. The PRA also proposes to clarify in its rules the interaction between the requirements currently contained in Article 259(3) and Article 257(7).

Chapter 3: Proposal 12 – PRA objectives analysis

3.144 The proposed specification of the treatment of mixed pools in the SEC-IRBA would contribute to advancing the safety and soundness of PRA-authorised CRR firms by treating defaults in underlying SA exposures in a more prudent manner, consistent with the SEC-SA. The other proposed clarifications would also be consistent with advancing the safety and soundness of PRA-authorised firms.

3.145 The PRA considers that the proposals could help to ensure a consistent approach between PRA-authorised CRR firms, potentially facilitating competition.

3.146 The PRA does not consider that the proposal would have any significant effect on international competitiveness and growth.

Chapter 3: Proposal 12 – Cost benefit analysis (CBA)

3.147 The proposal relating to the treatment of securitisation positions involving mixed pools under the SEC-IRBA would provide for a more prudent treatment of defaults in underlying SA exposures. It would also result in a small increase in regulatory capital requirements for some affected firms. COREP returns for 2023 Q4 indicate that there were only eight securitisation positions for which RWA were determined using the SEC-IRBA and which have mixed pools. The PRA estimates that the increase in regulatory capital requirements would be less than 1% for the securitisation exposures concerned for the firms affected.

3.148 The PRA considers that the other proposals covered in this section would contribute to rules that are clearer, without imposing costs on firms.

Chapter 3: Proposal 12 – 'Have regards' analysis

3.149 In developing these proposals, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material in the PRA's analysis of the proposals include:

1. **The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden:** The PRA considers that the (small) additional regulatory capital requirements resulting from the proposal on the treatment of mixed pools under the SEC-IRBA for any affected firms would be proportionate to the prudential benefits achieved.

2. **The principle that the regulators should exercise their functions as transparently as possible:** The PRA considers that the proposals would result in a clearer set of PRA rules.

3.150 The PRA has had regard to other factors as required. Where analysis has not been provided against a 'have regard' for these proposals, it is because the PRA considers that 'have regard' to not be a significant factor for these proposals.

Proposal 13: Change to the SEC-SA in relation to exposures in default

3.151 The PRA proposes to specify in rules replacing Article 261 of the CRR that, for the purpose of calculating K_A, exposures in default which are already captured in the W parameter must not be included in K_{SA}. The PRA considers that the current inclusion of exposures in default both in the W parameter and in K_{SA}, contributing to the value of K_A, double counts these exposures.

Chapter 3: Proposal 13 – PRA objectives analysis

3.152 The proposal would promote the safety and soundness of PRA-authorised persons by helping to make the capital treatment of exposures in default more proportionate.

3.153 The PRA does not consider that the proposal has material effects on competition, or on international competitiveness and growth.

Chapter 3: Proposal 13 – Cost benefit analysis (CBA)

3.154 The PRA considers that the proposal would remove a potential double counting of exposures in default for securitisation exposures for which RWA are determined using the SEC-SA. This proposal would tend to reduce capital requirements but impose one-off adjustment costs on affected firms. The PRA lacks data on the number of firms that may be affected or the extent to which they may be affected.

Chapter 3: Proposal 13 – 'Have regards' analysis

3.155 In developing this proposal, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material include:

1. **The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden:** The PRA considers that preventing firms from counting the exposures in default both in the underlying capital requirement and then separately in the W parameter when calculating K_A would be proportionate to the prudential risk this would address.

3.156 The PRA has had regard to other factors as required. Where analysis has not been provided against a 'have regard' for this proposal, it is because the PRA considers that 'have regard' to not be a significant factor for this proposal.

Proposal 14: Change to the calculation of maximum capital requirements for securitisation positions

3.157 The PRA's proposed rules to replace Article 268 of the CRR would modify the cap calculation so that a firm can exclude certain portions of tranches from it, if the firm then adds these portions onto the cap at their exposure value. Currently, the cap is set at $\max(V_i) \cdot K$, where V_i is the proportion of the ith tranche held by the firm and K is the capital requirement associated with the underlying exposures. In the revised cap calculation, a firm could choose a percentage value, U, for each securitisation so that the cap is $U \cdot K$ plus, for every tranche where V_i is greater than U, an amount equal to $(V_i - U)$ times the tranche exposure value.

Firms would always be able to obtain the same outcome as in the current cap calculation, by setting $U = \max(V_i)$.

3.158 This proposal could result in a lower cap overall than currently available in Article 268, potentially benefiting firms retaining a substantial portion of a junior tranche. This would avoid certain positions effectively having marginal risk weights above 1250%.

Chapter 3: Proposal 14 – PRA objectives analysis

3.159 The proposal would be consistent with advancing the safety and soundness of PRA-authorised persons as it helps to align the capital treatment with the economic substance of the securitisation exposures concerned.

3.160 The PRA does not consider that the proposal would have material effects on competition, or on international competitiveness and growth.

Chapter 3: Proposal 14 – Cost benefit analysis (CBA)

3.161 The PRA's proposal would not increase costs on firms, since the change would simply provide an additional option for firms. In certain circumstances, the additional option might be preferred by firms as it might lead to a decreased RW in return for a small increase in the calculation complexity of the RW.

Chapter 3: Proposal 14 – 'Have regards' analysis

3.162 In developing this proposal, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material include:

1. **The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden:** The PRA considers that the marginal risk weights for securitisation positions should not be significantly greater than 1250%, and so this proposal would make the capital requirements more proportionate to the risks in certain specific circumstances.

3.163 The PRA has had regard to other factors as required. Where analysis has not been provided against a 'have regard' for this proposal, it is because the PRA considers that 'have regard' to not be a significant factor for this proposal.

Proposal 15: Notification of breaches of certain securitisation requirements

3.164 Article 270a and Article 14 of the CRR currently require the PRA to impose additional risk weights on institutions for breaches of the securitisation requirements specified in Article 270a and Article 14 of the CRR, subject to materiality considerations. When replacing Article

270a and Article 14 of the CRR with PRA rules, the PRA proposes to make, and take account of, the following changes:

- The PRA expects that legislation will revoke the current obligation in Article 270a and Article 14 of the CRR on the PRA to impose additional risk weights in the relevant circumstances (alongside the related technical standards mandate and technical standards[40]); and
- In light of these expected legislative changes, the PRA proposes to require institutions to notify the PRA of any breaches of the securitisation requirements specified in Article 270a and Article 14 of the CRR in the relevant circumstances, regardless of materiality.

Chapter 3: Proposal 15 – PRA objectives analysis

3.165 The PRA considers that the proposal would advance the safety and soundness of PRA-authorised CRR firms. It would bring breaches of the relevant securitisation requirements to the PRA's attention, and the PRA could then consider an appropriate response in accordance with the **PRA's approach to supervision of the banking and insurance sectors**. This in turn could encourage firms to comply with the relevant securitisation requirements, which aim to address behavioural risks in securitisation markets.

3.166 The PRA considers that the proposal would impose only limited costs on firms. Therefore, the PRA does not consider that the requirement to report breaches to the PRA would have material adverse implications for competitiveness and growth. The PRA also does not consider that the proposal would have material effects on competition.

Chapter 3: Proposal 15 – Cost benefit analysis (CBA)

3.167 As noted above, the proposal would facilitate supervision by the PRA and contribute to encouraging compliance with relevant securitisation requirements.

3.168 The proposal would impose limited additional costs on firms. Specifically, they might need to update their policies and procedures to reflect the requirement to notify the relevant securitisation breaches to the PRA, and notify such breaches if they occur. However, the PRA expects that such breaches would be rare in practice, and that firms already take care to monitor and where appropriate communicate with the PRA on any breaches that occur.

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[40] **Commission Implementing Regulation (EU) No 602/2014** as amended, including by the **Technical Standards (Capital Requirements) (EU Exit) (No.3) Instrument 2019**, Annex Q.

Chapter 3: Proposal 15 – 'Have regards' analysis

3.169 In developing this proposal, the PRA has had regard to its framework of regulatory principles. The regulatory principles that the PRA considers are most material include:

1. **The principle that a burden or restriction which is imposed on a person should be proportionate to the benefits which are expected to result from the imposition of that burden:** The PRA considers that the proposed notification requirement imposes costs on firms that are proportionate to the benefits identified above.

2. **Efficient and economic use of PRA resources:** The PRA considers that the notifications, whilst requiring some consideration, could facilitate supervision of the relevant securitisation requirements.

3.170 The PRA has had regard to other factors as required. Where analysis has not been provided against a 'have regard' for this proposal, it is because the PRA considers that 'have regard' to not be a significant factor for this proposal.

Proposal 16: Other minor changes

3.171 The proposed PRA rules reflect other minor changes. These include, for example:

- consequential amendments to the Non-Performing Exposures Securitisation (CRR) Part of the PRA Rulebook to replace a reference to Article 47a(3) of the CRR (which HMT will revoke and which the PRA did not propose to replace in CP8/24 – **Definition of Capital: restatement of CRR requirements in PRA Rulebook**)[41] with wording restating Article 47a(3);
- a transfer of the SRT notification requirement from the Credit Risk Part of the PRA Rulebook to the proposed new Securitisation (CRR) Part of the PRA Rulebook; and
- in the rules replacing Article 249(3) of the CRR, instead of referring to Article 136, which the PRA expects to be revoked, referring to the related Commission Implementing Regulation (EU) 2016/1799 that contains relevant details for the purposes of Article 249(3).

3.172 These and other drafting changes (where not addressed above) are not intended to change the substance of the current requirements that apply to firms. For this reason, the

[41] CP8/24 sets out the PRA's proposals on the restatement of the CRR definition of capital requirements in the PRA Rulebook.

PRA has not included objectives analysis, CBA or have regards analysis in relation to these changes.

Implementation dates for the proposals in this Chapter

3.173 As set out in Chapter 1 - Overview, most of the proposals in this CP, including this chapter, would be implemented for firms that are not ICR firms and are within the scope of this CP on 1 January 2026. As also noted in Chapter 1, firms opting into the ICR would be subject to modified rules that would largely preserve the current CRR requirements and not reflect the majority of the proposed policy changes set out in this CP until 1 January 2027.

3.174 However,

- The PRA proposes that the substantive changes to SS9/13 and SS10/18 proposed in this chapter (see sections on 'Proposal 3: Supervisory expectations relating to the use of unfunded credit protection in synthetic significant risk transfer (SRT) securitisations' and 'Proposal 4: Other changes to supervisory expectations relating to securitisations') would apply to ICR firms at the same time as for other firms within the scope of this CP. This is because these relate to supervisory expectations that are as relevant to the proposed rules for ICR firms as they are to the proposed rules for other firms within the scope of this CP;
- The proposed changes to what are currently Article 14 and Article 270a of the CRR (see section on 'Proposal 15: Notification of breaches of certain securitisation requirements') would be implemented for ICR firms (as for other firms within the scope of this CP) on 1 January 2026. This is because Article 14 and Article 270a cannot be restated in their current form in PRA rules and the PRA considers that the proposed modifications are appropriate for all firms within the scope of this CP; and
- As noted in Chapter 1, the PRA also proposes to implement the proposals in Chapter 7 of this CP on 'Mapping of External Credit Rating Agency Ratings to Credit Quality Steps' that relate to securitisation, including consequential amendments to SS10/18, on 1 January 2026 for ICR and non-ICR firms.

3.175 The PRA may also consider implementing the substantive changes to SS9/13 described in the sections 'Proposal 3: Supervisory expectations relating to the use of unfunded credit protection in synthetic SRT securitisations' and 'Proposal 4: Other changes to supervisory expectations relating to securitisations' before 1 January 2026 for all firms within the scope of this CP. This is because these proposed changes to supervisory expectations do not depend on the implementation of the proposed rules.

3.176 The PRA also proposes that ‘Proposal 8: Simplifications for SDDTs’ would be implemented for firms for which it is relevant only on 1 January 2027, at the same time as other changes consulted on in CP7/24.

3.177 For ease of presentation, the proposed amended SS9/13 and SS10/18 and the proposed SoPs relating to Securitisation (CRR) Part of the PRA Rulebook included in the appendices to this CP are intended to reflect the final position when all proposals in this chapter are implemented for all firms within the scope of this CP. The policy statement relating to this CP may include interim versions of any of these documents where appropriate.

Implications for objectives, have regards and cost benefit analysis (CBA)

3.178 The PRA estimated in CP7/24 that in total 80 firms would be SDDT-eligible based on data from end-2022 and could therefore opt into the SDDT and ICR regimes (see CP7/24 for a full discussion). According to COREP returns for 2023 Q4, 10 of these firms have securitisation exposures. On average, their RWAs from all securitisation positions (whether retained or acquired) represent less than 1% of their total RWAs although there is considerable variation among them.

3.179 The objectives analysis, have regards analysis and cost benefit analysis for proposals in this chapter, other than those set out in paragraph 3.174 above, will apply in relation to these firms only from 1 January 2027.

4: Counterparty Credit Risk

Chapter 4: Introduction

4.1 This chapter sets out the PRA's proposals to make minor policy changes and amendments to the Counterparty Credit Risk provisions of the CRR, when restating those Articles in the Counterparty Credit Risk (CRR) Part of the PRA Rulebook. The intentions of these proposals are to:

- remove the requirement for PRA recognition of contractual netting agreements;
- ensure consistency under the PRA's prudential framework in the treatment of commodities used as collateral for exposures in the trading book; and
- update cross-references to the current CRR's market risk framework with a new link to the Market Risk: Internal Model Approach (CRR) Part of the PRA Rulebook.

4.2 The proposals in this chapter would:

- amend the Counterparty Credit Risk (CRR) Part of the PRA Rulebook; and
- introduce a new statement of policy: The PRA's approach to Internal Model Method (IMM) permission under the Counterparty Credit Risk (CRR) Part.

Chapter 4: Areas covered

4.3 The scope of this chapter is CRR Articles 271 to 272, 283 to 299, and Annex II Types of derivatives.

Proposal 1: Restatement of rules relating to counterparty credit risk

4.4 The PRA proposes to restate CRR Articles 271 to 272, 283 to 299, and Annex II Types of derivatives, with no substantive changes unless specified otherwise in the following paragraphs and proposals.

4.5 The PRA proposes to make some amendments to relevant provisions within the stated articles to correct typographical errors, make minor wording amendments, and to update references, without changing the policy substance.

4.6 The PRA is also proposing the following minor amendments:

- when restating CRR Article 272(4) into the PRA Rulebook, the definition of a 'netting set' would be updated to reflect the proposal to remove the requirement for PRA recognition of contractual netting agreements (see Proposal 2 below);
- removing references to 'competent authorities';
- restating conditions for the granting of IMM permissions in an IMM-specific statement of policy (see Appendix 9 to this CP), without changing the policy substance;
- when restating CRR Articles 271 and 283[42] into the PRA Rulebook, amending consequential to the PRA's proposal in Chapter 2 to CP7/24 – The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers (SDDTs), which intends to descope SDDTs from the approach to granting IMM permissions; and
- when restating CRR Articles 271(2), 273(2), 273(8) and 283(1) into the PRA Rulebook, updating to clarify the conditions under which firms should use the IMM to calculate their exposures to securities financing transactions (SFTs) and long settlement transactions.

Chapter 4: Proposal 1 – PRA objectives analysis

4.7 These proposals are all relating to restatement of existing CRR requirements with no substantive changes. The assessment of these proposals in terms of the PRA's primary and secondary objectives is described in Chapter 1 – Overview.

4.8 The assessment of the proposal to descope SDDTs from the approach to granting IMM permission are set out in Chapter 2 to CP7/24.

Chapter 4: Proposal 1 – Cost benefit analysis (CBA)

4.9 The costs and benefits of the proposals to restate existing CRR requirements into the PRA Rulebook with no substantive changes are as set out in Chapter 1 – Overview.

4.10 The costs and benefits analysis relating to the PRA's proposal to descope SDDTs from the approach to granting IMM permission are set out in Chapter 2 to CP7/24.

[42] This amendment would come into force on 1 January 2027 at the same time as the changes consulted on in CP7/24.

Chapter 4: Proposal 1 – 'Have regards' analysis

4.11 The 'have regards' analysis of the proposals to restate existing CRR requirements into the PRA Rulebook with no substantive changes is the same as the analysis described in Chapter 1 – Overview.

4.12 The relevant 'have regards' analysis relating to the PRA's proposal to descope SDDTs from the approach to granting IMM permission are set out in Chapter 2 to CP7/24.

Proposal 2: Withdrawal of the requirement for PRA recognition of contractual netting agreements

4.13 Under the CRR, firms may treat certain types of contractual netting agreements as risk-reducing where: (i) the netting agreement has been recognised by the PRA; and (ii) firms comply with a set of obligations in accordance with Article 297. CRR Article 296 provides that the PRA shall recognise a contractual netting agreement if certain conditions are fulfilled. This includes that the institution has made available to the PRA written and reasoned legal opinions on the legal validity and enforceability of netting under the law of relevant jurisdictions.

4.14 The PRA cannot restate CRR Article 296(1) into the PRA Rulebook as currently drafted because it is not a firm-facing requirement. Under 296(2)(b), firms are required to obtain legal opinions on the legal validity and enforceability of netting under the law of each of the relevant jurisdictions. As such, the PRA considers firms to be well-equipped at making an informed assessment of whether their netting agreements are legally valid and enforceable. The PRA proposes to require firms to continue obtaining such legal opinions, but they would only be required to make them available to the PRA if requested to do so.

4.15 For any avoidance of doubt, to benefit from the risk-reducing effect of contractual netting, firms need to meet all the other requirements set out under the contractual netting provisions of the CRR.

Chapter 4: Proposal 2 – PRA objectives analysis

4.16 The proposal supports the PRA's primary objective of promoting firms' safety and soundness by restating in the PRA Rulebook the substance of the conditions that a firm needs to meet in treating contractual netting agreements as risk reducing, including the requirement for firms to ensure that netting agreements are legally valid and enforceable.

4.17 The PRA considers that this proposal would not impact the PRA's secondary competition objective, and would not result in any change to industry practice.

Chapter 4: Proposal 2 – Cost benefit analysis (CBA)

4.18 The PRA considers that its proposal would benefit firms by simplifying the requirement for contractual netting without undermining the safety and soundness of firms.

4.19 The PRA considers that its proposal will not result in any additional costs to firms. Instead, it would reduce the burden on firms to provide the legal opinions to the PRA for recognition.

Chapter 4: Proposal 2 – 'Have regards' analysis

4.20 The 'have regards' analysis for this proposal is substantially covered by the 'have regards' analysis set out in Chapter 1 – Overview.

4.21 Furthermore, the following analysis is also relevant to this proposal:

- **The need to use the PRA's resources in the most efficient and economical way:** The PRA considers that removing the requirement for the PRA to recognise contractual netting agreements promotes the use of PRA's resources in a more efficient and economical way. The onus remains on firms to ensure their arrangements are legally enforceable and comply with the applicable contractual netting provisions of the PRA Rulebook.
- **Transparency:** The proposals would promote transparency by providing firms with clarity around the applicable PRA requirements.

Proposal 3: Treatment of commodities used as collateral for trading book over-the-counter derivatives

4.22 In PS9/24 – Implementation of the Basel 3.1 standards near-final part 2 the PRA set out the near final policy introducing new and additional conditions that should be satisfied for commodities to qualify as eligible collateral for repurchase and securities or commodities lending or borrowing transactions booked in the trading book.[43] These conditions will ensure that firms have assessed the market liquidity (including under stressed conditions) of such commodities received as collateral and they have the necessary capabilities to risk manage, value and trade the collateral in the relevant markets.

4.23 Currently, under CRR Article 299 for over-the-counter (OTC) derivatives booked in the trading book, institutions may recognise commodities as eligible collateral provided they are eligible to be included in the trading book. There is no requirement that firms must satisfy

[43] Near-final Article 299A of the Counterparty Credit Risk (CRR) Part of the PRA Rulebook.

conditions similar to the ones the PRA is introducing for commodities where these are used as collateral for the exposures set out in paragraph 4.22.

4.24 The PRA proposes that commodities used as collateral for trading book OTC derivatives exposures would be subject to the same eligibility conditions that the PRA will introduce in its implementation of Basel 3.1 for commodities used as eligible collateral for repurchase and securities or commodities lending or borrowing transactions booked in the trading book.[44] If the proposed change was not implemented, commodities collateral would be subject to an inconsistent treatment which the PRA considers is not justified.

Chapter 4: Proposal 3 – PRA objectives analysis

4.25 The PRA considers that this proposal would advance its primary objective of safety and soundness. This is because by allowing the recognition of collateral only where firms have the necessary capabilities to trade and liquidate it would better reflect risks. Further, the PRA considers that this proposal would appropriately align the risk management requirements for collateral received, regardless of which book the underlying transaction is in.

4.26 The proposed introduction of additional eligibility conditions for commodities used as collateral for OTC derivatives exposures could potentially have a negative impact on the PRA's secondary international competitiveness and growth objective. However, the PRA considers that any such negative impact is unlikely to be material as commodities are not commonly used as collateral for derivatives exposures.

4.27 If the PRA did not implement this proposed change, the OTC derivative exposures would be subject to a less prudent capital treatment compared to the instrument types listed in paragraph 4.22, without this being justified by the nature of their respective exposures.

Chapter 4: Proposal 3 – Cost benefit analysis (CBA)

4.28 The PRA considers that the proposed alignment of conditions for commodities used as collateral for trading book OTC derivatives exposures is unlikely to have a material impact on firms, given very few firms' use commodities as collateral for derivative transactions. This was supported by the PRA's analysis of firms' reporting data, which suggested that commodities are not commonly used as collateral for derivative exposures.

4.29 Overall, the PRA considers any additional (eg operational and compliance) costs to impacted firms would be low and outweighed by the benefits of a more prudent and consistent approach to the recognition of collateral.

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[44] These are set out in near-final Article 299A of the Counterparty Credit Risk (CRR) Part of the PRA Rulebook

Chapter 4: Proposal 3 – 'Have regards' analysis

4.30 The 'have regards' analysis for this proposal is substantially covered by the 'have regards' analysis set out in Chapter 1 – Overview.

4.31 Furthermore, the following analysis is also relevant to this proposal:

1. **Proportionality:** The PRA considers that the proposed change to the recognition of commodities used as collateral for OTC derivatives in the trading book may increase some firms' RWAs or operational costs. However, the PRA expects any such increase to be minimal. Overall, the PRA considers that its proposal is proportionate across firms, and would result in a prudential framework that better reflects risks.

Proposal 4: Update of a cross-reference linked to the CRR with a new link to the PRA Rulebook

4.32 HMT's draft **Financial Services and Markets Act 2023 (Commencement No. X, Saving and Transitional Provisions) Regulations 2024** will revoke a number of CRR articles, including the CRR Chapter that set out requirements for the use of internal models to calculate own funds requirements for market risk (Market Risk: Internal Model chapter of the CRR). This chapter will be replaced with a revised market risk framework that comprises three new approaches, including a new Internal Model Approach (IMA), as part of the implementation of the Basel 3.1 Standards. The revocation of the Market Risk: Internal Model chapter of the CRR, and the new PRA rules on IMA, will come into force on 1 January 2026.

4.33 Under the CRR Article 293(1)(a), firms with a permission to use the IMM for counterparty credit risk are required to meet the qualitative requirements set out in the Market Risk: Internal Model chapter of the CRR.

4.34 In restating CRR Article 293(1)(a) in the PRA Rulebook, the PRA proposes to replace the references to qualitative requirements in the Market Risk: Internal Model chapter of the CRR with the qualitative requirements set out in the Market Risk: Internal Model Approach (CRR) Part of the PRA Rulebook. This is necessary to preserve the modelling, risk management and other requirements that firms with IMM permissions are required to observe.

4.35 The PRA's proposal aims to provide firms with enhanced clarity replacing a revoked CRR reference with an updated cross-reference to the PRA's new market risk framework that will be implemented as part of the Basel 3.1 standards.

4.36 The PRA does not expect its proposal to have any practical impact on IMM firms. This is because this proposal is simply updating a cross-reference; replacing the UK CRR reference

with the new set of qualitative requirements set out in the Market Risk: Internal Model Approach (CRR) Part of the PRA Rulebook.

Chapter 4: Proposal 4 – PRA objectives analysis

4.37 The PRA considers that this proposal would advance its primary objective of safety and soundness as it maintains the relevant qualitative requirements that firms with IMM permission should observe.

4.38 The PRA considers that this proposal is unlikely to have any impact on the PRA's secondary objective of international competitiveness and growth.

4.39 The PRA does not expect this proposal to have an impact on the PRA's secondary competition objective as it does not change the current IMM requirements.

Chapter 4: Proposal 4 – Cost benefit analysis (CBA)

4.40 The PRA considers that there would be no costs associated with this proposal as it only intends to update a cross-reference so that it is linked to the PRA's new market risk framework. The PRA expects there will be no practical impact on firms. The PRA considers that firms with IMM permissions will benefit from the increased clarity and readability of the PRA rules as a result of this proposal.

Chapter 4: Proposal 4 – 'Have regards' analysis

4.41 The 'have regards' analysis for this proposal is substantially covered by the 'have regards' analysis set out in Chapter 1 – Overview.

4.42 Furthermore, the following analysis is also relevant to this proposal:

1. **Transparency:** The PRA's proposal will result in an easy to locate and interpret rule, which will no longer be tied to revoked CRR provisions but, rather, linked to the new PRA Rulebook. This, in turn, will enhance the transparency and accessibility of the PRA's prudential framework.

5: Settlement Risk

Chapter 5: Introduction

5.1 This chapter sets out the PRA's proposals to restate rules relating to settlement risk from the CRR into the Settlement Risk (CRR) Part of the PRA Rulebook and the relevant policy materials.

5.2 The proposals in this chapter would:

- introduce a new Settlement Risk (CRR) Part of the PRA Rulebook; and
- amend the Credit Risk Part of the PRA Rulebook.

Chapter 5: Areas covered

5.3 The scope of this chapter is CRR Articles 378 to 380.

Proposal 1: Restatement of rules relating to settlement risk

5.4 The PRA proposes to restate CRR Articles 378 with no substantive changes in the PRA Rulebook.

5.5 In restating CRR Art 379 in the PRA Rulebook, the PRA proposes to amend CRR Article 379 to remove the 1250% risk weighting requirements for free delivery exposures for SDDTs.[45] This is consequential and subject to the outcome of PRA's proposal in CP7/24 – **The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers (SDDTs)** which requires SDDTs to deduct from CET1 capital the aggregate amounts of items, including free delivery exposures, that exceeds the 25% threshold based on the net CET1 capital amount.

5.6 The PRA proposes to restate CRR Article 380 in the PRA Rulebook with minor changes. Rule 5.1 of the Credit Risk part of the PRA Rulebook, which cross-references CRR Article 380, will subsequently be deleted.

[45] This amendment would come into force on 1 January 2027 at the same time as the changes consulted on in CP7/24.

Chapter 5: Proposal 1 – PRA objectives analysis

5.6 These proposals all relate to the restatement of existing CRR requirements in PRA rules with no substantive changes. The assessment of these proposals in terms of the PRA's primary and secondary objectives is described in Chapter 1 – Overview.

5.7 The assessment of the proposal to remove the option to risk weight free delivery exposures for SDDTs are set out in CP7/24.

Chapter 5: Proposal 1 – Cost benefit analysis (CBA)

5.8 The costs and benefits of the proposals to restate the existing CRR requirements into the PRA Rulebook with no substantive changes are as set out in Chapter 1 – Overview.

5.9 The costs and benefits analysis relating to the PRA's proposal to remove the option for SDDTs to risk weight free delivery exposures are set out in CP7/24.

Chapter 5: Proposal 1 – 'Have regards' analysis

5.10 The 'have regards' analysis of the proposals to restate existing CRR requirements into the PRA Rulebook with no substantive changes is the same as the analysis described in Chapter 1 – Overview.

5.11 The relevant 'have regards' analysis relating to the PRA's proposal to remove the option for SDDTs to risk weight free delivery exposures are set out in CP7/24.

6: Other CRR requirements

Chapter 6: Introduction

6.1 This chapter sets out the PRA's proposal not to restate CRR Article 93 relating to initial capital requirement on going concern, and its proposal to restate certain capital requirements for credit risk[46] into the PRA Rulebook. It also proposes to amend the near-final SS3/24 – Credit risk definition of default consequential to the revocation of CRR Article 47a.

6.2 The proposals in this chapter would:

- amend the Required Level of Own Funds (CRR) Part of the PRA Rulebook;
- amend the Credit Risk: General Provisions (CRR) Part of the PRA Rulebook;
- amend the Credit Risk: Standardised Approach (CRR) Part of the PRA Rulebook;
- amend SS10/13 – 'Standardised approach'; and
- amend the near-final SS3/24 – 'Credit risk definition of default'.

Chapter 6: Areas covered

6.3 The scope of this chapter is CRR Article 93, and CRR Articles 119(5) and (6).

Proposal 1: Proposal not to restate CRR Article 93

6.4 The PRA proposes not to restate CRR Article 93 relating to initial capital requirement on going concern.

- Article 93(1) provides that the own funds of an institution may not fall below the amount of initial capital[47] required at the time of its authorisation. The PRA considers that this requirement is unnecessary because Rule 12.1 of the Definition of Capital Part of the PRA rulebook sets out specific requirements for capital resources which must be met or exceeded at all times after authorisation. Therefore, the PRA proposes that CRR Article 93(1) is no longer needed.
- CRR Article 93(2) to (5) exempt firms from this minimum own fund requirement in certain circumstances. CRR Article 93(6) enables the PRA to disapply these exemptions. The PRA proposes that these paragraphs are not needed as, under s138A FSMA, the PRA can grant a rule waiver or modification on application or with

[46] CRR Article 109, and 119(5) and (6).
[47] CRR Article 4(51) defines initial capital to mean the amount and types of own funds specified in Rule 12.1 of the Definition of Capital Part of the PRA rulebook.

the consent of a person who is subject to the rules, subject to meeting the statutory tests laid out in s138A(4) FSMA.

6.5 Consequently, the PRA proposes to amend CRR Article 92 in the Required Level of Own Funds (CRR) part of the PRA Rulebook to remove any references to CRR Article 93.

Proposal 2: Restatement of certain capital requirements for credit risk

6.6 The PRA proposes to restate CRR Article 109 in the near-final Credit Risk: General Provisions (CRR) part of the PRA Rulebook so it is clear that risk-weighted assets for securitisation positions are calculated in accordance with the securitisation rules in the new Securitisation (CRR) Part. The PRA considers that as a result of this proposed restatement, it is not necessary for it to restate the existing related provision in CRR Article 130.

6.7 CRR Article 119(5) provides that exposures to financial institutions subject to prudential requirements comparable to those applied to institutions in terms of robustness are to be treated as exposures to institutions. CRR Article 119(6) further provides that the requirements in Part 9C rules (as defined in s143F of FSMA) are to be treated as comparable in terms of robustness. As a result, exposures to financial institutions subject to the Part 9C rules are treated as exposures to institutions. The PRA has not identified any other financial institutions which meet the criteria in CRR Article 119(5).

6.8 The PRA proposes to restate CRR Articles 119(5) and (6) in the Credit Risk: Standardised Approach (CRR) Part of the PRA Rulebook in a simplified form by providing that exposures to financial institutions that are subject to the requirements laid down in Part 9C rules would be treated as exposures to institutions. The PRA notes that it could consult on extending this treatment in the future if it identifies other financial institutions which it would be appropriate to include. Consequently, the PRA also proposes to delete Chapter 2 of SS10/13.

6.9 This proposal is in line with the PRA's general approach to the restatement of the CRR provisions, including omission of provisions that are not relevant for UK firms. The proposal would maintain both the requirements on firms and the PRA's approach to exposures to financial institutions as they currently operate.

Proposal 3: Consequential change to near final SS3/24

6.10 As noted in paragraph 3.171 in Chapter 3 to this CP, the PRA proposes to restate the definition of non-performing exposures in CRR Article 47a(3) in the Non-Performing

Exposures Securitisation (CRR) Part of the PRA Rulebook for the purpose of the securitisation capital requirements.

6.11 Consequently, the PRA also proposes to amend paragraph 3.28(h) in the near-final SS3/24 – Credit risk definition of default to replace the reference to CRR Article 47a with the definition of non-performing exposure or NPE in the Non-Performing Exposures Securitisation (CRR) Part.

Chapter 6: Proposal 3 – PRA objectives analysis

6.12 These proposals relate either to the restatement of existing CRR requirements with no substantive changes or the non-restatement of a CRR requirement which the PRA considers is unnecessary given existing PRA rules and so will not result in a policy change or material impact on firms. The assessment of these proposals in terms of the PRA's primary and secondary objectives is described in Chapter 1 – Overview.

Chapter 6: Proposal 3 – Cost benefit analysis (CBA)

6.13 The costs and benefits of the proposals to restate existing CRR requirements into the PRA Rulebook with no substantive changes are as set out in Chapter 1 – Overview.

Chapter 6: 'Have regards' analysis

6.14 The 'have regards' analysis of the proposals to restate existing CRR requirements into the PRA Rulebook with no substantive changes is the same as the analysis described in Chapter 1 – Overview.

7: Mapping of external credit rating agency ratings to credit quality steps

7.1 This chapter sets out the PRA's proposed rule and technical standard updates in respect of the mapping of external ratings produced by credit rating agencies ('CRAs', also known as external credit assessment institutions or 'ECAIs') to credit quality steps ('CQSs'). These are specified in the capital adequacy frameworks for UK Solvency II firms, the society of Lloyds and its managing agents, and insurance and reinsurance undertakings that have a UK branch (third country branch undertakings) (hereafter collectively referred to as 'Solvency II firms'),[48] banks, building societies and designated investment firms. Most PRA and some FCA-authorised firms are required to apply these mappings.

7.2 The PRA has reviewed the mapping tables currently in the Annexes to Technical Standards (TS) 2016/1799, 2016/1800 and 2016/1801 (and related documents) and proposes to make some modest changes to the content of those tables as set out later in this chapter.[49] The PRA proposes either to delete the mapping tables from the Annexes to those TS or expects that the relevant TS will be revoked, and to include the updated mapping tables within the PRA Rulebook instead.[50] The process to achieve this will be slightly different for each TS. This chapter also discusses the PRA's future plans with regards to these TS and potential changes to the existing legislative mapping mandates.

7.3 This chapter is relevant to PRA-authorised Solvency II firms, banks, building societies and designated investment firms and also impacts FCA-authorised CRAs, and some FCA-authorised firms.[51] Although they are not CRR firms, this chapter is relevant to Solvency II firms since one of the proposed modifications to the PRA Rulebook is an updated mapping table to replace the mapping table in TS 2016/1800 that Solvency II firms are currently required to use and which the PRA proposes to delete.

7.4 The proposals in this chapter would result in:

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[48] The relevance of the CQS mapping table applicable within the Solvency II framework to third country branch undertakings is limited to its use in the context of matching adjustment permissions.
[49] In this chapter, references to TS 2016/1799 and TS 2016/1801 are references to Part 2 of TS 2016/1799 and Part 2 of TS 2016/1801, which apply to certain PRA-authorised persons.
[50] In the cases of TS 2016/1800 and 2016/1801, the PRA expects that the whole of the TS would be revoked once the new mapping table rules in the PRA Rulebook have come into force.
[51] References in this Chapter of the CP to 'FCA-authorised' in the context of credit rating agencies means FCA-registered or FCA-certified credit rating agencies. As well as applying to most PRA-authorised firms, the updated tables also apply to FCA-authorised 'MIFIDPRU' investment firms.

- amendments to the near-final Credit Risk: Standardised Approach (CRR) Part of the PRA Rulebook for CRR firms;
- amendments to the Solvency Capital Requirement – Standard Formula, Matching Adjustment and Glossary Parts of the PRA Rulebook for Solvency II firms;
- additions to the Securitisation (CRR) Part of the PRA Rulebook for CRR firms which will be introduced pursuant to the proposals described in Chapter 3 of this CP;
- amendments to the SDDT Regime – Interim Capital Regime Part of the PRA Rulebook;
- amendments to PRA SS10/18: Securitisation: General requirements and capital framework; and
- amendments to PRA SS3/17: Solvency II: Illiquid unrated assets.

Chapter 7: Implementation

7.5 Subject to the outcome of this consultation, the PRA proposes that the insurance-related CQS mapping rule changes should come into force on 1 July 2025 and other mapping-related rule changes should come into force on 1 January 2026. Looking at each sector affected by mapping in turn:

- For insurance, the Commission Delegated Regulation (EU) 2015/35 ('the CDR') includes the PRA's mandate for insurance CQS mapping. The PRA expects this legislation will be revoked by HMT on 31 December 2024.[52] The PRA proposes to include the new mapping table rule (to implement the proposals in Table 2 below) in the Solvency Capital Requirement – Standard Formula Part of the PRA Rulebook with effect from 1 July 2025. TS 2016/1800 (which contains the existing mapping table) would also be revoked by HMT at the same time. The PRA proposes to make consequential amendments to the Glossary and Matching Adjustment Parts of the PRA Rulebook to update cross-references to the new mapping table rule. The PRA also proposes to make consequential amendments to SS3/17 – **Solvency II: illiquid unrated assets** to update cross-references to TS 2016/1800 and TS 2016/1799.
- For bank, building society and designated investment firms' exposures that are risk-weighted under the Standardised Approach to credit risk (which are mapped pursuant to TS 2016/1799 which is subject to the PRA's mapping mandate in CRR Article 136), the PRA proposes that the new mapping table rule would come into force on 1 January 2026 and would be included in the Credit Risk: Standardised Approach (CRR) Part of the PRA Rulebook. The PRA also proposes that this is to be introduced on the same date as the PRA's implementation of the Basel 3.1 standards.[53] The PRA also proposes to make consequential amendments to the near-final Credit Risk: Standardised Approach (CRR)

[52] The Financial Services and Markets Act 2023 (Commencement No.6) Regulations 2024 (2024 No.620 (C.39).
[53] PS9/24 – **Implementation of the Basel 3.1 standards near-final part 2**.

Part to update relevant cross-references to the new mapping table rule. At the same time, the PRA proposes to revoke the existing mapping table in Annex III and Article 16 of TS2016/1799. The PRA proposes that the new mapping rule will also come into force on 1 January 2026 for SDDTs that opt into the ICR regime.

7.6 For bank, building society and designated investment firms' securitisation positions that are risk weighted under the External Ratings Based Approach (SEC-ERBA), the CRA-specific short-term mapping is currently specified in TS 2016/1801 and Table 1 of SS10/18 – **Securitisation: General Requirements and Capital Framework** sets out the PRA's generic expectations for long-term mappings. The PRA proposes that the new mapping rule would be included in the proposed Securitisation (CRR) Part of the PRA Rulebook and would come into force on 1 January 2026. The new PRA rule would contain a single CQS mapping table for securitisation positions (as proposed in Table 3 below) and the mapping-related sections (including Table 1) of SS10/18 would be deleted. The PRA expects that TS 2016/1801 would be revoked at the same time. In line with its proposals for risk weights calculated under the Standardised Approach to credit risk, the PRA proposes that the new mapping rule will also apply to SDDTs and the SDDT consolidation entities that opt into the ICR regime.[54]

The PRA's approach to updating mapping tables

7.7 The PRA has a general rule-making power under s137G of the Financial Services and Markets Act 2000 ('FSMA') and power to make, modify, amend or revoke technical standards under s138P of FSMA, where the PRA has a mandate to do so. The PRA has mandates under the CRR and the CDR[55] to make technical standards for the mapping of external ratings to the CQSs that determine risk weights within the capital adequacy frameworks for certain PRA and FCA-authorised financial institutions. Accurate mapping promotes the PRA's primary objective of safety and soundness and delivers prudential benefits by, for example, supporting a risk-sensitive approach to the risk weighting of externally rated exposures under the Standardised Approach to credit risk and the correct calculation of insurer counterparty default risk and of the insurer matching and volatility adjustments.

7.8 External ratings are mapped to six CQSs under the general CRR framework, to seven CQSs under the Solvency II Directive and CDR framework, and to four CQSs (in respect of

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[54] Appendix 1 to this CP includes amendments to the SDDT Regime – Interim Capital Regime Part to apply the updated mapping tables in the Credit Risk: Standardised Approach (CRR) and Securitisation (CRR) Parts to ICR firms.
[55] These mandates are set out in CRR 575/2013 Article 136(1) and (3) in respect of banks, building societies and designated investment firms, CRR Article 270e in respect of securitisation positions and CDR Article 3 in respect of insurers.

short-term ratings) or eighteen CQSs (in respect of long-term ratings) under the External Ratings Based Approach (SEC-ERBA) of the CRR securitisation framework.

7.9 The TS setting out the mapping of external ratings to CQSs in the UK are similar to those used by the EU and reflect the principles for mapping issued by the Basel Committee on Banking Supervision.[56], [57] The annexes to the TS include a number of mapping tables that certain PRA-authorised banks, building societies, designated investment firms and Solvency II firms are required to apply for capital adequacy and reporting purposes. The mapping tables currently in force in the UK are primarily those that applied at the end of the transition period of the UK's departure from the EU (31 December 2020). The PRA proposes to update those mapping tables in line with the process set out in TS 2016/1799, to delete the tables from the TS, and to add the updated mapping tables to the PRA Rulebook. In relation to the updated mapping tables that apply to banks, building societies and investment firms, the PRA considers it appropriate to require all firms to use these tables, including SDDTs that opt into the ICR regime. This is to ensure firms are not using outdated mappings for an excessively long period.

7.10 To facilitate this process, the PRA has liaised with the FCA as the regulator for UK-authorised CRAs. The PRA has reviewed rating regulatory data supplied by the FCA. The PRA has engaged with the thirteen CRAs authorised by the FCA to request supporting data and information and has also reviewed recent updates to the EU mappings .[58] While the PRA conducts its own independent validation of mappings, it considers that there is no reason why PRA mappings should differ from those issued by other jurisdictions that use the Basel-recommended approach to ratings mapping.

7.11 The PRA proposes to use its general rule-making power to modify the PRA Rulebook to add the three updated mapping tables, shown below, to the PRA Rulebook as new rules. The relevant PRA and FCA-authorised firms should use these mapping tables once they are formally added to the Rulebook and have come into force. The proposed scope of these tables is limited to ratings produced by UK-authorised CRAs. The PRA proposes to use its power under s138P FSMA and the relevant mandate to make the modifications to TS 2016/1799 that are proposed in this chapter. The PRA expects HMT to make the revocations

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[56] **CRR Implementing Regulation 2016/1799 laying down technical standards for credit ratings mapping in accordance with Articles 136(1) and 136(3) of Regulation (EU) No 575/2013**. CRR Implementing Regulation 2016/1801 laying down technical standards for credit ratings mapping for securitisation in accordance with Article 270e of Regulation (EU) No 575/2013, **CDR Implementing Regulation (EU). 2016/1800 laying down technical standards for credit ratings mapping for insurance in accordance with Directive 2009/138/EC**.
[57] **Standardised approach - implementing the mapping process (bis.org)** and **CRE21 - Standardised approach: use of external ratings (bis.org)**.
[58] **Implementing regulation - EU - 2024/1872.**

of TS 2016/1800 and TS 2016/1801 described in this chapter, as part of the wider revocations of assimilated law under FSMA 2023.

Proposal 1: External ratings mapping to CQSs for bank, building society and designated investment firm capital adequacy and reporting purposes

7.12 The PRA proposes the following detailed changes:

The following new rating scales are mapped for the first time in the UK:

1. ARC Ratings (UK) Limited: Insurance Financial Strength rating scale.
2. DBRS Ratings Limited: Expected Loss rating scale.
3. Kroll Bond Rating Agency UK Limited: Insurance Financial Strength rating scale.
4. S&P Global Ratings Limited: Long-term Financial Institution Resolution Counterparty Ratings.
5. S&P Global Ratings Limited: Short-term Financial Institution Resolution Counterparty Ratings.

The following other changes are proposed:

1. Credit reform Rating AG: the BBB, BB and B ratings in its long-term issuer and issue ratings now map to CQS 3, 4 and 5 respectively. Its L3 short-term rating now maps to CQS 3.
2. Fitch Ratings Limited: the RD and D ratings in its derivative counterparty rating scale now map to CQS 6.
3. Scope Ratings UK Limited: the SD rating in its long-term rating scale now maps to CQS 6; the SD and D ratings in its short-term rating scale now map to CQS 4.
4. CRAs not authorised in the United Kingdom are no longer listed. All references to individual CRAs now relate to their FCA-authorised legal entity.

Table 1: Mapping of external ratings to CQSs for bank, building society and designated investment firm capital adequacy and reporting purposes

Credit quality step	1	2	3	4	5	6
A.M. Best Europe Rating Services Limited						
Long-term issuer credit rating scale	aaa, aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, d, e, f, s
Long-term issue rating scale	aaa, aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, d, s
Financial strength rating scale	A++, A+	A, A-	B++, B+	B, B-	C++, C+	C, C-, D, E, F, S
Short-term issuer rating scale	AMB-1+	AMB-1-	AMB-2, AMB-3	AMB-4, d, e, f, s		
Short-term issue rating scale	AMB-1+	AMB-1-	AMB-2, AMB-3	AMB- 4, d, s		
ARC Ratings (UK) Limited						
Long-term issuer rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Long-term issue rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Insurance Financial Strength rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuer rating scale	A-1+	A-1	A-2, A-3	B, C, D		
Short-term issue rating scale	A-1+	A-1	A-2, A-3	B, C, D		
Creditreform Rating AG						
Long-term issuer rating scale	AAA, AA	A	BBB	BB	B	C, SD, D
Long-term issue rating scale	AAA, AA	A	BBB	BB	B	C, D

Short-term rating scale	L1	L2	L3	NEL, D		
DBRS Ratings Limited						
Long-term obligations rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Commercial paper and short-term debt rating scale	R-1 H, R-1 M	R-1 L	R-2, R-3	R-4, R-5, D		
Financial strength rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, R
Expected loss rating scale	AAA(el), AA(el)	A(el)	BBB(el)	BB(el)	B(el)	CCC(el), CC(el), C(el)
Egan-Jones Ratings Co.						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale	A-1+	A-1	A-2	A-3, B, C, D		
Fitch Ratings Limited						
Long-term issuer default rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, RD, D
Corporate finance obligations — long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C
Long-term international Insurer Financial Strength rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C
Derivative counterparty rating scale	AAA dcr, AA dcr	A dcr	BBB dcr	BB dcr	B dcr	CCC dcr, CC dcr, C dcr, RD dcr, D dcr
Short-term rating scale	F1+	F1	F2, F3	B, C, RD, D		
Short-term IFS rating scale	F1+	F1	F2, F3	B, C		
HR Ratings de México, S.A. de C.V.						

Global long-term rating scale	HR AAA(G)/HR AA(G)	HR A(G)	HR BBB(G)	HR BB(G)	HR B(G)	HR C(G)/HR D(G)
Global short-term rating scale	HR+1(G)/HR1(G)	HR2(G)	HR3(G)	HR4(G), HR5(G), HR D(G)		
Japan Credit Rating Agency Ltd						
Long-term issuer rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, LD, D
Long-term issue rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuer rating scale	J-1+	J-1	J-2	J-3, NJ, LD, D		
Short-term issue credit rating scale	J-1+	J-1	J-2	J-3, NJ, D		
Kroll Bond Rating Agency UK Limited						
Long-term credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale	K1+	K1	K2, K3	B, C, D		
Insurance Financial Strength rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Moody's Investors Service Limited						
Global long-term rating scale	Aaa, Aa	A	Baa	Ba	B	Caa, Ca, C
Global short-term rating scale	P-1	P-2	P-3	NP		
Scope Ratings UK Limited						
Long-term rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D/SD

Short-term rating scale	S-1+	S-1	S-2	S-3, S-4, D/SD		
S&P Global Ratings UK Limited						
Long-term issuer credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, R, SD/D
Long-term issue credit rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D
Insurer financial strength rating scale	AAA, AA	A	BBB	BB	B	CCC, CC, SD/D, R
Long-term Financial Institution Resolution Counterparty Ratings	AAA, AA	A	BBB	BB	B	CCC, CC, SD, D
Mid-Market Evaluation rating scale		MM1	MM2	MM3, MM4	MM5, MM6	MM7, MM8, MMD
Short-term issuer credit rating scale	A-1+	A-1	A-2, A-3	B, C, R, SD/D		
Short-term issue credit rating scale	A-1+	A-1	A-2, A-3	B, C, D		
Short-term Financial Institution Resolution Counterparty Ratings	A-1+	A-1	A-2, A-3	B, C, SD/D		
The Economist Intelligence Unit Limited						
Sovereign rating band scale	AAA, AA	A	BBB	BB	B	CCC, CC, C, D

Proposal 2: External ratings mapping to CQSs for Solvency II capital adequacy and reporting purposes

7.13 The PRA proposes the following detailed changes:

The following new rating scales are mapped for the first time in the UK:

1. ARC Ratings (UK) Limited: Insurance Financial Strength rating scale.
2. DBRS Ratings Limited: Expected Loss rating scale.
3. Kroll Bond Rating Agency UK Limited: Insurance Financial Strength rating scale.
4. S&P Global Ratings Limited: Long-term Financial Institution Resolution Counterparty Ratings.
5. S&P Global Ratings Limited: Short-term Financial Institution Resolution Counterparty Ratings.

The following other changes are proposed:

6. AM Best Europe Rating Services Limited: its A++ rating in its financial strength rating scale now maps to CQS 0; its A+ rating (previously omitted) maps to CQS 1.
7. DBRS Ratings Limited: the AAA rating in its financial strength rating scale now maps to CQS 0.
8. Credit reform Rating AG: the BBB, BB and B ratings in its long-term issuer and issue ratings now map to CQS 3, 4 and 5 respectively. Its L3 rating in its short-term rating scale now maps to CQS3.
9. Fitch Ratings Limited: the RD and D ratings in its derivative counterparty rating scale now map to CQS6.
10. Scope Ratings UK Limited: the SD rating in its long-term rating scale now maps to CQS6; the SD and D ratings in its short-term rating scale now map to CQS4.
11. CRAs not authorised in the United Kingdom are no longer listed. All references to individual CRAs now relate to their FCA-authorised legal entity.

Table 2: Mapping of external ratings to CQSs for Solvency II capital adequacy and reporting purposes

Credit quality step	0	1	2	3	4	5	6
A.M. Best Europe Rating Services Limited							
Long-term issuer credit rating scale	aaa	aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, d, e, f, s
Long-term issue rating scale	aaa	aa+, aa, aa-	a+, a, a-	bbb+, bbb, bbb-	bb+, bb, bb-	b+, b, b-	ccc+, ccc, ccc-, cc, c, d, s
Financial strength rating scale	A++	A+	A, A-	B++, B+	B, B-	C++, C+	C, C-, D, E, F, S
Short-term issuer rating scale		AMB-1+	AMB-1-	AMB-2, AMB-3	AMB-4, d, e, f, s		

Short-term issue rating scale		AMB-1+	AMB-1-	AMB-2, AMB-3	AMB- 4, d, s		
ARC Ratings (UK) Limited							
Long-term issuer rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Long-term issue rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Insurance Financial Strength Rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuer rating scale		A-1+	A-1	A-2, A-3	B, C, D		
Short-term issue rating scale		A-1+	A-1	A-2, A-3	B, C, D		
Creditreform Rating AG							
Long-term issuer rating scale	AAA	AA	A	BBB	BB	B	C, SD, D
Long-term issue rating scale	AAA	AA	A	BBB	BB	B	C, D
Short-term rating scale		L1	L2	L3	NEL, D		
DBRS Ratings Limited							
Long-term obligations rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Commercial paper and short-term debt rating scale		R-1 H, R-1 M	R-1 L	R-2, R-3	R-4, R-5, D		
Financial strength rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, R

Expected loss rating scale	AAA(el)	AA(el)	A(el)	BBB(el)	BB(el)	B(el)	CCC(el), CC(el), C(el)
Egan-Jones Ratings Co.							
Long-term credit rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale		A-1+	A-1	A-2	A-3, B, C, D		
Fitch Ratings Limited							
Long-term issuer default rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, RD, D
Corporate finance obligations — long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C
Long-term international Insurer Financial Strength rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C
Derivative counterparty rating scale	AAA dcr	AA dcr	A dcr	BBB dcr	BB dcr	B dcr	CCC dcr, CC dcr, C dcr, RD dcr, D dcr
Short-term rating scale		F1+	F1	F2, F3	B, C, RD, D		
Short-term IFS rating scale		F1+	F1	F2, F3	B, C		
HR Ratings de México, S.A. de C.V.							
Global long-term rating scale	HR AAA(G)	HR AA(G)	HR A(G)	HR BBB(G)	HR BB(G)	HR B(G)	HR C(G)/HR D(G)
Global short-term rating scale	HR+1(G)	HR1(G)	HR2(G)	HR3(G)	HR4(G), HR5(G), HR D(G)		

Japan Credit Rating Agency Ltd							
Long-term issuer rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, LD, D
Long-term issue rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Short-term issuer rating scale		J-1+	J-1	J-2	J-3, NJ, LD, D		
Short-term issue credit rating scale		J-1+	J-1	J-2	J-3, NJ, D		
Kroll Bond Rating Agency UK Limited							
Long-term credit rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Short-term credit rating scale		K1+	K1	K2, K3	B, C, D		
Insurance Financial Strength rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D
Moody's Investors Service Limited							
Global long-term rating scale	Aaa	Aa	A	Baa	Ba	B	Caa, Ca, C
Global short-term rating scale		P-1	P-2	P-3	NP		
Scope Ratings UK Limited							
Long-term rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D/SD
Short-term rating scale		S-1+	S-1	S-2	S-3, S-4, D/SD		
S&P Global Ratings UK Limited							
Long-term issuer credit rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, R, SD/D
Long-term issue credit rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D

Insurer financial strength rating scale	AAA	AA	A	BBB	BB	B	CCC, CC, SD/D, R
Long-term Financial Institution Resolution Counterparty Ratings	AAA	AA	A	BBB	BB	B	CCC, CC, SD, D
Mid-Market Evaluation rating scale			MM1	MM2	MM3, MM4	MM5, MM6	MM7, MM8, MMD
Short-term issuer credit rating scale		A-1+	A-1	A-2, A-3	B, C, R, SD/D		
Short-term issue credit rating scale		A-1+	A-1	A-2, A-3	B, C, D		
Short-term Financial Institution Resolution Counterparty Ratings		A-1+	A-1	A-2, A-3	B, C, SD/D		
The Economist Intelligence Unit Limited							
Sovereign rating band scale	AAA	AA	A	BBB	BB	B	CCC, CC, C, D

Proposal 3: External ratings mapping to CQSs of securitisation positions for CRR purposes

7.14 The mapping of long-term external ratings of securitisation positions to CQSs has been to eighteen rating notches (not to rating bands) since the PRA introduced an interim mapping in SS10/18 in October 2021. The PRA proposes to add the expanded eighteen CQS table below to the PRA Rulebook for firms to use from 1 January 2026. This is a more granular agency-by-agency mapping that builds on the generic table in SS10/18 and includes updated CQS mappings for short-term ratings.

Table 3: Mapping of external ratings of securitisation positions to CQSs for CRR purposes

CQS	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	All other
A.M. Best Europe Rating Services Limited																		
Long-term issue credit rating scale	aaa (sf)	aa+ (sf)	aa (sf)	aa- (sf)	a+ (sf)	a (sf)	a- (sf)	bbb+ (sf)	bbb (sf)	bbb- (sf)	bb+ (sf)	bb (sf)	bb- (sf)	b+ (sf)	b (sf)	b- (sf)	ccc+ (sf), ccc (sf), ccc- (sf)	Below ccc- (sf)
Short-term issue credit rating scale	AMB-1+ (sf), AMB-1 (sf)	AMB-2 (sf)	AMB-3 (sf)															Below AMB-3 (sf)
ARC Ratings (UK) Limited																		
Long-term issue rating scale	AAA SF	AA+ SF	AA SF	AA- SF	A+ SF	A SF	A- SF	BBB+ SF	BBB SF	BBB- SF	BB+ SF	BB SF	BB- SF	B+ SF	B SF	B- SF	CCC+ SF, CCC SF, CCC- SF	Below CCC- SF
Short-term issue rating scale	A-1+ SF, A-1 SF	A-2 SF	A-3 SF															Below A-3 SF
Creditreform Rating AG																		
Long-term issue rating scale	AAA sf	AA+ sf	AA sf	AA- sf	A+ sf	A sf	A- sf	BBB+ sf	BBB sf	BBB- sf	BB+ sf	BB sf	BB- sf	B+ sf	B sf	B- sf	CCC sf	Below CCC sf
DBRS Ratings Limited																		

Long-term obligations rating scale	AAA (sf)	AA(high)(sf)	AA (sf)	AA(low)(sf)	A(high)(sf)	A(sf)	A(low)(sf)	BBB(high)(sf)	BBB(sf)	BBB(low)(sf)	BB(high)(sf)	BB (sf)	BB(low)(sf)	B(high)(sf)	B(sf)	B(low)(sf)	CCC(high)(sf), CCC(sf), CCC(low)(sf)	Below CCC(low)(sf)
Commercial paper & short-term debt rating scale	R-1 H (sf), R-1 M (sf), R-1 L (sf)	R-2 H (sf), R-2 M (sf), R-2 L (sf)	R-3 (sf)															Below R-3 (sf)
Fitch Ratings Limited																		
Long-term rating scale	AAA SF	AA+ SF	AA SF	AA- SF	A+SF	A SF	A- SF	BBB+ SF	BBB SF	BBB- SF	BB+ SF	BB SF	BB- SF	B+ SF	B SF	B- SF	CCC SF	Below CCC SF
Short-term rating scale	F-1+ SF, F1 SF	F2 SF	F3 SF															Below F3 SF
HR Ratings de México, S.A. de C.V.																		
Global rating scale for structured finance	HR AAA (G)(E)	HR AA+ (G)(E)	HR AA (G)(E)	HR AA- (G)(E)	HR A+ (G)(E)	HR A (G)(E)	HR A- (G)(E)	HR BBB + (G)(E)	HR BBB (G)(E)	HR BBB - (G)(E)	HR BB+ (G)(E)	HR BB (G)(E)	HR BB- (G)(E)	HR B+ (G)(E)	HR B (G)(E)	HR B- (G)(E)	HR C+ (G)(E)	Below HR C+ (G)(E)
Japan Credit Rating Agency Ltd																		
Long-term issue	AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	B	B-	CCC	Below CCC

rating scale																		
Short-term issue rating scale	J-1+, J-1	J-2	J-3															Below J-3
Kroll Bond Rating Agency UK Limited																		
Long-term credit rating scale	AAA(sf)	AA+ (sf)	AA (sf)	AA- (sf)	A+ (sf)	A(sf)	A- (sf)	BBB+ (sf)	BBB (sf)	BBB- (sf)	BB+ (sf)	BB (sf)	BB- (sf)	B+ (sf)	B(sf)	B- (sf)	CCC+ (sf), CCC(sf), CCC- (sf)	Below CCC- (sf)
Short-term credit rating scale	K1+ (sf), K1(sf)	K2(sf)	K3(sf)															Below K3(sf)
Moody's Investors Service Limited																		
Global long-term rating scale	Aaa (sf)	Aa1 (sf)	Aa2 (sf)	Aa3 (sf)	A1 (sf)	A2 (sf)	A3 (sf)	Baa1 (sf)	Baa2 (sf)	Baa3 (sf)	Ba1 (sf)	Ba2 (sf)	Ba3 (sf)	B1 (sf)	B2 (sf)	B3 (sf)	Caa1 (sf), Caa2 (sf), Caa3 (sf)	Below Caa3 (sf)
Global short-term rating scale	P-1 (sf)	P-2 (sf)	P-3 (sf)															Below P-3 (sf)
Scope Ratings UK Limited																		
Long-term rating scale	AAA SF	AA+ SF	AA SF	AA- SF	A+ SF	A SF	A- SF	BBB+ SF	BBB SF	BBB- SF	BB+ SF	BB SF	BB- SF	B+ SF	B SF	B- SF	CCC SF	Below CCC SF
Short—term rating scale	S-1+ SF, S-1	S-2 SF	S-3 SF															Below S-3 SF

	SF																	
S&P Global Ratings UK Limited																		
Long-term issue credit rating scale	AAA (sf)	AA+ (sf)	AA (sf)	AA- (sf)	A+ (sf)	A (sf)	A- (sf)	BBB+ (sf)	BBB (sf)	BBB- (sf)	BB+ (sf)	BB (sf)	BB- (sf)	B+ (sf)	B (sf)	B- (sf)	CCC+ (sf), CCC (sf), CCC- (sf)	Below CCC- (sf)
Short-term issue credit rating scale	A-1+ (sf), A-1 (sf)	A-2 (sf)	A-3 (sf)															Below A-3 (sf)

The future of statutory mapping mandates and associated technical standards

7.15 At present, the PRA's mandate to map CRAs' ratings to CQSs is set out in primary legislation. As discussed in paragraph 7.5, the PRA expects that HMT will revoke the CDR on 31 December 2024. Also, as noted in the **HMT Policy Update** of 12 September 2024, HMT expects to revoke the remaining CRR provisions in due course. As a result, the PRA is considering the long-term future of the statutory mapping mandates and associated technical standards.

7.16 The current mapping mandates are set out in the following places:

- CRR Article 136 – Bank, building society and designated investment firm capital adequacy and reporting;
- CDR Article 3(1) to (3) – Insurer capital adequacy and reporting; and
- CRR Article 270e – Securitisation positions.

7.17 The PRA considers that once the updated mapping tables and certain CRR and CDR provisions are in PRA rules, it may not be necessary to retain the existing statutory mandates for mapping. This is because the PRA can map CRAs' ratings to CQSs using the PRA's general rule-making powers.

7.18 The PRA expects that HMT will revoke each individual mandate following the inclusion of the updated mapping tables in the PRA Rulebook. The provisional timelines proposed for these revocations are as follows:

- For the insurance mapping mandate, the PRA expects that HMT will revoke CDR Articles 3(1) to (3) before the mapping table rule comes into force on 31 December 2024.
- For the mapping mandate set out in CRR Article 136 in respect of banks, building societies and designated investment firms, the PRA expects that HMT will revoke Article 136 alongside the implementation of Basel 3.1 in the UK, which is due to take effect on 1 January 2026. As explained in paragraph 7.22 below, parts of TS 2016/1799 will remain in force after the transfer of the mapping tables and so the PRA expects HMT to preserve the PRA's power to amend or revoke this TS notwithstanding the revocation of Article 136.
- For the securitisation mapping mandate set out in CRR Article 270e, the PRA expects that HMT will revoke this along with the rest of Chapter 5, Title II, Part 3 of the CRR on 1 January 2026.

7.19 Alongside the proposed revocation of the mapping mandates, the PRA has also considered the future of the TS setting out the mapping of ratings to CQSs: TS 2016/1799; TS 2016/1800; and TS 2016/1801. To coincide with the introduction of updated versions of the mapping tables in the PRA Rulebook, the PRA proposes to delete the mapping table in Annex III and Article 16 of TS 2016/1799.The PRA also proposes to amend Articles 1, 6, 7 and 14 of TS 2016/1799 to reflect the revocation of Article 136(2) CRR. These amendments simply reproduce the relevant parts of Article 136(2), which are currently cross-referred to in the TS. Accordingly, they are not intended to change the PRA's approach to the mapping of credit assessments, which will continue to be consistent with the approach outlined in Article 136(2) CRR and TS 2016/1799 as they stand today. The PRA expects that TS 2016/1800 and TS 2016/1801 will be revoked in their entirety.

7.20 TS 2016/1800 sets out the mapping table for Solvency II firms. The mapping table forms the most substantive element of TS 2016/1800. At the same time as the PRA implements its proposal to include an updated version of the mapping table within the PRA Rulebook, the PRA expects that HMT will revoke TS 2016/1800 as part of the wider revocation of assimilated law under FSMA 2023.

7.21 TS 2016/1801 sets out a mapping table for securitisations, albeit not reflecting the eighteen CQSs for long-term ratings introduced by **Regulation (EU) 2017/2401**. Supervisory expectations relating to generic mappings for long-term ratings to eighteen CQSs were set out in Table 1 of the PRA's **SS10/18**. Mappings for short-term ratings are currently as set out in TS 2016/1801 (see also PS29/18 – **Securitisation: The new EU framework and Significant Risk Transfer**). Like TS 2016/1800, the mapping tables form the most substantive element of TS 2016/1801 but, given the change in the number of applicable CQSs, the PRA proposes that an updated version of the table (to four short-term and eighteen long-term CQSs) is included in the PRA Rulebook. At the same time as this comes

into force, the PRA expects that HMT will revoke TS 2016/1801 and consequentially the PRA will delete the mapping-related sections (including Table 1) from SS10/18.

7.22 TS 2016/1799 is different from the other two mapping TS. Alongside the mapping table for bank, building society and designated investment firm exposures under the CRR standardised approach, it also sets out the methodology that the PRA uses for mapping. The methodology in TS 2016/1799 aligns with the global standards for mapping published by the Basel Committee (see footnote 57). The PRA intends to remain aligned with those Basel global mapping standards. While the PRA's intention is to continue applying the approach and methodology set out in TS 2016/1799, the PRA may consider revoking this TS at a future date and setting out its approach to mapping in a different form.

Chapter 7: PRA objectives analysis

7.23 The PRA considers that these proposals would advance its primary objectives to promote the safety and soundness of PRA-authorised firms and contribute to the securing of an appropriate degree of insurance policyholder protection. Accurate mapping of ratings to CQSs supports a risk-sensitive approach to the risk weighting of externally rated exposures under the Standardised Approach to credit risk and the correct calculation of insurer counterparty default risk and of the insurer matching and volatility adjustments. It also ensures a consistent approach to the use of external credit ratings and enables the use of a wider range of rating scales.

7.24 The PRA also considers that the proposals advance the PRA's secondary objective to facilitate, subject to alignment with relevant international standards, the international competitiveness of the UK economy and its growth in the medium to long term. Issuing updated mappings of existing rating scales, mapping the ratings of newly authorised CRAs and mapping new CRA rating scales will support growth in the UK's financial services sector as firms will be able to use a wider range of ratings. This should also increase the risk sensitivity of firms' capital requirements. Ensuring our approach is consistent with the Basel guidelines supports consistency in the mapping of credit assessments for CRAs that operate across jurisdictions. This in turn promotes the comparability of capital requirements across jurisdictions.

7.25 The proposals are anticipated to have minimal impact on competition in the market for services provided by PRA-authorised firms in carrying on regulated activities. This is because the PRA is not proposing to make substantive changes to the vast majority of CRA mappings.

Chapter 7: Cost benefit analysis (CBA)

7.26 In developing the proposals set out in this chapter, the PRA has considered the costs and benefits associated with these proposals. The baseline for the CBA is the current CRR and Solvency II assimilated law.

7.27 The primary benefit is that moving the three sets of mapping tables out of TS and into the PRA Rulebook will make it easier for authorised firms to locate and apply them and for the PRA to update them going forward. Other benefits, as noted above, arise from ensuring more up-to-date mappings and enabling the use of a wider range of ratings that may increase the risk sensitivity of firms' capital requirements.

7.28 There are costs to the PRA in validating the mappings on a periodic basis and in liaising with the FCA and CRAs to ensure they remain up to date. The PRA would not expect these proposals to give rise to any material costs for firms given the limited changes proposed to the mappings they already use.

Chapter 7: 'Have regards' analysis

7.29 In developing these proposals, the PRA has had regards to its framework of regulatory principles. The regulatory principles that the PRA considers are most material include:

1. **Transparency:** Including the mapping tables in the PRA Rulebook will make it easier for authorised firms to locate and consult them.

2. **Promote the international competitiveness of the UK, including ensuring the UK is attractive to internationally active financial services firms and activity:** The PRA considers that having a mapping approach that is consistent with the Basel Standards and with the approach taken by other key jurisdictions will reduce operational costs for firms that operate across borders and enhance the ability of international firms to do business in the UK with minimal disruption.

3. **Innovation and new developments in financial markets and active embracing of new technology in financial services:** The proposals include the mapping of new rating scales developed in recent years by CRAs, which are already mapped by other regulators. The PRA considers that including these rating scales in our updated mapping tables supports development and innovation in the ratings sector.

4. **Recognising differences in the nature and objectives of businesses:** By maintaining separate tables for banks, building societies and designated investment firms, insurers and securitisations, the PRA is recognising the different CQS scales

that pertain to these groups of businesses and the different nature and objectives of these businesses.

5. **Efficient use of PRA resources:** By bringing the three mapping tables into the PRA Rulebook, it will be easier for the PRA to update them going forward (eg should there be changes to the number and nature of FCA-authorised CRAs and their rating scales).