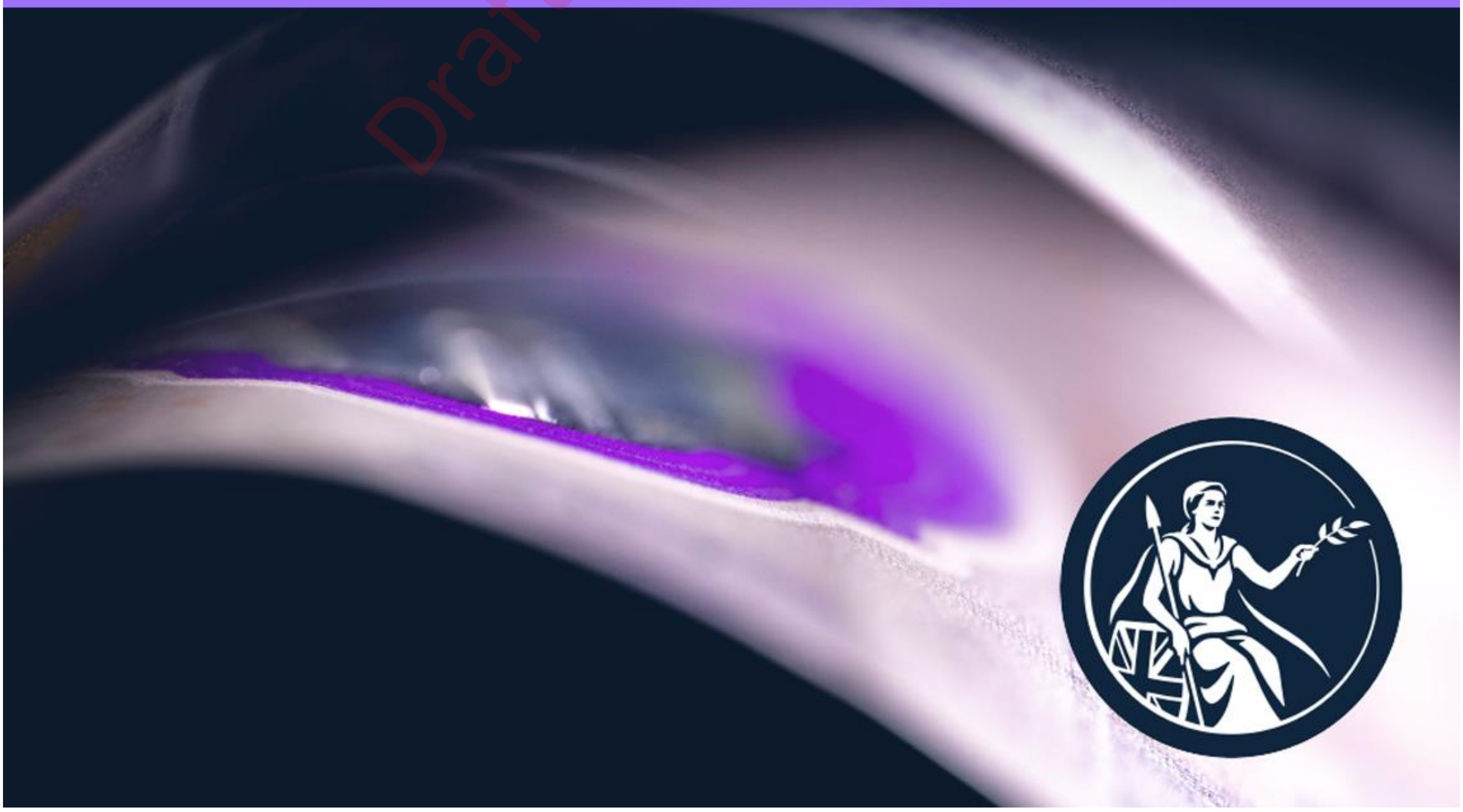
Bank of England PRA

Appendices to CP7/24 – The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers (SDDTs)

Consultation paper | CP7/24

September 2024



Contents

Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

1: List of specific questions in CP

Please find below a list of specific questions included in this CP, for which the PRA would welcome responses, but the PRA would welcome responses on all aspects of the CP. For responses in respect of the proposals made by other publications, as set out in paragraph 1.8 in the CP, the PRA encourages respondents to send these to the mailbox of the relevant CP.

Q1: Do you have any comments on the proposals in this CP and the proposed implementation date?

Q2: Do you have any comments on the aggregated CBA? Do you have any quantitative data or other information relevant to the assessment of the costs and benefits of the proposals set out in this CP?

2: Draft PRA statement of policy – The PRA's methodologies for setting Pillar 2 capital for Small Domestic Deposit Takers (SDDTs)

Published separately: please see: **The PRA's methodologies for setting Pillar 2 capital for Small Domestic Deposit Takers (SDDTs)**.

For ease of identifying all proposed changes made to the policy that applies to SDDTs, please also refer to the document titled: **Comparison of the draft SoP for SDDTs against PRA SoP The PRA's methodologies for setting Pillar 2 capital**. This document tracks changes made to the policy that applies to SDDTs relatively to the policy set out in the statement of policy – The PRA's methodologies for setting Pillar 2 capital[1] after incorporating the changes proposed in CP9/24 – Streamlining the Pillar 2A capital framework and the capital communications process.[2]

1 July 2021: **https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-methodologies-for-setting-pillar-2-capital**.

2 September 2024: **https://www.bankofengland.co.uk/prudential-regulation/publication/2024/september/streamlining-the-pillar-2a-setting-and-capital-consultation-paper**.

3: Draft amendments to SS6/14 – Implementing capital buffers

In this appendix, new text is underlined and deleted text is struck through.

1 Introduction

1.1 This supervisory statement is relevant to all PRA-regulated banks, building societies, designated investment firms and all PRA-approved or PRA-designated holding companies, <u>except Small Domestic Deposit Takers ('SDDTs') and SDDT consolidation entities.</u>[3]

3 <u>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 Part of the PRA Rulebook.</u>

4: Draft amendments to SS3/21 – Non-systemic UK banks: The Prudential Regulation Authority's approach to new and growing banks

In this appendix, new text is underlined and deleted text is struck through.

…

1 Introduction

1.1 This Supervisory Statement (SS) provides an overview of how the Prudential Regulation Authority's (PRA)'s supervisory expectations of 'new[1] and growing[2]' non-systemic[3] UK-incorporated banks[4] [5] including those which are Small Domestic Deposit Takers (SDDTs) or SDDTs consolidation entities[6] (collectively referred to as 'banks'), evolve as they grow from the point of authorisation to being regarded as fully established banks.

1.2 This SS is primarily relevant to new and growing non-systemic UK banks (including those which are SDDTs), though not all, as some banks in this category will have sufficient experience and resources to be able to move quickly to the standard expected of most established banks. This determination will depend on a number of factors, notably on whether the bank is: (i) part of an established domestic or international banking group; (ii) the size and complexity of its activities; and (iii) the extent of its available financial and non-financial resources. The PRA would consider each case on its merits and apply supervisory judgement to ensure that the policy is applied appropriately. See Box 1 'Supervision of UK bank subsidiaries of international groups' for relevant examples.

1 New banks refers to firms that are in the 'mobilisation stage' (authorisation with restrictions) and those that have received authorisation without restrictions within the past 12 months (e.g. exited mobilisation or authorised without using the mobilisation period).

2 Growing banks refers to banks that are typically between one and five years post authorisation without restrictions. These banks often share many of these characteristics: rapid growth; loss making; reliant on regular capital injections; significant and rapid changes in strategy and business model; and immature controls.

3 Non-systemic banks are those which are not designated as systemically important through the O-SIIs (other systemically important institutions) identification process. These banks are mainly category 2-4 UK incorporated deposit takers, whose size, interconnectedness, complexity, and business type give them the capacity to cause some (category 2), minor (category 3) and almost no capacity individually (category 4) to cause disruption to the UK financial system by failing, or by carrying on their business in an unsafe manner, but where difficulties across a whole sector or subsector have the potential to generate disruption.

4 https://www.bankofengland.co.uk/prudential-regulation/authorisations/which-firms-does-the-pra-regulate.

5 UK bank means of a UK undertaking that has permission under Part 4A of FSMA to carry on the regulated activity of accepting deposits and is a credit institution, but is not a credit union, friendly society or a building society. Building societies were excluded from the scope of CP9/20 because they are subject to different legislation. However, the authorisation of new building societies would include the option of mobilisation, and the expectation for solvent wind down (SWD) plans would apply.

6 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 Part of the PRA Rulebook. For ease of reading, any references to SDDT(s) in this SS should be treated as applicable to both SDDTs and SDDT consolidation entities.

…

1.7 This SS should be read in conjunction with:

- the PRA's approach to banking supervision;[7]
- the following joint Bank / Financial Services Authority (FSA)[8] publications: 'A review of requirements for banks entering into or expanding in the banking sector (the 2013 report)';[9] and 'A review of requirements for banks entering into or banks expanding in the banking sector: one year on (the 2013 report plus one year)';[10]
- SS31/15 'The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)'[11] or draft SS – The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) for Small Domestic Deposit Takers (SDDTs) ('draft SDDT ICAAP SS') for SDDTs; [12]~~and~~
- the Pillar 2 Statement of Policy (SoP) 'The PRA's methodologies for setting Pillar 2 capital'[13] or draft SoP – The PRA's methodologies for setting Pillar 2 capital for Small Domestic Deposit Takers (SDDTs) ('draft SDDT Pillar 2 SoP'); [14] and
- SS2/24 – 'Solvent exit planning for non-systemic banks and building societies'.[15]

…

Table 1: Non-exhaustive list of materials[16] to be read alongside SS 3/21 'Non-systemic UK banks: The Prudential Regulation Authority's approach to new and growing banks'

…
Capital
The Internal Capital Adequacy Assessment Part of the PRA Rulebook
The Definition of Capital Part of the PRA Rulebook

7 July 2023: https://www.bankofengland.co.uk/prudential-regulation/publication/pras-approach-to-supervision-of-the-banking-and-insurance-sectors.
8 The FSA was the predecessor organisation to the PRA and Financial Conduct Authority (FCA).
9 Available at: https://www.fca.org.uk/publication/archive/barriers-to-entry.pdf.
10 Available at: https://www.fca.org.uk/publication/thematic-reviews/barriers-to-entry-review-one-year-on.pdf.
11 May 2023: https://www.bankofengland.co.uk/prudential-regulation/publication/2013/the-internal-capital-adequacy-assessment-process-and-supervisory-review-ss.
12 September 2024: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2024/september/cp724app6.pdf.
13 October 2021: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-methodologies-for-setting-pillar-2-capital.
14 September 2024:https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2024/september/cp724app2.pdf.
15 https://www.bankofengland.co.uk/prudential-regulation/publication/2024/march/solvent-exit-planning-for-non-systemic-banks-and-building-societies-ss.
16 This may be a complete list now but may be superseded by future publications. Firms should also refer to the Prudential and Resolution Policy Index for banking: https://www.bankofengland.co.uk/prudential-regulation/prudential-and-resolution-policy-index/banking. Future changes to regulation are also signposted in the twice-yearly Regulatory Initiatives Grid: https://www.fca.org.uk/publications/corporate-documents/regulatory-initiatives-grid.

The Capital Buffers Part of the PRA Rulebook
SS31/15 'The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)'[17] or draft SDDT ICAAP SS for SDDTs
Statement of Policy 'The PRA's methodologies for setting Pillar 2 capital'[18] or draft SDDT Pillar 2 SoP for SDDTs
…
Strong and Simple
PS15/23 – The Strong and Simple Framework: Scope criteria, liquidity and disclosure requirements[19]
PS – The Strong and Simple regime: the simplified capital regime for Small Domestic Deposit Takers (SDDTs)
SoP – Operating the Small Domestic Deposit Taker (SDDT) regime[20]
Disclosure
…

…

Table 2: The PRA's expectations of banks as they mature

	Year 0[21]	Year 3	Year 5
	…	…	…
Capital	For non-SDDTs: PRA buffer set on new bank basis (six months forward operating expenses). For SDDTs: Single Capital Buffer (SCB) set on a new bank basis (six	For non-SDDTs: PRA buffer set on new bank basis (~~6~~ six months forward operating expenses).[22] For SDDTs: SCB set on new bank basis (six months forward operating	For non-SDDTs: PRA buffer set on stress test basis. For SDDTs: SCB set on stress test basis, at a level no lower than 3.5% of each SDDT's RWAs.

17 May 2023: https://www.bankofengland.co.uk/prudential-regulation/publication/2013/the-internal-capital-adequacy-assessment-process-and-supervisory-review-ss.
18 October 2021: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-methodologies-for-setting-pillar-2-capital.
19 December 2023: https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/strong-and-simple-framework-policy-statement.
20 December 2023: https://www.bankofengland.co.uk/prudential-regulation/publication/2023/december/small-domestic-deposit-taker-regime.
21 At authorisation / exit from mobilisation.
22 Although the PRA buffer could be set on a stress test basis by this point if the bank has reached profitability (see paragraph 4.8).

	months forward operating expenses) at a level no lower than 3.5% of each SDDT's RWAs In addition to buffers, hold enough capital to meet business plan while remaining above buffers for 12 months Internal Capital Adequacy Assessment Process (ICAAP) meets minimum standards but untested, and is fit for purpose	expenses)[23] at a level no lower than 3.5% of each SDDT's RWAs Undertaking advanced stress testing and a clear plan for transitioning to stress test buffer Forward looking view of capital to ensure buffers are not used in the usual course of business ICAAP meets minimum standards and is fit for purpose	Sophisticated capital management with credible capital models ICAAP is a robust document which is an integral part of the firm's management process and decision making
Liquidity	…		

…

4 Capital expectations of new and growing banks

Calculation of the New Bank PRA buffer (or the New Bank SCB for SDDTs)

4.6 For non-SDDTs, ~~T~~the PRA buffer (also referred to as Pillar 2B) is an amount of capital banks should maintain in addition to their TCR and the combined buffers. For SDDTs, the SCB is an amount of capital they should maintain in addition to their TCR. The PRA buffer for established banks (or the SCB for established SDDTs) is calculated based on the amount of capital needed to remain above TCR under a severe but plausible stress scenario.[24] For new and growing banks (including those which are SDDTs), the amount of capital needed to survive such a scenario would generally be very large, as it would need to cover: ongoing losses; Risk Weighted Assets (RWA) growth associated with continued business expansion; additional losses arising from the stress scenario; and limited access to external capital because of the adverse market conditions. This could give rise to a disproportionate level of capital relative to the financial stability risks posed by new banks, as these banks should be able to exit the market easily if required.

4.7 In recognition of this, an alternative approach to calculating the PRA buffer for new banks was first introduced in 2013 based on the bank's estimate of wind down costs. Banks have taken different approaches to calculating this so the PRA has clarified the purpose of the buffer and adopted a simpler approach to its calculation. The PRA buffer for new and growing banks, and the SCB for SDDTs that are new and growing

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23 Although the SCB could be set on a stress test basis by this point if the bank has reached profitability (see paragraph 4.8).

24 ~~See Chapter 9 of PRA SoP 'the PRA's methodologies for setting Pillar 2 capital': October 2021: **https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-methodologies-for-setting-pillar-2-capital.**~~ See Chapter 9 of PRA SoP – The PRA's methodologies for setting Pillar 2 capital or Chapter 11 of the draft SDDT Pillar 2 SoP for SDDTs.

banks, are ~~is~~ calibrated to allow ~~banks~~ them time to find alternative sources of capital or make business model adjustments, in the event of a loss of investor support. The PRA is of the view that a reasonable amount of time to allow for banks to pursue alternative options is around six months. Therefore these banks are expected to calibrate their PRA buffer or the SCB for SDDTs to be equal to six months projected operating expenses, defined as those expenses associated with the day to day running of the business. The SCB is set at a level no lower than 3.5% of each SDDT's RWAs, before considering the RMG assessment, even where six months operating expenses[25] suggest a buffer lower than 3.5% of RWAs.

For the purposes of the PRA buffer or the SCB for SDDTs, the calculation of operating expenses should include: administrative expenses (comprising staff and other administrative expenses), depreciation (of property, plant and equipment), and depreciation of investment properties, other operating expenses and expenses of share capital repayable on demand.

…

4.8 The operating expenses methodology for calibrating the PRA buffer or the SCB for SDDTs is applicable to banks which have:

- been operating for five years or less since being authorised without restriction; and
- yet to achieve a profit over a full year of trading.

…

4.10 Interaction between the PRA buffer and the Capital Conservation buffer (CCoB) remains the same. To avoid double counting between the buffers, the component of the PRA buffer that relates to operating expenses is calculated as the excess amount of capital required over and above the CCoB. The Countercyclical Capital buffer is not part of this calculation.

4.10A SDDTs are not subject to the PRA buffer, CCoB or CCyB but instead subject to the SCB. As the CCoB and CCyB do not apply to SDDTs, no adjustments to the SCB are required in order to avoid double counting with any other buffers.

…

4.12 When exercising its supervisory judgement, the PRA may, in exceptional circumstances, diverge from the stated approach to calculating the PRA buffer for new and growing banks, or the SCB for SDDTs that are new and growing banks for instance where the stated approach does not achieve the intended outcome of avoiding a disproportionate level of capital relative to financial stability risks. Such divergence could also include instances where the PRA identifies heightened risks to its objectives which justify an earlier transition to the PRA buffer or the SCB for SDDTs in line with established banks or established SDDTs.

…

25 Or firm-specific stress testing results for established firms.

Capital Management

4.13 Banks should manage their capital position on a forward looking basis and, as outlined in SS31/15, should not use their PRA buffer or the SCB for SDDTs in the normal course of business or enter into it as part of their base business plan. Where capital injections are needed, these should take place sufficiently in advance to avoid entering buffers. Responsibilities for the management of the bank's capital position should be clearly defined in accordance with the Senior Managers Regime.

4.14 Use of the PRA buffer or the SCB for SDDTs is not in itself a breach of capital requirements or Threshold Conditions (see 5.33 of SS31/15 or paragraph 5.25 of the draft SDDT ICAAP SS for SDDTs). However given the speed of capital depletion that is often experienced by new and growing banks, if such banks expect to enter their PRA buffer (or, for SDDTs, their SCB), the board is expected to act quickly and decisively to address the problem, given the PRA buffer (or the SCB for SDDTs) has not been calibrated to provide sufficient capital to survive a stress or execute a solvent exit. A bank should notify the PRA as early as possible when it has identified it may need to use its capital buffer and explain how it plans to restore its buffer (see 5.34 and 5.35 of SS31/15 or paragraph 5.25 of the draft SDDT ICAAP SS for SDDTs).

…

4.16 The PRA's approach for setting the PRA buffer or the SCB for SDDTs is designed to support new banks in their early years of operation, and as such is time-limited. Once either of the conditions set out above (paragraph 4.8) no longer apply, the bank's PRA buffer (or the SCB for SDDTs) will be calibrated using the bank's stress testing assessments, in line with established banks. However, as stated in paragraph 4.12, such an approach could be introduced earlier where the PRA identifies heightened risks to its objectives.

4.17 From the point of authorisation, new and growing banks should undertake stress testing as part of their ICAAP and business planning process. Banks should invest in developing their stress testing capabilities to ensure they have sufficient understanding of downside risks, can assess unexpected loss events and, in due course, transition smoothly to having a PRA buffer (or the SCB for SDDTs) set on a stress test basis.

4.18 The ICAAP stress testing work should be proportionate to the scale of the bank, but should be adequate to allow calibration of the PRA buffer (or the SCB for SDDTs) on a stress test basis. This will be subject to review and challenge as part of the capital Supervisory Review and Evaluation Process (SREP). Weaknesses in stress testing may be indicative of limitations in the bank's risk management and governance capability. The PRA may apply a risk management and governance scalar if it concludes there are weaknesses in a bank's risk management and governance capabilities.

4.19 As part of their ongoing capital management, new and growing banks should monitor their capital position against the PRA buffer (or the SCB for SDDTs) calibrated on the basis of stress testing, to understand how this differs from their position against the PRA buffer (or the SCB for SDDTs) being set based on operating expenses. Banks should plan for transitioning to the stress test buffer including building sufficient capital to be able to meet the stress test buffer at the point of transition. The PRA will engage with a bank well ahead of this transition to ensure this is the case.

4.20 The move to setting the PRA buffer (or the SCB for SDDTs) based on stress testing may result in a sizeable increase in the amount of capital that a bank needs to hold. A plan for transitioning onto the stress testing approach will therefore be determined by the PRA dependent upon the circumstances, but usually this will be phased over two years to provide an incremental increase in the size of the buffer. If a bank does not have sufficient capital to meet the PRA buffer (or the SCB for SDDTs) at the point of transition, as outlined in paragraph 4.14, it should notify the PRA as early as possible and explain how it plans to restore its buffer.

5: Draft amendments to SS16/16 – The minimum requirements for own funds and eligible liabilities (MREL) – buffers and Threshold Conditions

In this appendix, new text is underlined and deleted text is struck through.

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1.4 This SS should be read in conjunction with the Bank of England's (the Bank's) statement of policy on its approach to setting MREL.[1] Firms, except Small Domestic Deposit Takers (SDDTs) and SDDT consolidation entities,[2] should also read ~~and~~ PRA SSs on risk-weighted capital buffers[3] and leverage buffers.[4] SDDTs should refer instead to draft SS – The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) for Small Domestic Deposit Takers (SDDTs)[5] and the draft statement of policy – The PRA's methodologies for setting Pillar 2 capital for Small Domestic Deposit Takers (SDDTs). [6]

2 Buffers

…

Risk-weighted capital buffers

2.1 The PRA's capital buffer framework for firms (apart from SDDTs) comprises the ~~Capital Requirements Directive (EU Directive 2019/878 amending Directive 2013/36/EU) and Capital Requirements Regulation (Regulation (EU) 2019/876 amending Regulation (EU) 575/2013) (jointly 'CRD V')~~ combined buffer[7] (which includes the capital conservation buffer, the countercyclical capital buffer, the Global Systemically Important Institutions buffer (G-SII buffer), and the other systemically important institutions buffer (O-SII buffer) – if

1 June 2018: **https://www.bankofengland.co.uk/paper/2018/boes-approach-to-setting-mrel-2018**.

2 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 Part of the PRA Rulebook. For ease of reading, any references to SDDT(s) in this SS should be treated as applicable to both SDDTs and SDDT consolidation entities.

3 See **SS6/14 'Implementing CRD IV: capital buffers', April 2014:** www.bankofengland.co.uk/prudential-regulation/publication/2014/implementing-crdiv-capital-buffers-ss, **and SS31/15 'The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)', July 2015:** SS31/15 - The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) | Bank of England.

4 See SS45/15 'The UK leverage ratio framework', December 2015: www.bankofengland.co.uk/prudential-regulation/publication/2015/the-uk-leverage-ratio-framework-ss.

5 September 2024: **https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2024/september/cp724app6.pdf.**

6 September 2024: **https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2024/september/cp724app2.pdf.**

7 The combined buffer is set in the Capital Buffers Part of the PRA Rulebook.

applicable to a firm), and the PRA buffer.[8] For SDDTs, the PRA's capital buffer framework comprises the Single Capital Buffer (SCB).[9]

…

2.4 Where that regime is the PRA's capital buffer framework as set out in paragraph 2.1 above ~~CRD IV regime~~, the firm should notify the PRA as soon as practicable, consistent with Fundamental Rule 7,[10] explaining why this has happened or is expected to happen. The firm can expect enhanced supervisory action and should prepare a capital restoration plan. If the PRA is not satisfied with the capital restoration plan, or with the firm's reasons for the shortfall, it will consider using its firm-specific powers under section 55M of the Financial Services and Markets Act 2000 (FSMA) to require a firm to take steps to strengthen its capital position. Such steps could include restricting or prohibiting distributions where that is appropriate and proportionate. Distributions restrictions will not apply automatically.

2.5 Where a firm, apart from an SDDT, does not have sufficient CET1 to meet its minimum risk-weighted capital requirements and the ~~CRD IV~~ combined buffer, automatic restrictions on distributions will apply under the Capital Buffers Part and firm-specific requirements.[11] For SDDTs, minimum risk-weighted capital requirements must be met at all times, but the SCB can be used to absorb losses in a time of stress. The use of the SCB would not automatically lead to restrictions on distributions.[12]

8 See PS17/15 'Assessing capital adequacy under Pillar 2', August 2015: www.bankofengland.co.uk/prudential-regulation/publication/2015/assessing-capital-adequacy-under-pillar-2.

9 See more details in the draft SoP The PRA's methodologies for setting Pillar 2 capital for Small Domestic Deposit Takers (SDDTs).

10 Fundamental Rule 7 states that a firm must deal with its regulators in an open and cooperative way and must disclose to the PRA appropriately anything relating to the firm of which the PRA would reasonably expect notice.

11 As stated in SS31/15 and SS6/14, the PRA imposes requirements on firms under section 55M of FSMA to set the G-SII buffer (where applicable) and prevents firms from meeting their CRD IV combined buffer with any CET1 capital maintained to meet their individual capital guidance.

12 SDDTs should refer for additional information to the section 'The use of the Single Capital Buffer' and the Annex 'Supervisory Approach to Single Capital Buffer Usage' in the draft SoP The PRA's methodologies for setting Pillar 2 capital for Small Domestic Deposit Takers (SDDTs).

6: Draft supervisory statement – The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) for Small Domestic Deposit Takers (SDDTs)

Published separately, please see: **The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) for Small Domestic Deposit Takers (SDDTs)**.

For ease of identifying all proposed changes made to the policy that applies to SDDTs, please also refer to the document titled **Comparison of the new draft SS for SDDTs against PRA SS31/15 – The Internal Capital Adequacy Assessment Review and Evaluation Process (SREP)**.[13] This document tracks changes made to the policy that applies to SDDTs relatively to the policy set out in PRA SS31/15 – **The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)**[14] after incorporating the changes proposed in CP9/24 – **Streamlining the Pillar 2A capital framework and the capital communications process**.[15]

13 September 2024: **https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2024/september/comparison-of-the-new-draft-ss-for-sddts-against-pra-ss3115.pdf.**

14 May 2023: **https://www.bankofengland.co.uk/prudential-regulation/publication/2013/the-internal-capital-adequacy-assessment-process-and-supervisory-review-ss.**

15 September 2024: **https://www.bankofengland.co.uk/prudential-regulation/publication/2024/september/streamlining-the-pillar-2a-setting-and-capital-consultation-paper.**

7: Draft amendments to SS24/15 – The PRA's approach to supervising liquidity and funding risks

In this appendix, new text is underlined and deleted text is struck through.

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2.2 An ILAAP document sets out a firm's approach to liquidity and funding. It should be updated annually, or more frequently if changes in the business, strategy, nature or scale of its activities or operational environment suggest that the current level of liquid resources or the firm's funding profile is no longer adequate. Small Domestic Deposit Takers (SDDTs) and SDDT consolidation entities[1] should update their ILAAP document at least every two years, or more frequently if changes in the business, strategy, nature or scale of its activities or operational environment suggest that the current level of liquid resources or the firm's funding profile is no longer adequate.

…

Cashflow mismatch risk (CFMR) monetisation assumptions

2.29A From the date firms first report PRA110, the PRA expects firms to assess, at least annually (or every two years for SDDTs) in their ILAAP, the speed with which they expect to be able to monetise different types of non-cash High Quality Liquid Assets (HQLA), on a daily basis, through repo markets and outright sales in times of stress. Firms should take into account relevant factors such as market depth, number of regular counterparties, the firm's individual turnover and incremental market access in stress, the need to rollover short-term repo transactions and settlement times etc. Firms should also consider the extent to which their ability to monetise HQLA through outright sale could be adversely affected by the accounting classification, in particular where sale of the asset would crystallise a loss that arises because of the difference between the fair value at the point of sale and the carry value in the firm's accounts. Firms should provide evidence of the data used for their assessments in their ILAAPs. Firms should not include public liquidity insurance as a non-cash HQLA monetisation channel in this assessment. This enables the PRA to monitor firms' resilience to different stresses using self-insurance alone. The monetisation profile will not be included in the granular LCR stress scenario for the purposes of assessing compliance with the guidance outlined in paragraph 3.12.

1 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 Part of the PRA Rulebook. For ease of reading, any references to SDDT(s) in this SS should be treated as applicable to both SDDTs and SDDT consolidation entities.

8: Draft updated reporting templates and instructions

Please find links below to draft templates and instructions:

Own funds and own funds requirements

Annex IA: Templates for reporting on own funds and own funds requirements for SDDTs and SDDT consolidation entities
Annex IIA: Instructions for reporting on own funds and own funds requirements for SDDTs and SDDT consolidation entities

Large exposures

Annex IX: Instructions for reporting on large exposures and concentration risk

Leverage

LVR001: Template for reporting on leverage
LVR001-002: reporting instructions

Pillar 2

FSA071S: data item
FSA071S: reporting instructions
PRA111: data item
PRA111: reporting instructions
Pillar 2: Reporting schedule

Capital+

PRA113S, PRA114S: data items
PRA113S, PRA114S: reporting instructions

9: Draft amendments to SS32/15 – Pillar 2 reporting, including instructions for completing data items FSA071 to FSA082, and PRA 111

In this appendix, new text is underlined and deleted text is struck through.

1 Introduction

1.1 This supervisory statement is of interest to banks, building societies and Prudential Regulation Authority (PRA) designated investment firms. It sets out the PRA's expectations of firms and provides further clarity on Pillar 2 reporting.[1]

1.2 This supervisory statement should be read alongside the ~~Policy Statement 17/15, which includes the Reporting Pillar 2 part of the PRA Rulebook, the Statement of Policy on Pillar 2.~~ Reporting Pillar 2 Part of the PRA Rulebook, and other relevant documents, including:

- for firms that are not Small Domestic Deposit Takers (SDDTs) or SDDT consolidation entities:[2] supervisory statement (SS)31/15 – The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)'[3] and the PRA's statement of policy (SoP)– The PRA's methodologies for setting Pillar 2 capital;[4] and

- for SDDTs and SDDT consolidation entities: draft (SS) – The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) for SDDTs[5] and the draft SoP – The PRA's methodologies for setting Pillar 2 capital for SDDTs.[6]

1.3 The reader is also referred to:

- Appendix 1: Guidance on terms used in data items FSA071 to FSA082, and PRA111;

1 This supervisory statement was previously updated in 2016 and 2017. See the annex for details.
2 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 Part of the PRA Rulebook. For ease of reading, any references to SDDT(s) in this SS should be treated as applicable to both SDDTs and SDDT consolidation entities.
3 May 2023: https://www.bankofengland.co.uk/prudential-regulation/publication/2013/the-internal-capital-adequacy-assessment-process-and-supervisory-review-ss.
4 July 2021: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-methodologies-for-setting-pillar-2-capital.
5 September 2024: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2024/september/cp724app6.pdf.
6 September 2024: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2024/september/cp724app2.pdf.

- Appendix 2: Pillar 2 Reporting schedule; ~~and~~
- Appendix 3: Instructions for completing data items FSA071 to FSA082, and PRA111 for firms that are not SDDTs or SDDT consolidation entities; and
- Appendix 4: Instructions for completing data items FSA071S, FSA081 and PRA111 for SDDTs and SDDT consolidation entities.

2 Reporting Pillar 2

2.1 In Reporting Pillar 2:

- 'significant firm' means a deposit-taker or designated investment firm whose size, interconnectedness, complexity and business type give it the capacity to cause very significant disruption to the UK financial system (and through that to economic activity more widely) by failing or by carrying on its business in an unsafe manner. SDDTs are not considered to be 'significant firms';

…

Appendices

1 Guidance on terms used in data items FSA071 to FSA082, and PRA111 available at www.bankofengland.co.uk/prudential-regulation/regulatory-reporting/regulatoryreporting-banking-sector

2 Pillar 2 Reporting schedule available at www.bankofengland.co.uk/prudentialregulation/regulatory-reporting/regulatory-reporting-banking-sector

3 Instructions for completing data items FSA071 to FSA082, and PRA111 for firms that are not SDDTs or SDDT consolidation entities.

4 Instructions for completing data items FSA071S, FSA081 and PRA111 for SDDTs or SDDT consolidation entities.

…

Appendix 3 Instructions for completing data items FSA071 to FSA082, and PRA111 for firms which are not SDDTs or SDDT consolidation entities

…

Appendix 4 Instructions for completing data items FSA071S, FSA081 and PRA111 for SDDTs and SDDT consolidation entities

Name		Data items	Instructions
FSA071S	Firm information and Pillar 2A summary	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2024/september/fsa071s-template.xlsx	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2024/september/fsa071s-reporting-instructions.pdf

FSA081	Pillar 2 Pension risk	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/fsa-data-items/fsa081nov21.xltx	https:///www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/fsa-data-items/fsa081instructionsnov21.pdf
PRA111	Pillar 2 ICAAP Stress Testing Data	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2024/september/pra111-template.xlsx	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2024/september/pra-111-reporting-instructions.pdf

10: Draft amendments to SS34/15 – Guidelines for completing regulatory reports

In this appendix, new text is underlined and deleted text is struck through.

Appendix 1 – Guidelines for completing data items FSA011 to FSA048 and PRA101 to PRA 114S

Name		Data item	Instructions
…	…	…	…
PRA113	Capital+ forecast semi annual (Basel 3.1) for entities that are not SDDTs or SDDT consolidation entities	In force from 1 July 2025: [URL]	In force from 1 July 2025: [URL]
PRA113S	Capital+ forecast semi annual for SDDTs and SDDT consolidation entities	In force from 1 April 2026: [URL]	In force from 1 April 2026: [URL]
PRA114	Capital+ forecast annual (Basel 3.1) for entities that are not SDDTs or SDDT consolidation entities	In force from 1 July 2025: [URL]	In force from 1 July 2025: [URL]
PRA114S	Capital+ forecast annual for SDDTs and SDDT consolidation entities	In force from 1 April 2026: [URL]	In force from 1 April 2026: [URL]
…	…	…	…

11: Draft amendments to statement of policy (SoP) – Operating the Small Domestic Deposit Taker (SDDT) regime

In this appendix, new text is underlined and deleted text is struck through.

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

- how UK banks and building societies ('firms') that meet the SDDT criteria, and CRR consolidation entities that meet the SDDT consolidation criteria, can access the SDDT Regime;[2]
- how firms and CRR consolidation entities that are part of groups based outside of the UK can ~~could~~ access the SDDT regime;
- how firms and consolidation entities will be treated in the case of a merger, acquisition, a disposal of entities or activities, or similar circumstances;
- how firms that cease to meet the SDDT criteria, and consolidation entities that cease to meet the SDDT consolidation criteria, will transition out of the SDDT regime; and
- the PRA's approach to reviewing the SDDT criteria.

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

...

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

2.2A A firm that wishes to become an SDDT should engage with its supervisors early prior to consenting to the SDDT modification. Once the firm has notified the PRA of its intention to consent to the SDDT MbC, the PRA would consider several practical matters, such as when and how to update the firm's Pillar 2A requirements and its expectations of the capital the firm should maintain under the Single Capital Buffer (SCB). The PRA would then coordinate with the SDDT-eligible firm on timings for the firm to formally consent to the SDDT

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

MbC. Where an SDDT-eligible firm has not coordinated closely with the PRA on its process and timeline to become an SDDT, the PRA will need more time to plan for the relevant changes to its processes prior to issuing any modification direction.

…

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

Approach to foreign exchange related permissions

2.6A The SDDT criteria require assessment of a firm's overall net foreign-exchange position, using the method set out in Article 352 CRR, to which Article 352(1), (3), (4) and (5) of the Market Risk: Simplified Standardised Approach (CRR) and Article 325(9) of the Market Risk: General Provisions (CRR) Part correspond. A firm with a permission under Article 325(9) Market Risk: General Provisions (CRR) Part and Article 352(1) of the Market Risk: Simplified Standardised Approach (CRR) could, respectively, exclude structural FX and/or use a delta it has calculated itself when measuring its overall net foreign exchange position for the purposes of assessing itself against the SDDT criteria. The Market Risk: General Provisions (CRR) Part and the Market Risk: Simplified Standardised Approach (CRR) Part do not apply to SDDTs.

2.6B The PRA may use its power under section 138BA of FSMA to give an SDDT permission to apply SDDT General Application 2.1(4) with modifications allowing it:

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

2.6C When considering an application from an SDDT for such a permission under section 138BA of FSMA, the PRA would take into account whether the SDDT is able to demonstrate to the satisfaction of the PRA that it meets the requirements for the equivalent permission set out in Article 325(9) of the Market Risk: General Provisions (CRR) Part or Article 352(1) of the Market Risk: Simplified Standardised Approach (CRR) Part.

2.6D An SDDT that is granted such a permission would be subject to a requirement for ongoing compliance with conditions, as set out in SDDT Regime – General Application [2.10 and 2.11]

…

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

…

4.3 The firm should expect that the PRA will then decide to revoke its modification direction so that it stops being subject to the SDDT measures and becomes subject to rules and policies that do not apply to SDDTs. ~~In many cases, such a firm will be able to prepare for ceasing to meet the SDDT criteria and should therefore be able to comply almost immediately with the measures that will apply to it when it ceases to be a SDDT. In some circumstances, a firm might reasonably need some further time to prepare for complying with those measures. The PRA will consider this when deciding when to revoke the firm's modification direction.~~

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

…

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

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

12: Draft amendments to statement of policy – The PRA's methodologies for setting Pillar 2 capital

In this appendix, new text is underlined and deleted text is struck through.

1 Introduction

1.1 This Statement of Policy sets out the methodologies that the Prudential Regulation Authority (PRA) uses to inform the setting of Pillar 2 capital for all PRA-regulated banks, building societies, designated investment firms and all PRA-approved or PRA-designated holding companies,[1] except for Small Domestic Deposit Takers ('SDDTs') and SDDT consolidation entities.[2] SDDTs should refer instead to the draft statement of policy (SoP)– The PRA's methodologies for setting Pillar 2 capital for Small Domestic Deposit Takers (SDDTs).[3]

1 The Annex provides a history of updates to this Statement of Policy.
2 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 Part of the PRA Rulebook.
3 September 2024: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2024/september/cp724app2.pdf.

13: Draft amendments to SS31/15 – The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)

In this appendix, new text is underlined and deleted text is struck through.

1 Introduction

1.1 This supervisory statement is relevant to all PRA-regulated banks, building societies, designated investment firms and all PRA-approved or PRA-designated holding companies, except Small Domestic Deposit Takers (SDDTs) and SDDT consolidation entities. [1] SDDTs should refer instead to the draft supervisory statement (SS)– The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) for Small Domestic Deposit Takers (SDDTs).[2] This SS ~~and~~ replaces PRA Supervisory Statement (SS) 5/13[3] and SS6/13.[4] [5]

1 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 Part of the PRA Rulebook.

2 September 2024: **https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2024/september/cp724app6.pdf.**

3 PRA SS5/13 'The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)', December 2013: https://www.bankofengland.co.uk/prudential-regulation/publication/2013/the-internalcapital-adequacy-assessment-process-and-supervisory-review-ss

4 PRA SS6/13 'Stress testing, scenario analysis and capital planning', December 2013: Supervisory Statement | SS6/13 (bankofengland.co.uk).

5 On 1 February 2017, thus SS was updated- see annex for full details.

14: Draft Rulebook instrument

PRA Rulebook: CRR Firms: SDDT Regime Instrument 2025

15: [Deleted in its entirety] statement of policy – Operating the Interim Capital Regime

This statement of policy is proposed to be deleted in its entirety: **statement of policy – Operating the Interim Capital Regime**, upon the end of the ICR when Phase 2 of the SDDT regime is implemented.