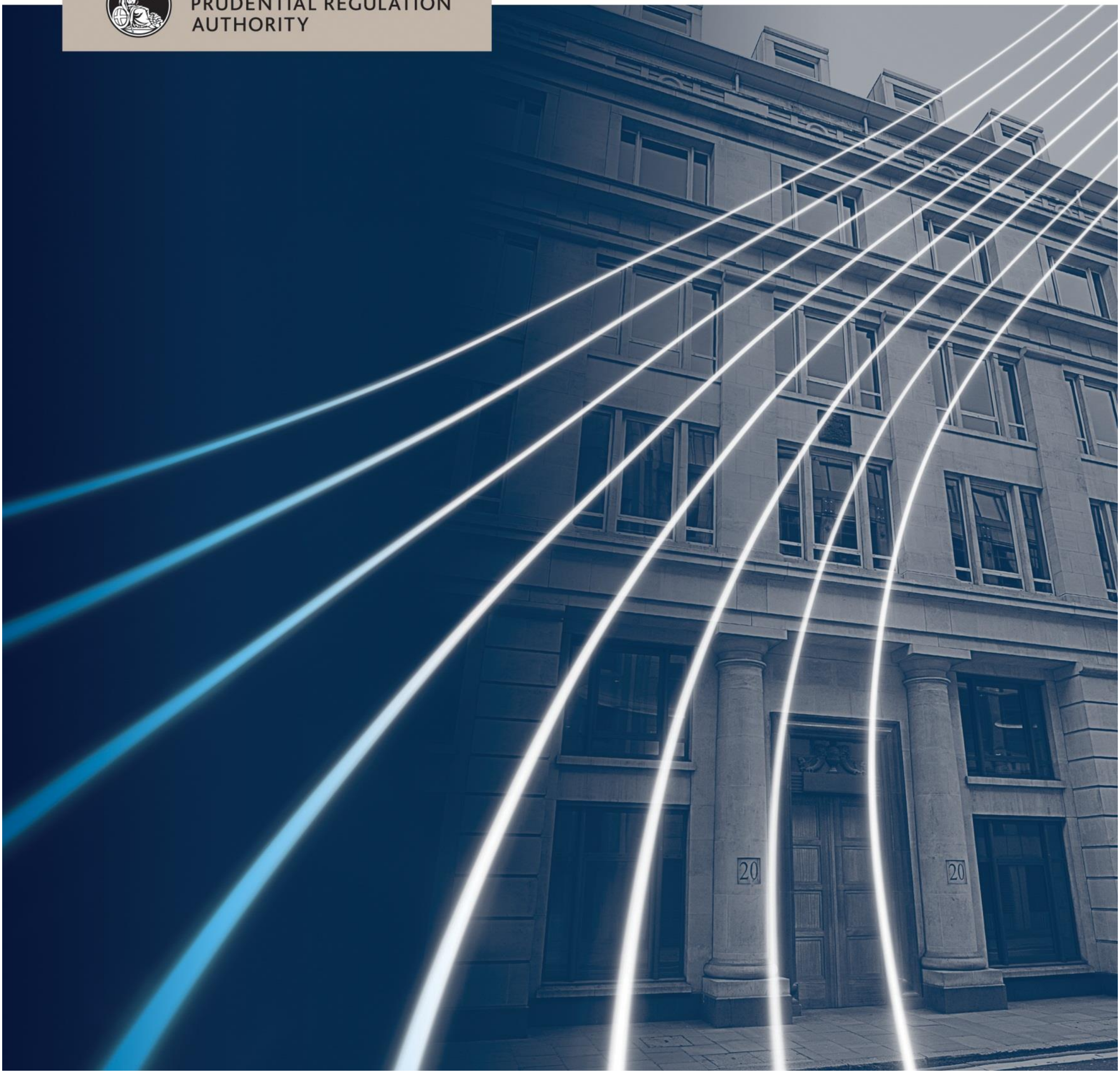
Policy Statement | PS26/19

Pillar 2 liquidity: PRA110 reporting frequency threshold

December 2019

BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY



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Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

Contents

1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 14/19 'Pillar 2 liquidity: PRA110 reporting frequency threshold'.[1] It also contains the PRA's final policy, as follows:

- amendments to the Reporting Part of the PRA Rulebook (Appendix 1); and
- updated Supervisory Statement (SS) 24/15 'The PRA's approach to supervising liquidity and funding risks' (Appendix 2).

1.2 This PS is relevant to PRA-authorised UK banks, building societies, and PRA-designated UK investment firms, referred to collectively as 'firms' with total assets of £5 billion or above, calculated in accordance with Council Directive 86/635/EEC.

Background

1.3 PRA110 reporting commenced on Monday 1 July 2019. From that date, firms with total assets, calculated in accordance with Council Directive 86/635/EEC, equal to or greater than €30 billion on either an individual basis or UK consolidation group basis are required to report on a weekly basis, unless there is a specific liquidity stress or market liquidity stress, in which case the PRA110 will be reported every business day. Firms with total assets less than €30 billion, calculated on the same basis, report monthly, unless there is a specific liquidity stress or market liquidity stress, in which case the PRA110 will be reported weekly.

1.4 In CP14/19 the PRA proposed to:

- amend PRA rules to introduce a further threshold of total assets of £5 billion or above for PRA110 reporting frequency; and
- update SS24/15 paragraph 6.2A to align with the proposed PRA110 reporting frequency threshold.

1.5 The PRA received two responses to the CP. The respondents made a number of useful observations, which are summarised in Chapter 2, but after consideration, the PRA has decided not to change the proposed policy.

Implementation

1.6 The implementation date of this policy is Friday 1 May 2020.

1.7 The policy set out in this PS has been designed in the context of the current UK and EU regulatory framework. The PRA has assessed that the policy will not be affected in the event that the UK leaves the EU with no implementation period in place.

1 June 2019, https://www.bankofengland.co.uk/prudential-regulation/publication/2019/pillar-2-liquidity-pra110-reporting-frequency-threshold.

2 Feedback to responses

2.1 Before making any rules, the PRA is required by Financial Services and Markets Act 2000 (FSMA) to have regard to any representations made to it, and to publish an account, in general terms, of those representations and its feedback to them.[2]

2.2 The sections below have been structured broadly along the lines of the respondent's comments:

- technological costs;
- business costs; and
- firms in scope.

Technological costs

2.3 The PRA outlined in its cost benefit analysis that the proposed rule amendment would have low technological change costs. Firms affected by this proposal are required to have systems in place to report the PRA110 already. The incremental cost of this proposal will relate to system changes required to facilitate the ability to report on every business day, when they are in stress. However, firms are already required to have the capability to produce a weekly PRA110 report with a one-business day remittance period, suggesting that all firms impacted by this proposal should already have the technological capability to report on every business day.

2.4 One respondent confirmed their view that firms have the capability to report PRA110 on a daily basis.

2.5 One respondent queried if the entire PRA110 return would be required to be submitted, or only certain sections. The PRA confirms that it is the entire PRA110 return.

2.6 Having considered the feedback, the PRA has decided that it does not need a change to the proposed policy.

Business costs

2.7 The PRA outlined in its cost benefit analysis that the rule amendment would cause higher business costs of reporting compared to normal frequency reporting. It noted that these costs would vary from firm to firm and would be dependent on the level of automation of processes. However, the cost benefit analysis noted that the probability of a firm being on higher frequency reporting and encountering these business costs is very low based on past experience.

2.8 The respondents outlined their view that the capacity implications of a firm reporting the PRA110 daily could be significant. The comments related to the resource implications for the regulatory reporting team to produce the report, and senior management to review and approve it. One respondent agreed that the likelihood of any firm impacted by this proposal being placed on daily reporting was low. However, the PRA believes that the benefit of having firms in this size category stand ready to report PRA110 daily in a stress will contribute significantly to the fulfilment of the PRA's safety and soundness objective.

2 Sections 138J(3);2L; and 138J(4) of FSMA.

2.9 Having considered the feedback, the PRA does not consider that the respondent raised new information that alters the validity of the cost benefit analysis. The PRA has decided that it does not need a change to the proposed policy.

Firms in scope

2.10 The PRA proposal would only represent a change to reporting requirements for firms equal to or above £5 billion and below €30 billion of total assets, and for these firms only when they are in stress. This proposal was advanced because the PRA judges that access to liquidity data on every business day during a firm specific and/or market liquidity stress is critical to the effective supervision of firms with total assets equal to or above £5 billion.

2.11 One respondent suggested that firms in the range of £5 billion to €30 billion of total assets were not systemic and therefore do not fall within the group of firms that could cause the greatest risk to the PRA's advancement of its safety and soundness objective.

2.12 One respondent suggested that firms in the range of £5 billion to €30 billion of total assets that were not retail focused do not fall within the group of firms that could cause the greatest risk to the PRA's advancement of its safety and soundness objective.

2.13 The PRA must consider all firms, not only those considered systemic and/or retail focused, when weighing risks to this objective. Seeking to avoid adverse effect on the stability of the financial system is one of several ways in which the safety and soundness objective is to be advanced, but is subsidiary to the general objective itself.

2.14 Having considered the feedback, the PRA has maintained its view that access to liquidity data on every business day during a firm specific and/or market liquidity stress is critical to the effective supervision of firms with total assets equal to or above £5 billion. The PRA has decided that this feedback does not need a change to the proposed policy.

Appendices

1 **PRA RULEBOOK: CRR FIRMS: LIQUIDITY REGULATORY REPORTING (AMENDMENT) (NO. 3) INSTRUMENT 2019, available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2019/pillar-2-liquidity-pra110-reporting-frequency-threshold**

2 **SS24/15 'The PRA's approach to supervising liquidity and funding risks', available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-approach-to-supervising-liquidity-and-funding-risks-ss**