

Bank of England

Prudential Regulation Authority

Responses to CP3/22 'Occasional
Consultation Paper'

Policy Statement | PS7/22

August 2022



Responses to CP3/22 'Occasional Consultation Paper'

Policy Statement | PS7/22

August 2022

Overview

1. This Prudential Regulation Authority (PRA) Policy Statement (PS) provides the final policy following Consultation Paper (CP) 3/22 'Occasional Consultation Paper'.¹ In the form of:

final rules;

amended UK Technical Standards (UKTS);

updated Supervisory Statements (SS);

updated Statement of Policy (SoP);

updated template and instruction file; and

deletion of Legacy Supervisory Statements (LSS) and SS3/13, SS4/15, and SS29/15.

2. This PS is relevant to different firms, in accordance with the CP chapters, as follows:

Chapter 2 – all UK Solvency II firms, including the Society of Lloyd's and its managing agents, hereafter referred to as 'UK insurers'.

Chapter 3 – Capital Requirements Regulation (CRR) firms and CRR consolidation entities on an individual, consolidated, and where relevant, sub-consolidated basis

CRR consolidation entities). For the purposes of the application of the requirements on a consolidated basis, references to 'firms' include CRR consolidation entities.

Chapter 4 (a) – banks, building societies, and PRA-designated investment firms.

Chapter 4 (b) – Capital Requirements Regulation (CRR) firms and CRR consolidation entities. For the purposes of the application of the requirements on a consolidated basis, references to 'firms' include CRR consolidation entities.

Chapter 4 (c) – banks, building societies, and PRA-designated investment firms.

Chapter 5 – Capital Requirements Regulation (CRR) firms, CRR consolidation entities, and UK insurers.

Chapter 6 – banks, building societies, and PRA-designated investment firms.

Chapter 7 – banks, building societies, and PRA-designated investment firms.

Chapter 8 - Capital Requirements Regulation (CRR) firms and CRR consolidation entities. For the purposes of the application of the requirements on a consolidated basis, references to 'firms' include CRR consolidation entities.

¹ CP3/22 – 'Occasional Consultation Paper': <https://www.bankofengland.co.uk/prudential-regulation/publication/2022/march/occasional-consultation-paper-march-2022>.

3. The appendices to this PS provide links to the final policy material as set out in the table below.

Chapter	Policy Material	Appendix
2. The PRA's approach to Solvency II technical information – minor updates	SoP 'The PRA's approach to the publication of Solvency II technical information'	1
3. Leverage Ratio: Minor amendment to SS45/15	SS45/15 'The UK leverage ratio framework'	2
4. Amendments consequential on CRR Rules	PRA Rulebook: (CRR 2 and other Consequentials) Modification Instrument 2022 PRA Standards Instrument: the Technical Standards (Consequential Amendments) Instrument 2022	3

5. Deletion of non-relevant policy material	SS3/13 'Capital and leverage ratios for major UK banks and building societies'	4
	SS4/13 'Solvency II: applying EIOPA's preparatory guidelines to PRA-authorized firms'	5
	SS29/15 'CRD IV: Interim LCR reporting'	6
	Legacy SS4/13 'Liquidity and capital regime for UK banks and building societies: adjustments in relation to FPC statement'	7
	Legacy SS6/13 'Pension obligation risk: treatment in the Internal Capital Adequacy Assessment Process (ICAAP) for banks and building societies'	8
	13 EU Guidelines listed in the Annex of the SoP 'Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK's withdrawal from the EU'	9
6. Consequential amendments to the PRA Rulebook and UK Technical Standards (UKTS) arising from the introduction of the Investment Firms Prudential Regime (IFPR)	PRA Rulebook: Investment Firms Prudential Regime Amendment Instrument 2022	10
	PRA Standards Instrument: The technical standards (Investment Firms' Prudential Regime Consequential Amendments)	11
7. Amendments to Pillar 3 Liquidity disclosure template and instructions	Template UK LIQ2: Net Stable Funding Ratio	12
	Instructions on Template UK LIQ2 on disclosure of Net Stable Funding Ratio (NSFR)	13
8. CRR Rule Administration Instrument	PRA Rulebook: CRR Firms Administration Instrument 2022	14

Background

4. In the CP3/22, the PRA proposed:

an amendment to its approach to fulfilling its obligation to publish technical information (TI) necessary for the valuation of insurance liabilities for each relevant currency and some clarifications in its approach (Chapter 2);

to remediate a small inconsistency in relation to the leverage ratio framework (Chapter 3);

a consequential modification to Part 2 (PRA) BTS 1152/2014 on the identification of the geographical location of the relevant credit exposures for calculating institution-specific countercyclical capital buffer rates (CCyb) (Chapter 4a);

changes to reporting requirements and one relevant UK Technical Standard (UKTS) following the implementation of Basel standards. The PRA also proposed minor formatting corrections to rule references in the PRA Rulebook (4b);

to amend a non-corresponding reference in Binding Technical Standard (BTS) 2014/526 to the Mark-to-Market method (MtM) in CRR Article 274 (4c);

to delete policy material that has become redundant (Chapter 5);

to make minor consequential amendments to the PRA Rulebook as well as a set of relevant UKTS, following the introduction of the Investment Firms Prudential Regime (IFPR) (Chapter 6);

to make the PRA's policy on average disclosures clear, and amend both the LIQ2 template and the instructions (Chapter 7); and

to make minor corrections to PRA Rulebook provisions.

Summary of responses

5. The PRA received no responses to proposals relating to any of the chapters in CP3/22.

Changes to proposed policy

6. In Appendix 1 of CP3/22, the PRA has updated the SoP 'The PRA's approach to the publication of Solvency II technical information' (paragraph 2.1) to confirm the approach previously communicated in PS24/20, on the impact from the ending of the Temporary Transitional Powers (TTP). Additionally, CP3/22, (paragraph 2.9) stated that 'The PRA will also update the terminology throughout the SoP from the 'future' to 'present' tense.' Appendix

1 of that CP mistakenly omitted three minor terminology updates in paragraphs 3.6B, 3.8 and 3.9 of the SoP, and these changes have now been made. In addition, paragraphs 3.4A, 3.5A, and 3.6ZB were added in the CP, but not indicated as new text.

7. Appendix 2 of CP3/22 incorrectly referenced amendments to paragraph 9.3 of SS45/15. The reference should have amended paragraph 2.3 of SS45/15. The incorrect numbering does not impact or change the substance or outcomes of the proposals outlined in the CP. The PS and SS45/15 have been updated to show the correct paragraph numbering.

8. Annex D 'Modifications to Part 2 (PRA) of Commission Delegated Regulation (EU) No 527/2014' of the 'PRA Standard Instrument: The Technical Standards (Consequential Amendments) Instrument' Part of the Appendix 3 'Amendments consequential on CRR Rules' of the CP proposed to delete a provision which is obsolete in the PRA Part of Regulation 527/2014 because it does not apply to PRA authorised firms. This corrective amendment is in the same category as those referred to in paragraph 6.5 of the CP, but was not specifically referred to in the CP text. However, the PRA considers this omission to be immaterial given the irrelevance of the provision to PRA authorised firms. Therefore the amendment has been included in the final instruments made by the PRA and published with this PS.

9. In Appendix 9 of CP3/22, SoP 'Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK's withdrawal from the EU' the PRA has made minor updates to some guideline titles to align them with those of the corresponding EIOPA guidelines.

10. When making rules, the PRA is required to comply with several legal obligations, including considering responses to consultations and publishing an explanation of the PRA's reasons for believing that making the proposed rules is compatible with its objectives and with its duty to have regard to the regulatory principles.² In addition, when making CRR rules or rules applying to certain holding companies, the PRA must consider certain additional matters, and publish an explanation of the ways in which that consideration has affected the proposed rules.³ In CP3/22, the PRA set out this explanation under each proposal chapter. Given that the PRA has not received any responses, and the changes made since consultation are minor corrections to improve readability and clarity, the analysis, as presented in CP3/22, remains unchanged.

11. On Thursday 7 April 2022, HM Treasury (HMT) published a letter supplementing its 2021 recommendations letter for the Prudential Regulation Committee (PRC), recommending that

² Section 138J(2)(d) FSMA.

³ Sections 144 and 192XB(2) FSMA.

the PRC 'have regard' to the government's energy security strategy and the important role that the financial system will play in supporting the UK's energy security. CP3/22 was published prior to HMT publishing its supplementary letter. However, the PRA has considered this new 'have regard', and the analysis as presented in the CP remains unchanged.

12. For CRR rules (as defined in section 144A of FSMA), and for rules applying to holding companies made under section 192XA of FSMA, the PRA must also publish a summary of the purpose of the proposed rules. This obligation is relevant to Chapter 4b, and Chapter 7 of the CP.

13. For Chapter 4b the PRA made minor formatting corrections to rule references, and added a missing hyperlink, the purpose of these rules are to:

Templates and instructions Chapter 6 of the Reporting (CRR) Part - the purpose of the rules is to specify the format of the reporting templates, as well as the instructions for populating the templates. This is to ensure that firms report to the PRA consistently on areas relevant to compliance with the prudential requirements set out in the CRR chapters of the PRA rulebook.

Pillar 3 templates and instructions Chapter 6 of the Disclosure (CRR) Part - The purpose of the rules is to enhance market discipline by ensuring consistency and comparability of firms' disclosures. They specify the exact format of the templates to be disclosed, as well as instructions to populate the templates.

14. In addition, the PRA made consequential amendments to the rules arising from Basel III implementation. The purpose of these rules are to:

Reporting requirements Chapter 5 of the Reporting (CRR) Part - The rules provide granular information on how institutions must meet the reporting requirements highlighted in Articles 430 and 430a, previously contained in Technical Standards. The purpose of the rules is to provide the detail required to be reported in the templates, definitions, and data principles, in order for institutions to report correctly to the competent authority. The rules highlight how the reporting thresholds will operate as well as the frequency in which information is required and the associated remittance dates.

15. For Chapter 7 the purpose of the rules are to establish public disclosure requirements for firms in respect of their funding position, as measured by the Net Stable Funding Ratio (NSFR).

16. Though amendments in Chapter 8 constitute making CRR rules, pursuant to s.144E(6) FSMA no explanation of the purpose of these rules is required if amendments to the rules are

not material. As set out in CP3/22, the proposed amendments consist of minor corrections. These changes are not material for the purposes of CRR rulemaking powers.

17. In respect of Chapters 4(b), 7 and 8, Appendix 15 sets out whether, and if so how, final CRR rules correspond to a provision of the CRR or a CRR level 2 regulation immediately before it was revoked by HM Treasury. This table confirms that there has been no change to the previous analysis on whether relevant provisions constitute corresponding provisions as a result of amendments made pursuant to the relevant rulemaking instruments in this statement.

Implementation and next steps

18. The implementation date for the policy changes set out in chapters 2, 3, 4, 5, 7, and 8 of this PS is Thursday 1 September 2022.

19. The implementation date for the policy changes set out in Chapter 6 is Friday 12 August 2022.

20. References related to the UK's membership of the European Union (EU) in the rules and any other material covered by the policy in this PS have been updated as part of this PS 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 retained EU law.⁴

Feedback to responses

21. Before making any proposed rules, the PRA is required by FSMA to have regard to any representations made to it, and to publish an account, in general terms, of those representations and its feedback to them.⁵ Given that the PRA has not received any responses to its consultation, the analysis, as presented in the CP, remain unchanged.

⁴ For further information, please see Transitioning to post-exit rules and standards: <https://www.bankofengland.co.uk/eu-withdrawal/transitioning-to-post-exit-rules-and-standards> .

⁵ Sections 138J(3) and 138J(4) of FSMA.

Appendices

1 Amendments to Statement of Policy 'The PRA's approach to the publication of Solvency II technical information' available at:

<https://www.bankofengland.co.uk/prudential-regulation/publication/2020/the-pras-approach-to-publication-of-sii-technical-information>

2 Amendments to SS45/15 'The UK leverage ratio framework', available at:

<https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-uk-leverage-ratio-framework-ss>

3 PRA Rulebook: CRR Firms: (CRR 2 and other consequentials) modification instrument 2022, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2022/august/ps722app3.pdf>

PRA Standards Instrument: The Technical Standards (CRR2 and Other Consequentials) Modifications Instrument 2022, available at:

<https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2022/august/ps722app3-1.pdf>

4 SS3/13 'Capital and leverage ratios for major UK banks and building societies', available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/capital-requirements-for-major-uk-banks-and-building-societies-ss>

5 SS4/13 'Solvency II: applying EIOPA's preparatory guidelines to PRA authorised firms', available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2013/solvency-2-applying-eiopas-preparatory-guidelines-to-pra-authorized-firms-ss>

6 SS29/15 'CRD IV: Interim LCR reporting', available at: <https://www.bankofengland.co.uk/prudential-regulation/publication/2015/crdiv-interim-lcr-reporting-ss>

7 LSS4/13 'Liquidity and capital regime for UK banks and building societies: adjustments in relation to FPC statement', available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2013/liquidity-and-capital-regime-for-uk-banks-and-building-societies-adjustments.pdf>

8 Legacy SS6/13 'Pension obligation risk: treatment in the Internal Capital Adequacy Assessment Process (ICAAP) for banks and building societies', available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential->

[regulation/supervisory-statement/2013/pension-obligation-risk-treatment-in-the-internal-capital-adequacy.pdf](https://www.bankofengland.co.uk/prudential-regulation/supervisory-statement/2013/pension-obligation-risk-treatment-in-the-internal-capital-adequacy.pdf)

9 Amendments to Statement of Policy ‘Interpretation of EU Guidelines and Recommendations: Bank of England and PRA approach after the UK’s withdrawal from the EU’, available at: <https://www.bankofengland.co.uk/-/media/boe/files/paper/2019/interpretation-of-eu-guidelines-and-recommendations-boe-and-pra-approach-sop.pdf>

10 PRA Rulebook: Investment Firms Prudential Regime Amendment Instrument 2022, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2022/august/ps722app10.pdf>

11 PRA Standards Instrument: The Technical Standards (Investment Firms Prudential Regime Consequential Amendments) Instrument, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2022/august/technical-standards-investment-firms-prudential-regime-consequential-amendments-instrument-2022.pdf>

12 Amendments to Template UK LIQ2: Net Stable Funding Ratio, available at: <https://www.bankofengland.co.uk/prudential-regulation/regulatory-reporting/regulatory-reporting-banking-sector/banks-building-societies-and-investment-firms>

13 Instructions on Template UK LIQ2 on disclosure of Net Stable Funding Ratio (NSFR), available at: <https://www.bankofengland.co.uk/prudential-regulation/regulatory-reporting/regulatory-reporting-banking-sector/banks-building-societies-and-investment-firms>

14 PRA Rulebook: CRR Firms Administration Instrument 2022, available at: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2022/august/ps722app14.pdf>

15 CRR Corresponding Rules Table

15 CRR Corresponding Rules Table

Chapter	Revocation	Corresponding CRR Rule
4b	N/A	N/A
7	N/A	N/A
8	Article 152 (internal ratings-based approach to credit risk: treatment of exposures in the form of units or shares in collective investment undertakings) of the CRR	Article 152 of Chapter 3 of the Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR) Part– no change to previous analysis