



## CONVERSION OF PILLAR 2A CAPITAL REQUIREMENTS FROM RWA PERCENTAGE TO A NOMINAL AMOUNT

7 May 2020

### Overview

In response to the economic shock from Covid-19, we are alleviating unwarranted pressure on firms by setting all Pillar 2A requirements as a nominal amount, instead of a percentage of total Risk Weighted Assets (RWAs).

Consistent with the Bank's approach to stress testing, we do not believe that RWAs are a good approximation for the evolution of the risks captured in Pillar 2A in a stress. The PRA will continue to regularly assess the appropriate level of Pillar 2A; given these regular assessments we believe the most proportionate approach is to set Pillar 2A as a nominal amount between assessments.

As well as avoiding an absolute increase in Pillar 2A capital requirements in the current stress, this would reduce Pillar 2A, as well as the threshold at which firms are subject to maximum distributable amount (MDA) restrictions, as a share of a firm's RWAs in the capital stack if RWAs increase.

### Scope

This statement is relevant to PRA-supervised firms to which CRDIV applies.<sup>1</sup>

### Implementation

The PRA will set Pillar 2A as a nominal amount in the 2020 and 2021 Supervisory Review and Evaluation Processes (SREPs). Firms with a SREP in 2020 don't need to apply for a variation to their Pillar 2A requirements following the process described in the next paragraph.

The PRA invites all firms who do not have a SREP assessment due in 2020 to apply for a conversion of their current Pillar 2A requirement into a nominal amount using RWAs as of end-December 2019. This change is voluntary, subject to supervisory agreement, and would apply until the firm's next regularly-scheduled SREP. Where the PRA judges that RWAs are a more accurate reflection of a firm's risks between assessments, it may reject the application.

### Process

The PRA requests that those firms that wish to apply for this variation use the Voluntary Requirement (VREQ) application form attached as Annex 1 ('the Application'). The firm should:

- Complete the Pillar 2A and Buffers VREQ Schedule, which sets out the Pillar 2A requirements, by converting the current Pillar 2A requirement into a nominal amount using RWAs as of end-December 2019;
- Check and sign the Application, incorporating the completed Pillar 2A and Buffers VREQ Schedule, and return it to:

[PRA-AuthsP2AChange@bankofengland.co.uk](mailto:PRA-AuthsP2AChange@bankofengland.co.uk)

by the end of 2020, copying in its usual supervision contact.

Receipt of the Application enables use of the PRA's powers under Section 55 M (5) of the Financial Services and Markets Act 2000.

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<sup>1</sup> The Capital Requirements Directive (2013/36/EU) (CRD) and the Capital Requirements Regulation (575/2013) (CRR), jointly 'CRD IV'

The proposed Individual Requirements are expressed by reference to the PRA's [Pillar 2A and Capital Buffers Model Requirements](#) (the 'Pillar 2A Model Requirements') as applied by the firm-specific schedule included in the Application and referred to as the 'Pillar 2A and Buffers VREQ Schedule'.

Upon receipt, the PRA will consider each Application on its merits. Where the PRA agrees to the proposed variation, the change will apply from the date specified in a written notice to be sent to the firm giving effect to the variation.

After switching, changes in RWAs through the year will not change the requirement.

If you have any questions, please contact the PRA via your normal supervisory contacts.

**Annex:**

**1. Application for imposition of requirements and modification of rules incorporating Pillar 2A and Buffers VREQ Schedule**

[Delete redundant text]

**Name of firm 1] [FRN]**

**[Name of firm 2] [FRN]**

**[Name of firm 3] [FRN]**

**(the/each a 'firm')**

**APPLICATION FOR THE VARIATION OF A REQUIREMENT PURSUANT TO SECTION 55M(5)(b) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 ('FSMA');**

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To: **The Prudential Regulation Authority ('PRA')**

In respect of the capital and buffer requirement imposed on [date] with reference number [number]<sup>2</sup> under section 55M(5)(a) FSMA (the 'Requirement'), each firm named above hereby applies pursuant to section 55M(5)(b) FSMA for the capital and buffer requirements set out in the Pillar 2A and Buffers VREQ Schedule annexed to the Requirement to be replaced with those set out in the Pillar 2A and Buffers VREQ Schedule below:

**PILLAR 2A AND BUFFERS VREQ SCHEDULE**

The requirements set out in the [Pillar 2A and Capital Buffers Model Requirements](#) published by the PRA (the '*Model Requirements*') issued as at the date of this notice apply in the manner specified in the table below. Terms that appear in italics in the table have the meaning given by the *Model Requirements* and references to '*firm*' in 1.1 (Definitions) of the *Model Requirements* are references to each of the firms listed above. Numbers in the second and third columns of the table below refer to paragraphs of the *Model Requirements*. While the Pillar 2A requirements below are communicated as a ratio at a point in time as well as a nominal amount, changes in the Total Risk Exposure Amount over time do not change the requirement.

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<sup>2</sup> Insert date and, where available, reference number of VREQ which is being replaced (contact authorisations if needed).

Firm	Model Requirements paragraph	Basis of Consolidation on which capital requirements apply	Amount
[Insert name of firm] <sup>3</sup> [Firm 1]	1.1 (Definitions)  <i>Pillar 2A requirement</i>	Individual  (Paragraph 7.1(1))	[(i)] Own funds of [£XX.XX] <sup>4</sup>  [corresponding to an add on of [XX.XX%] of the <i>Total Risk Exposure Amount</i> and a static add-on of [£XX.XX]];
		RFB sub-consolidated  (Paragraph 7.1(4))	[(i)] Own funds of [£XX.XX] <sup>5</sup>  [corresponding to an add on of [XX.XX%] of the <i>Total Risk Exposure Amount</i> and a static add-on of [£XX.XX]];
		Third country sub-consolidated  (Paragraph 7.1(5))	[(i)] Own funds of [£XX.XX] <sup>6</sup>  [corresponding to an add on of [XX.XX%] of the <i>Total Risk Exposure Amount</i> and a static add-on of [£XX.XX]];
		Consolidated  (Paragraph 7.1(2))	[(i)] Own funds of [£XX.XX] <sup>7</sup>  [corresponding to an add on of [XX.XX%] of the <i>Total Risk Exposure Amount</i> and a static add-on of [£XX.XX]];

**This arrangement will not be published on the Financial Services Register**

**For: [Insert name of Firm 1]<sup>8</sup>**

**Signed..... (Authorised signatory)**

**Date .....**

<sup>3</sup> Complete for each firm in the group.

<sup>4</sup> This is the total Pillar 2A figure, expressed as a nominal amount and including any previously fixed Pillar 2A add-on.

<sup>5</sup> This is the total Pillar 2A figure, expressed as a nominal amount and including any previously fixed Pillar 2A add-on.

<sup>6</sup> This is the total Pillar 2A figure, expressed as a nominal amount and including any previously fixed Pillar 2A add-on.

<sup>7</sup> This is the total Pillar 2A figure, expressed as a nominal amount and including any previously fixed Pillar 2A add-on.

<https://www.bankofengland.co.uk/prudential-regulation/authorisations/waivers-and-modifications-of-rules>

<sup>8</sup> Repeat for each firm in the group. The Application must be signed on behalf of each *firm* to which it applies by its authorised signatory (including where the same individual signs on behalf of more than one entity).