Financial Services Regulatory Insights

Basel 3.1 UK Consultation: PRA aligns closely with global standards

HOT TOPIC

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Summary of the Consultation Paper

On 30 November 2022, the Prudential Regulation Authority (PRA) published Consultation Paper CP16/22 on its proposed approach to the implementation of the Basel Committee on Banking Supervision (BCBS) reforms. The objective of the proposals is to reduce unwarranted variability in risk weighted assets (RWAs) by removing internal models in some areas; introducing constraints on the use of credit risk internal models; improving the risk sensitivity of standardised approaches for each risk area; and introducing an output floor to provide a standardised approach backstop to limit the benefit of internal models. The PRA has set a 1 January 2025 implementation deadline.

The PRA estimates that the impact of the CP proposals should not significantly increase capital requirements across PRA regulated firms. Actual capital impacts will vary by type of firm, with larger firms accounting for 90% of the total impact.

The UK's proposals largely align with the Basel standards (with less divergence than the EU) whilst gold-plating these standards in some areas. The PRA has used its discretion to tailor the proposed reforms to address UK-specific risks. The deadline for CP responses is 31 March 2023.

Key highlights

The CP includes an extensive package of reforms - in this section we highlight the issues which will be of most interest to firms.

In the standardised approach to credit risk, the PRA has proposed a more risk sensitive approach for **unrated corporates** and funds, which differs from both the BCBS and the EU.

The **CRR supporting factors** for Small and Medium Enterprises (SMEs) and infrastructure lending will be removed and aligned with the BCBS treatment.

PRA has aligned with many of the BCBS updates to the Internal Ratings Based (IRB) approach, however, there are some **super-equivalent amendments to IRB** including the removal of the IRB approach for Sovereigns, more conservative input floors (mortgages), and broader application of the asset value correlation multiplier for financials.

The **output floor** will be be focused on UK headquartered firms and groups (no output floor for foreign subsidiaries in the UK), and will apply to all capital buffers.

PRA will neutralise the effect of **operational risk** historical losses in Pillar 1 and capture them in its Pillar 2 framework instead.

The PRA's proposals for the **Fundamental Review of the Trading Book (FRTB)** are largely consistent with the BCBS proposals, however the PRA has retained its 'risk not in model' framework.

Alongside the introduction of the new Credit Valuation Adjustment (CVA) requirements, the PRA is proposing to remove the **CVA exemptions** for new trades with non-financials, sovereigns and pension funds.

In a departure from BCBS, the PRA proposes to recalibrate the **Standardised Approach to Counterparty Credit Risk (SA-CCR)** by setting the alpha factor to 1 for new derivative trades with non-financials and pension funds.

The PRA outline a number of **transitional provisions**, but notably they have not aligned with the extensive transitional provisions and review clauses in the EU approach.

A Transitional Capital Regime will be introduced for smaller firms that will apply the **'Strong and Simple'** capital framework instead of Basel 3.1. PRA is also consulting on the 'Strong and Simple' criteria. Among other changes, the PRA proposes to increase the asset threshold from £15 bn to £20 bn.

Contacts

Peter El Khoury
Partner, Head of Banking Prudential Regulation
E: peter.elkhoury@pwc.com

Gordon Kemp
Director, Banking Prudential
E: gordon.kemp@pwc.com

Conor Macmanus
Director, FS Regulatory Insights
E: conor.macmanus@pwc.com

Output Floor

In this section, we summarise the main components of the Output Floor (OF). The PRA proposes to implement the OF broadly in line with the Basel 3.1 standard, in order to guard against excessive variability and excessively low modelled risk weights. Therefore, for the purposes of calculating own funds requirements and capital buffers, in-scope firms would be required to calculate RWAs as the higher of: (i) total RWAs calculated using the approaches for which the firm has supervisory permission (including Internal Model (IM) approaches); or (ii) 72.5% of RWAs calculated using only the standardised approaches (SAs).

The PRA will also require a consistent approach to the use of the SA to calculate the OF (across firms all firms), and has chosen not to alter the SA methodologies for transitional purposes (explicitly contrasting its approach with the EU). Firms will be required to use the OF in order to calculate RWAs for own funds requirements and all relevant capital buffers (including systemic buffers and Pillar 2).

The PRA intends to apply the OF at the level of the UK consolidation group, or on an individual basis where the firm is not part of a group. While UK-based subsidiaries of overseas groups would not be subject to the OF, there are reporting requirements and an expectation that an output floor is applied by the home jurisdiction. The OF would also be applied at the level of the consolidated Ring-Fenced Body (RFB) sub-group, or at the individual level where there is no RFB sub-group. PRA highlight that they may reconsider the scope of application in the future.

The PRA proposes to phase the OF in over five years from 1 January 2025 through to 1 January 2030. However, PRA proposes not to adopt the Basel discretion to cap risk weight increases during the phase-in period.

Credit Risk - Standardised Approach

The PRA has proposed a number of changes to the SA for credit risk which could have significant impact on the RWAs of UK CRR firms. The changes have been designed mainly to address over-reliance on external credit ratings, increase risk-sensitivity and promote effective competition particularly between SA and IRB firms.

While these changes are largely aligned with the Basel 3.1 guidelines, the PRA is proposing some adjustments to reflect the UK market and provide additional clarity on some aspects of the UK CRR.

External credit ratings and due diligence

The PRA has introduced stricter rules on the use of external credit ratings, including a requirement for firms to use ratings by their nominated external credit assessment institutions (ECAIs) consistently across all exposure types, for risk management and risk-weighting purposes. In addition, firms are expected to perform their own due diligence of counterparty credit quality and, if the due diligence indicates a higher risk weight than the external rating, this must be reflected in exposure risk weighting.

Off-balance sheet exposures

The PRA has clarified the definition of a commitment (including timing of recognition) and proposed changes to the credit conversion factors (CCFs) for off-balance sheet exposures, including an increase in the CCFs for unconditionally cancellable commitments, transaction-related contingent items and other issued off-balance sheet items without credit substitute characteristics. While these changes are largely aligned to the Basel standards, the PRA has proposed a 50% CCF for other commitments as opposed to 40%, taking into account industry experience in the UK. The PRA has also chosen not to apply the 0% CCF national discretion for unconditionally cancellable commitments for certain corporate and SME exposures.

Exposures to institutions and covered bonds

A new standardised credit risk assessment approach (SCRA) has been introduced for unrated institutions. Under the new approach, the risk weight for unrated exposures with an effective original maturity of three months or less could range from 20% to 150%, compared to 20% under the CRR.

The PRA has also proposed a number of changes to the risk weights for exposures to rated institutions and unrated covered bonds across different credit quality steps (CQS).

Exposures to corporates and specialised lending

The PRA has introduced two approaches to risk-weighting unrated corporate exposures: a risk-sensitive approach where firms have comprehensive systems and processes to differentiate between investment grade (65%) and non-investment grade (135%) exposures; and a risk-neutral approach where all unrated corporates will be risk weighted at 100%. PRA permission must be obtained for the risk sensitive approach.

PRA propose to more closely align the SA and IRB specialised lending sub-classes (commodities finance, object finance and project finance) where rated issuances will be subject to RWs based on the credit rating.

The PRA plans to remove the CRR infrastructure supporting factor and instead allow a 80% lower risk weight for ‘high-quality’ unrated project finance exposures in the operational phase.

Exposures to individuals and small and medium-sized enterprises

The PRA has also clarified the qualifying requirements for ‘regulatory retail’ and introduced more granularity within the retail exposure class, by differentiating risk weights among transactors (45%), non-transactors regulatory retail (75%) and other retail exposure (100%) sub-classes in line with the Basel standards. Notably, a full 12 month transaction history is required to apply the preferential transactor risk weights.

The PRA intends to remove the CRR SME supporting factor and introduce the ‘corporate SME’ exposure sub-class which will receive a risk weight of 85%. Retail SMEs can qualify for the preferential retail risk weights if they meet all of the conditions.

Residential and commercial mortgages

The PRA proposes to clarify the definition of ‘regulatory real estate’ and increase the risk sensitivity and granularity of real estate exposure classification. Under the new rules, the regulatory real estate exposure risk weights will be determined based on the type of property, the loan-to-value (LTV) ratio and whether repayments are ‘materially dependent on the cash flows generated by the property’.

Based on observations in the UK market, the PRA considers that houses in multiple occupation should be treated as materially dependent on the cash flows generated by the property, while explicitly carving out exposures to individuals with three or less mortgaged residential properties in total across all lenders (excluding the primary residence). The PRA has further clarified the definition of residential property, excluding care homes, purpose-built student accommodation and holiday lets, which would all be treated as commercial.

With respect to the valuation of real estate collateral, the PRA’s proposal is aligned with the Basel standards in that, subject to limited exceptions, the value of the property is fixed at the origination value in order to mitigate the risk of excessive cyclicality in property values.

The PRA proposes a risk weight floor of 100% for commercial property mortgages both for exposures materially dependent on income from the property and those that are not materially dependent on income from the property.

Capital instruments and defaulted exposures

The PRA has introduced new risk weights for equity exposures (250% or 400%), subordinated debt (150%) and other capital instruments. In line with Basel 3.1, all equity exposures would now be subject to the SA treatment under the revised rules, where there will be a five year phase-in. PRA has also clarified that the 400% equity risk weight will only apply to venture capital exposures which have been defined by the PRA.

The PRA has also simplified the treatment of defaulted exposures, requiring that specific provisions should be compared against the gross loan amount as opposed to the unsecured exposure value under the UK CRR, to determine whether the 150% or 100% risk weight should apply.

Credit Risk - Internal Ratings Based (IRB) Approach

The PRA has set out a number of IRB proposals which broadly align with the Basel standards and are intended to reduce the complexity of the approaches and improve comparability across firms. However, the PRA has chosen to apply a more conservative or 'super-equivalent' approach in a few areas, including restricting the use of IRB for some exposure classes (eg sovereigns) where BCBS was unable to reach consensus.

Restrictions on using the IRB approach

The use of the IRB approach has been restricted for low default portfolios such as, central governments and central banks and equity, where RWAs will be required to be calculated using the SA. Additionally, consistent with the BCBS proposals, the Advanced IRB (A-IRB) approach is restricted for exposures to institutions, financial corporates and large corporates, where firms will have to use either Foundation IRB (F-IRB) (where loss given default (LGD) cannot be modelled) or SA to calculate RWAs. Firms may also estimate Maturity under F-IRB. The A-IRB or F-IRB approaches are no longer permitted for the Income Producing Real Estate (IPRE) exposure class, where the slotting approach remains the only option under IRB.

Scope of IRB permissions

The PRA will grant firms permissions to use the IRB approach if they can demonstrate 'material compliance' with UK CRR instead of the 'full compliance', which extends to permissions for model changes. This is to address a competitive disadvantage for firms aspiring to IRB as firms with permission already are not required to remediate immaterial non-compliance. Additionally, the 'full use' requirement of IRB will be removed and firms can apply IRB for some exposure classes while allowing others to remain on the SA, with controls in place to minimise 'cherry-picking'.

Input floors

The PRA has proposed new input floors that generally align with BCBS standards, except for the UK residential mortgages portfolio where a more conservative probability of default (PD) floor of 0.1% is applied. A 0.05% PD floor has been proposed for all other exposure types. The LGD floors in the proposal are consistent with the Basel standards: ranging from 5% for residential mortgages and between 25-50% for other unsecured and retail exposures.

The PRA has proposed a dual approach to calculate the exposure at default (EAD) input floor: where a firm provides own estimates of CCFs, these CCF estimates would be floored at 50% of the SA CCF; and where a firm provides own estimates of EAD, estimates would be floored at the current balance plus 50% of the SA CCF multiplied by the off-balance sheet exposure.

Parameter estimation and supervisory factors

In alignment with the Basel standards, the PRA has proposed a number of changes to model parameter estimation requirements to reduce variability in RWAs. Firms will also be required to consider 'seasoning' effects as a PD risk driver for retail exposures.

Under A-IRB, the PRA has proposed that the recoveries from ineligible collateral are not considered for the purposes of calculating LGDs and firms instead calculate an 'unsecured LGD' for such exposures.

The PRA has elected to follow the Basel standards and reduce the F-IRB LGD value for exposures to non-financial corporates to 40% and retained it at 45% for senior claims on financial corporates.

Additionally, the PRA has proposed to allow firms to reflect post-default additional drawings in LGD instead of EAD for both retail and non-retail exposures, with pre-default additional drawings to be reflected in EAD rather than LGD.

The PRA has proposed to extend the 1.25 asset value correlation multiplier to all large financial sector entities (FSEs), regardless of the status of their prudential regulation, and to amend the unregulated financial sector entity definition to all financial sector entities that are not prudentially regulated banks, investment firms and insurers. The PRA has also proposed to amend the threshold for a large FSE to include the total assets of the entire group and redenominate the threshold to £79 billion ($100 billion in the Basel standards).

Other prohibitions relating to parameter estimations

In terms of further restrictions and prohibitions, some firms with special permissions have historically been permitted to model EAD for specialised lending exposures using the slotting approach. This will no longer be permitted. Additionally, the PRA has withdrawn its 2012 wholesale LGD and EAD framework.

The PRA has also prohibited the use of continuous rating scales in PD models to align with Basel 3.1.

Consistent with the Basel standards, the formula used to calculate risk weights for non-defaulted exposures previously included a scaling factor of 1.06, which has now been removed by the PRA.

Definition of default

The PRA will update the its rulebook to formalise existing expectations on the definition of default. They will also replace existing guidance in Supervisory Statements and EBA Guidelines with a new Supervisory Statement which will include some minor amendments and clarifications. This will be applicable to both IRB and SA firms.

Revised data and model governance standards

The PRA has outlined new requirements for data usage and maintenance, as well as revising guidance for IRB model governance and validation, including specific requirements for the reports produced by a firm's credit risk control unit.

Model change timelines

The PRA will communicate bilaterally with firms on the timescales for IRB model submissions. Model changes required to implement the proposals are not expected to be submitted to the PRA before 1 July 2024.

Credit Risk Mitigation (CRM)

PRA proposals align with Basel in most areas including removing certain methods of Funded Credit Protection (FCP) under the SA, amending the F-IRB calculation and introducing a new method for A-IRB firms that lack data. For Unfunded Credit Protection (UFCP) they introduce restrictions on recognising and modelling CRM and restrict where PDs may be adjusted.

However, there are instances where the PRA have clarified ambiguity in Basel standards and have introduced proposals which are not strictly aligned.

For instance, the PRA introduces the Foundation Collateral method, which will be utilised by F-IRB firms to recognise financial and non-financial collateral. The PRA have stated that Basel 3.1 standards do not specify the treatment where collateral is held against multiple facilities. The PRA therefore proposed that firms sub-divide such collateral into portions prior to allocation to prevent double counting, with no requirements set out on how the portions are allocated to exposures.

Additionally, under Basel standards, firms using the F-IRB approach are permitted to apply a 50% risk weight for parts of certain exposures collateralised by real estate as an alternative to CRM. However, the PRA have decided to remove this treatment.

PRA aligns with Basel to remove recognition of conditional guarantees, which will not be permitted under any CRM methods. But PRA has slightly modified the Basel approach to indirect guarantees. The Basel standards restrict indirect guarantees to sovereigns only. However, the PRA have restricted it further to central governments and central banks.

Fundamental Review of the Trading Book

The PRA's proposals for the Fundamental Review of the Trading Book (FRTB) aim to improve the coherence and consistency of market risk capital requirements, and ensure these measures are sufficiently sensitive to market moves. The proposal includes Simplified Standardised (SSA), Advanced Standardised Approaches (ASA) and Internal Model Approach (IMA), and are largely consistent with the Basel guidelines, with the notable exceptions below:

Differences to the Advanced Standardised Approach

The proposal introduces a distinct commodities bucket for carbon emissions certificates. This will initially have the same risk weight and correlation requirements as other commodities, but allows for future changes to these exposures as carbon markets evolve.

Additionally, a fourth treatment option has been re-introduced for the treatment of collective investment undertakings (CIUs) whereby firms can use a risk weight calculated by an external party under certain restrictive criteria.

Finally, further clarification is provided for the definition of gross Jump-to-default (JtD) to be utilised in the Default Risk Charge (DRC).

Differences to the Internal Model Approach

The PRA proposes to allow firms the option not to use a look-through approach for CIUs, if it can be proved at least annually that it is more conservative not to.

Given that the PRA's supervisory statement on market risk (SS13/13) already had provisions for the capitalisation of Risks-Not-In-VaR (RNIVs), the PRA's proposals for Non-Modellable Risk Factors (NMRFs) aim to consolidate the prescriptions in Basel with the existing RNIV approach.

Therefore, in addition to the Basel requirements:

- Documentation of NMRF methodologies will be expected to be of the same standard as that of any other model methodology, ie to include limitations in calculation, any data challenges or reliance on proxies;
- A conservative fallback option is prescribed for cases where firms cannot identify an appropriate stress scenario for an NMRF;
- Firms may elect to include NMRFs in backtesting at the trading desk level (but not at the overall trading book portfolio level), with the intention of reducing the number of backtesting exceptions driven by NMRFs.
- RNIVs will be renamed as RNIM (Risks Not In Model), requiring firms to hold additional capital for model deficiencies (that are not captured as NMRFs). In practice, the scope of the existing RNIV framework is essentially being split into the Basel-defined NMRF framework and this new RNIM category.

Treatment of FX and Commodity positions in the Banking Book

In both SA and IMA, additional requirements are outlined for the treatment of FX and Commodity positions in the banking book, increasing the frequency with which the value of these risks has to be updated. These largely align with the proposed EBA standard to supplement the EU CRR.

Differences to EU CRR implementation

To recognise their dynamic nature, no static list will be given for closely correlated currencies and diversified stock indices. These will instead be replaced with a set of criteria currently applied by the PRA to enable firms to self-identify which risks fall into these categories.

The PRA repeats that statement made in its letter to firms dated 27 June 2022, that any firm making an application to utilise IMA needs to allow at least 12 months for any application to be processed. This means that in order to be ready for the Jan 2025 go-live, such applications must be submitted no later than **January 2024**.

Credit Valuation Adjustment Risk

The PRA's proposals are broadly aligned with the Basel framework which replace existing approaches with a choice of two methods, a standardised approach (SA-CVA) subject to supervisory approval and a basic approach (BA-CVA).

The SA-CVA is underpinned by the use of firm-specific risk sensitivities to counterparty credit spreads and market risk factors and aggregation logic that is consistent with FRTB. This approach treats CVA more like other trading risks, instead of a banking book approach to capture the risk. The BA-CVA is a revised version of the existing CVA standardised approach. The approaches may be applied to different portfolios providing that there is a clear rationale. Notably, PRA has diverged from BCBS to recalibrate the exposure to pension funds (for both SA-CVA and BA-CVA) to distinguish between the risk profiles of different financial services counterparties (3.5% for IG and 8.5% for non-IG).

There is also an 'exceptions' approach available for small and non-complex institutions (which requires pre-notification) where non-centrally cleared derivatives do not exceed £88bn notional.

The PRA proposes to revoke UK CRR CVA exemptions for new trades with pension funds, non-financial counterparties and sovereigns. Exemptions will also be removed for legacy derivative trades but this will be subject to a five-year transitional arrangement. PRA will retain the existing UK CRR exemption for client clearing transactions; and will implement an amended approach to cross-border intragroup transactions which breaks the link with EMIR equivalence assessments and relies on similar tests to other intragroup treatments in the capital framework.

Counterparty Credit Risk

The PRA proposes to recalibrate the Standardised Approach to Counterparty Credit Risk (SA-CCR) by reducing the alpha factor from 1.4 to 1 for new derivative trades with non-financials and pension funds. This is similar to the US approach for commercial end users and reflects a widely held view that SA-CCR is too conservative relative to the Internal Model Method. To allow for portfolio and netting benefits when calculating SA-CCR, firms may apply the lower alpha factor to legacy trades subject to a five year transitional arrangement where the capital reduction for the legacy trades is added back.

PRA proposes to revise the approach to calculating exposure for Securities Financing Transactions subject to master netting agreements in line with the BCBS standard. The revised approach is more risk sensitive and allows for some recognition of netting and diversification benefits.

Operational Risk

In alignment with the BCBS, the PRA proposed a new operational risk framework to replace all existing approaches for calculating Pillar 1 operational risk capital (ORC) requirements with a single standardised approach (SA) to be used by all firms. The new standardised approach is based on the business indicator component (BIC) which is a measure of firm size and economic activity, and is used as a proxy for operational risk on the basis that the larger and more active the firm, the greater the potential exposure to operational risk. PRA has proposed clarifications on what should be included in each of the BIC elements.

In line with the EU, the PRA proposes to exercise the national discretion to set the internal loss multiplier (ILM) equal to 1 to neutralise the impact of historical internal operational risk losses. As a result, firms' operational risk capital requirements would not be directly tied to past losses and instead would be driven more by firm size. Firms must still identify, collect and categorise internal loss data in line with certain requirements:

PRA believes that total Pillar 1 plus Pillar 2 operational risk capital requirements would not change significantly due to the flexibility under the current Pillar 2 framework. The PRA proposes to continue to use supervisory judgement in its approach to calculating Pillar 2A operational risk capital requirements. This includes using loss estimates based on a firm's forecast, historical losses and scenario analysis, and supervisory judgement to inform the setting of a firm's operational risk add-on.

What does this mean for firms?

Competitive landscape

Overall, the PRA's proposal attempts to balance the need for consistency in the prudential framework whilst accounting for different business models in the industry. All firms will need to consider how the changes affect their competitive position and whether strategic decisions on future lending and portfolio composition need to be made.

Internationally active firms may be disappointed by the relatively close alignment to BCBS and what this means for competitiveness of the UK banking sector engaging in cross border activities. Meanwhile, standardised approach firms are likely to welcome the increase in competition with larger banks that use internal models.

As the first major rule making since the UK took control of its own rulebook the proposals may indicate how PRA will balance its objectives and 'have regards' obligations towards financial stability and competitiveness for future rule-making.

Evolving binding constraints

While one of the objectives of the BCBS standards was to simplify the rules, the changes in the prudential framework may make it more difficult for larger firms to optimise capital. Large firms will need to assess how the evolving binding constraints of the advanced approaches, the output floor and the leverage ratio will affect the returns on capital and risk weighted assets, and how that may change over time.

Internal model strategy

There are several aspects of the proposals which will impact the cost-benefit analysis of using internal models. On the one hand, the output floor will reduce the benefit of having the full suite of internal models for calculating capital. However, the changes in the SA risk weights (particularly for exposures secured on immovable properties) and a more flexible partial use regime, may incentivise firms to adopt the IRB approach.

Notwithstanding the wider benefits to risk management, firms will need to consider their strategy for the use of internal models to determine if using models (and incurring the higher regulatory cost) will be beneficial given a firm's current permissions, portfolio and business model.

Indirect impact on other areas

The proposed changes described throughout this article will also have indirect impacts for other areas in the framework, including the leverage ratio, large exposures, Pillar 2, Pillar 3, as well as reporting requirements.

The PRA will consider the complex interactions between Pillar 1 risk weights and the Pillar 2 framework. To prevent a double count of the capital requirements in both spaces, the Pillar 2A capital requirements would be adjusted to compensate for the proposals set out for the risks in Pillar 1.

PRA will also consult in the future on the approach to Sovereigns in the Pillar 2 framework to cover risks that are not adequately addressed in Pillar 1. The PRA recognises that in some cases the standardised approach risk weights for Sovereigns do not sufficiently cover the risk.

Changes to governance, processes, systems and controls

All firms will need to assess the impact on their current governance, processes, systems and controls across all risk types.

Given some of the divergences across jurisdictions there may be a number of operational challenges to implement rules for internationally active banking groups. There are notable differences between the UK and EU approaches which may be difficult to implement in practice. The US has yet to publish its notice of proposed rulemaking on Basel 3.1 but they may also apply some targeted deviations from Basel which cross border groups will need to address.

The shift towards more risk sensitive standardised approaches may impose a greater burden on smaller firms, particularly the additional requirements for due diligence of credit exposures and, where permission is sought, the more risk sensitive approach for unrated corporates and funds.

Regulatory reporting

Where existing reporting requirements would become partly or entirely redundant due to the proposed revision of RWA requirements, the PRA proposes to replace the existing templates entirely with new templates to reflect new proposed RWA calculation approaches, including internal model use conditions.

It should be noted that there is a wider data review underway by UK regulators on how the Bank collects data (transforming data collection) and what data items and frequency is needed in the Banking Data Review. This is a multi year project to transform regulatory reporting which should be considered by firms in their plans where they are making large strategic changes to systems and processes to implement the Basel 3.1 standards.

Assurance of RWAs

We expect the regulators' focus on the completeness and accuracy of regulatory returns to continue under the Basel 3.1 framework. The PRA has made extensive use of the FSMA section 166 skilled persons reports to provide regulatory assurance of RWAs. We note that reference dates for section 166 reviews of the recent CRR 2 changes included the first regulatory reporting submissions for these changes. Given the widespread impact of the Basel 3.1 changes across the prudential framework and the prevalence of the s166 supervisory tool, firms should aim to achieve a high standard of compliance for the first reporting period.

Strong and simple banking framework

Smaller firms will need to decide whether to apply the Basel 3.1 standards or to enter a transitional regime based on current UK CRR provisions, pending the introduction of the risk-based capital regime for Simpler Firms. This decision will be difficult without greater clarity on the detail of the simpler regime. We note that the PRA is considering whether the proposed Basel 3.1 approaches for credit risk SA and CRM would be the appropriate starting point for the simpler regime.

Contacts

Peter El Khoury
Partner, Head of Banking Prudential Regulation
E: peter.elkhoury@pwc.com

Gordon Kemp
Director, Banking Prudential
E: gordon.kemp@pwc.com

Conor Macmanus
Director, FS Regulatory Insights
E: conor.macmanus@pwc.com

How can PwC help?

- We have a large team of prudential regulatory experts with an extensive track record of successfully supporting firms to implement complex regulatory change programmes across banks and investment firms.
- We have developed prudential technology tools that can accelerate the implementation of your regulatory change, assessment of your calculations, and the validation of your existing and new reporting forms.
- We have a market-leading IRB team with regulatory and modelling specialists who have helped a number of mid-sized and large banks with IRB implementation and compliance.
- We have extensive experience of assessing firms' interpretations and judgements against regulatory expectations and peer group practices which helps our clients navigate a complex regulatory landscape.

If you have any questions on this consultation paper, what is means for you, and how we may be able to help you, please reach out to the contacts listed on the left and we're happy to set up a discussion.

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