

PRA sets out banking agenda for 2023-24

AT A GLANCE

May 2023

What's new?

- The PRA published its 2023-24 [business plan](#) on 2 May 2023, setting out its strategic priorities, workplan and budget. The business plan sets out the PRA's priorities for PRA-regulated banks, designated investment firms and credit unions ('banks').
- The business plan sets out the PRA's strategic objectives for the year and provides an update on a number of ongoing regulatory and supervisory priorities, including Basel 3.1, the strong and simple regime, operational resilience, stress testing and climate risk. The business plan also provides some further detail on newer initiatives such as a review of the framework for trading book risk management, an exploratory stress test assessing the behaviour of banks and non-banks in a market stress, the banking data review, solvent exit planning for non-systemic banks and implementing the outcome of the Skeoch review into ring-fencing.

What does this mean?

- The PRA's strategic objectives are to; retain and build on the strength of the banking and insurance sectors delivered by the financial crisis reforms, identify new and emerging risks, and lead on the development of international policy, support competitive and dynamic markets in the sectors that the PRA regulates and run an inclusive, efficient and modern regulator within the Bank of England.
- The regulator states that the recent stress in the banking sector reinforces the need for robust prudential regulation and that strong regulatory standards support the UK economy. This principle is likely to frame the PRA's approach to its forthcoming secondary objective for international growth and competitiveness. The PRA's 2022-23 business plan was particularly ambitious and the 2023-24 plan both provides an update on progress on existing regulatory priorities and introduces a number of new initiatives.
- In 2023 the PRA will proceed with a number of policy changes to the prudential framework for banks. In particular, the PRA consulted on the implementation of the **Basel 3.1 reforms** in November 2022, and is currently considering consultation responses - the PRA intends to publish the finalised rules through a Policy Statement in due course. The PRA will also develop over the course of 2023/24 a '**Strong & Simple**' prudential regime for smaller banks and building societies as an alternative to the full Basel 3.1 regime.
- The PRA is taking forward a number of the initiatives announced as part of the **Edinburgh reform** package. These include reviews of ring-fencing and the SM&CR, amendments to remuneration and securitisation regulation and a new secondary objective for growth and international competitiveness. The PRA is also using its post-Brexit regulatory powers to review its

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regulatory reporting framework through the **banking data review**, with the aim of better integrating and streamlining returns and ensuring supervisory teams receive the information they need from banks.

- **Operational resilience** remains a key priority. The operational resilience framework came into force in 2022 and the PRA will be assessing banks' progress in implementing the regime with a particular focus on ensuring a consistent approach to implementation across the sector. The PRA is also working with HMT to develop the UK's regulatory approach to **critical third parties** and is scrutinising banks' management of risks from cyber attacks and the delivery of significant technological change. From 2022 the PRA began to supervise **climate risk**. The PRA believes further progress is required to manage this risk and will be assessing progress through supervisory engagement.
- The business plan also provides some further information on emerging priorities. These include a review of **trading book controls** requirements, following a review of banks' risk management in the context of the Archegos failure, a **system-wide exploratory scenario exercise focused on market stress**, new policy on **solvent exit planning for non-systemic banks**, confirmation that a consultation will be published in 2023 on the regulatory approach to **diversity and inclusion (D&I)** and that the PRA is focusing on the implications from technological change, including banks' use of **artificial intelligence (AI)**.

What do firms need to do?

- The business plan once again reinforces how broad the PRA's regulatory and supervisory agenda is. Coming into 2023 the PRA had a significant agenda, and a clear focus on the resilience of the banking sector to a difficult macroeconomic environment. The recent stress in the banking sector is likely to lead to both new regulatory initiatives and a renewed focus on financial resilience and risk management capabilities. All banks are likely to face increased scrutiny from PRA supervisory teams on their management of risks such as credit, counterparty, interest rate and liquidity. Banks with significant wholesale activities are also likely to see a particular focus on management of trading book risks and are likely to be in scope of the exploratory scenarios focused on market stress. In the current risk environment the PRA will expect firms to show they have the required level of governance and risk management capabilities and financial resilience to deal with the diverse range of challenges facing the sector.
- The sector is also entering another period of significant regulatory change, including to the core of the prudential framework through Basel 3.1 and strong and simple. There is a level of uncertainty on how significant the regulatory changes will be from initiatives such as the banking data and SM&CR reviews and consultations on the regulatory approach to D&I and AI. However, the number and breadth of regulatory initiatives set out in the business plan means now more than ever there is a need for banks to invest in technology and data capabilities to support regulatory change and compliance.

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