

- (i) Exceptions for model use should be temporary, should be subject to post-model adjustments (PMAs), should be reported to and supported by stakeholders and senior management.
 - (ii) For model performance exceptions firms should have clear guidelines for determining a maximum tolerance on model performance exceptions (deviation from expectation), should be subject to appropriate risk controls (eg the use of alternative models, heightened review and challenge, and more frequent monitoring post-model adjustments) and mitigants (eg recalibrating or redevelopment of existing methodology) once defined triggers and thresholds are breached.
- b) Firms should have escalation processes in place so that the key stakeholders (model owners, users, validation staff, and senior management) are promptly made aware of a model exception.
- (i) the escalation process should describe the notification and reporting responsibilities of model owners and validators in an exception event;
 - (ii) upon escalation of an exception event, firms should impose restrictions on the model's usage; and
 - (iii) internal audit should maintain an ongoing review of the exception and escalation process and performance to ensure it is being conducted in a manner that is consistent with established policy.

2: PRA statutory obligations

The statutory obligations applicable to the PRA's policy development process are set out below. This CP explains the policy assessment of relevant considerations.

- Purpose of the policy proposals (FSMA s138J(2)(b)).
- Cost benefit analysis (FSMA s138J(2)(a) and (7)(a)); and an estimate of those costs and benefits (if reasonable) (FSMA s138J(8)).
- Analysis of whether the impact on mutuals is significantly different to the impact on other authorised firms (FSMA s138J(2)(c) and 138K).
- Compatibility with the PRA's primary objectives (FSMA s138J(2)(d)(i), 2B and 2C).

- Compatibility with the PRA's secondary competition objective (FSMA s138J(2)(d)(ii) and 2H(1)).
- Compatibility with the regulatory principles (FSMA s138J(2)(d)(ii), 2H(2) and 3B).
- Have regard to the HMT recommendation letters (BoE Act s30B).
- Have due regard to the public sector equality duty (Equality Act s149).
- Have regard, subject to any other requirement affecting the exercise of the regulatory function, to the principles of good regulation and when determining general policy or principles to the Regulators Code (Legislative and Regulatory Reform Act 2006 s21 & 22)
- Have regard, so far as consistent with the proper exercise of those functions, to the purpose of conserving biodiversity. Conserving biodiversity includes, in relation to living organism or type of habitat, restoring or enhancing a population or habitat (Natural Environment and Rural Communities Act 2006, s40).
- Consultation of the FCA (FSMA s138J(1)(a)).
- Where the consultation proposes a PRA rule change or amendment to onshored BTS that affects the processing of personal data - consultation with the Information Commissioner's Office (article 36(4) General Data Protection Regulation).
- For UK Technical Standards Instruments only: FSMA s138J(1)(a) is replaced with: consultation of the FCA and/or Bank, where that Regulator has an interest in the technical standards (FSMA s138P(4) and (5)).
- For UK Technical Standards Instruments only: notice given to HMT of the consultation on the UKTS ('best efforts' basis).
- For CRR rules only: subject to certain exceptions, have regard to:

relevant standards recommended by the Basel Committee on Banking Supervision from time to time

the likely effect of the rules on the relative standing of the United Kingdom as a place for internationally active credit institutions and investment firms to be based or to carry on activities. For these purposes, the PRA must consider the United Kingdom's standing in relation to the other countries and territories in which, in its opinion, internationally active credit institutions and investment firms are most likely to choose to be based or carry on activities

the likely effect of the rules on the ability of CRR firms to continue to provide finance to businesses and consumers in the UK on a sustainable basis in the medium and long term

the target in section 1 of the Climate Change Act 2008 (carbon target for 2050)

(s144C (1) & (2) FSMA – exceptions in s144E FSMA).

- For CRR rules only – explanation of the ways in which having regard to the matters specified above has affected the proposed rules (s144D FSMA).
- For CRR rules only – publication of a summary of the proposed CRR rules
- For CRR rules only – consideration and consultation with the HMT about the likely effect of the rules on relevant equivalence decisions (s144C (3) & (4) FSMA).