Appendix 12: Detailed analysis of objectives and have regards (appendix to PS17/21,[1] July 2021)

In making the rules in this PS, the PRA has considered its primary objective to promote safety and soundness and its secondary objective to facilitate effective competition (sections 2B and 2H(1) of FSMA) and has had regard to all the FSMA regulatory principles (sections 2H(2) and 3B of FSMA) and the HM Treasury recommendation letter. The PRA has also taken into account the new matters for CRR rules set out in section 144C of FSMA (added by the FS Act), other than the carbon target, which the PRA is only required to consider for rules made from 1 January 2022 (paragraph 25 of Schedule 3 of the FS Act). The analysis below does not set out every one of these considerations, but instead selects the areas where the impact of these considerations was most directly relevant to the development of the final rules, and summarises how the rules are compatible with these considerations and how they affected the rules. This is largely based on the analysis previously published as part of CP5/21, updated to reflect additional considerations arising from responses to that CP. Where this document refers to changes, these are compared to the currently applicable requirements.

1. Scope of application

Areas	Summary	PRA objectives and have regards
Applying net stable funding ratio (NSFR) to designated investment firms (DIFs)	The PRA will apply the NSFR to DIFs.	**Overview** • When considering whether to apply the NSFR to DIFs, the PRA considered the interaction between its primary and secondary objectives and the 'have regards', including in relation to proportionality, differences between firms, the desirability of sustainable growth, the relative standing of the UK, and competition. The PRA considers that its approach strikes an appropriate balance between the safety and soundness and competition benefits of the NSFR and the factors to which the PRA had regard. In developing its approach, the PRA considered the impact that the NSFR could have on the shorter-term activities in which investment firms specialise. **PRA objectives** • **PRA's primary objective:** the PRA considers that it is important to supervise the funding resilience of banks and PRA DIFs, to ensure their ability to mitigate the risk of future funding stress which is not captured by the LCR. The NSFR captures the type of risks that play a significant role in the funding resilience of commercial banks and firms/groups specialised in investment banking. By dealing with slower-burn risks, the NSFR reduces the probability of liquidity runs, advances safety and soundness of firms and increases financial stability.

[1] Available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2021/february/implementation-of-basel-standards.

		• **PRA's secondary objective:** The PRA considers that the NSFR provides an appropriate and effective means of supervising firms' longer-term funding resilience and the application of the NSFR to DIFs facilitates effective competition by ensuring that investment products and activities are subject to the same stable funding requirement irrespective of the type of firm engaging in them. **Have regards** • **Proportionality and different business models:** The NSFR was designed by the BCBS to address the longer-term funding risks of internationally active banks. The PRA's NSFR treatment of derivatives, clearing, securities financing transactions, and equities are designed to enhance its appropriateness for application to activities in which investment firms, and certain banks, engage by modifying the stable funding that these activities require. • **International standards**: The PRA approach is super-equivalent to the BCBS standard as it applied not only to internationally active banks, but also to PRA-designated investment firms (DIFs) and non-internationally active deposit-takers. The PRA considers this to be prudentially appropriate given the safety and soundness benefits of the NSFR and the potentially adverse competition implications of applying the NSFR only to internationally active banks and in light of the PRA's implementation of the NSFR. • **Growth and the provision of finance to the real economy:** The PRA considers that the NSFR will enhance the financial resilience of DIFs, helping them to deal with potential future funding stresses. The PRA considers this to be important to ensure DIFs' ability to provide finance to the real economy on a sustainable basis now and in the future, and to strengthen the foundations of UK future economic growth. In implementing the NSFR, the PRA has specified the treatment of derivatives, central clearing, securities financing transactions, and equities in a way that reflects the important role these activities play in the provision of finance to the real economy. • **Relative standing of the UK and competitiveness:** The PRA's application of the NSFR to DIFs could have an adverse impact on these aspects to some extent, as not all jurisdictions apply the NSFR to investment firms. However, the PRA has designed its approach in order to realise the safety and soundness benefits of the standard and to ensure it remains proportionate when applied to shorter-term business activities.[2]

[2] Chapter 13 of this PS sets out the modifications made to the NSFR following consideration of responses on CP5/21 and have regards.

2. Level of application

Areas	Summary	PRA objectives and have regards
Third country sub-consolidation (CRR Article 22)	The PRA will not implement the third country sub-consolidation requirement (CRR Article 22) as a new rule in the PRA Rulebook. Instead, the PRA will clarify in the Groups Supervisory Statement that the PRA may use its existing powers to require sub-consolidation on a case-by-case basis where it considers it necessary given the risks to the firm from a significant third-country subsidiary.	**Overview** • The PRA considered applying a mandatory approach requiring all firms that have a bank, investment firm or financial institution subsidiary (or participation) in a third country to meet a third country sub-group consolidated requirement . Such an approach would advance firms' safety and soundness in line with the primary objective. However, not introducing the approach simplifies requirements, thereby advancing the PRA's secondary objective and be consistent with Basel standards. Given this balance of factors, the PRA considers that the prudential benefits would not be sufficient to justify the costs of a requirement for mandatory consolidation in all such cases. The PRA considers that using its existing powers to require such consolidation where warranted by the risks posed in individual cases will deliver an equivalent outcome in a more proportionate manner. **PRA objectives** • **PRA's primary objective:** The combination of not implementing the requirement and taking a case-by-case approach to requiring sub-consolidation means that the safety and soundness of firms will continue to be advanced in an appropriately proportionate manner. Furthermore, using the PRA's existing powers to impose such a requirement on a case-by-case basis is likely to be a more proportionate approach. This also ensures efficient use of resources by the PRA in performing its supervisory function and reducing the burden on firms. • **PRA's secondary objective:** The PRA considers that not introducing this requirement will be consistent with facilitating effective competition, as simplifying requirements could make the requirements clearer to firms and help to reduce their costs, thereby advancing the PRA's secondary objective. **Have regards** • **International standards:** The approach is consistent with the Basel standards, as sub-consolidation is not required where requirements are applied at a solo level. This could improve the **relative standing of the UK** and **competitiveness**, as firms will not automatically be subject to requirements on a sub-consolidated basis where the costs of the approach are not justified by the prudential benefits.

Areas	Summary	PRA objectives and have regards
		• **Finance for the real economy, growth, and sustainable growth:** The PRA does not expect the approach to have any significant effect on finance for the real economy, growth, or sustainable growth.

3. Own funds

Areas	Summary	PRA objectives and have regards
Prudential treatment of CET1 deductions	The PRA will require all intangible assets to be deducted fully from CET1 capital, including software assets.	**Overview** • The PRA considered the interaction between its primary and secondary objectives and the 'have regards', including in relation to international standards, innovation, relative standing of the UK, and finance for the real economy. Given the lack of credible evidence that software assets can absorb losses on a going concern basis, the PRA considers it to be necessary to advance firms' safety and soundness by requiring intangible assets to be deducted fully from Common Equity Tier 1 (CET1) capital, with no exemption for software assets. This will advance the PRA's primary objective and align the UK approach with Basel Standards. **PRA objectives** • **PRA's primary objective:** The requirement for full deduction of intangible software assets, enhancing the safety and soundness of firms ensures that the quality of CET1 capital is not diminished. The lack of credible evidence that software assets can absorb losses effectively in stress on a going concern basis was critical in the PRA's reaching its decision. Requiring those assets to be deducted fully from CET1 capital will enhance the safety and soundness of firms. • The EU CRR II exempts certain software assets from deduction from CET1 capital. As the relevant EU technical standard was published in the EU Official Journal before the end of the transition period on Thursday 31 December 2020, the EU approach to the prudential treatment of software assets became part of the CRR. The PRA's approach is a significant change from the current approach but is consistent with the requirement that applied to UK firms before this became applicable. • **PRA's secondary objective**: The PRA's approach applies to all PRA-regulated firms, so will affect the software

Areas	Summary	PRA objectives and have regards
		assets of any firm in the same way. The PRA consider the impact to be proportionate as it will depend on the size of the software assets recognised by the firm. Notwithstanding the full deduction of software assets in recent years, firms continued enter the UK market, increasing effective competition. **Have regards** • **International standards**: The PRA approach is in line with the Basel standards which require all intangible assets to be deducted from CET1 capital because of the uncertainty about both their value and their ability to absorb losses on a going concern basis, especially in stress. • **Innovation**: The PRA has considered the potential for a full deduction requirement to adversely affect firms' decisions to invest in software. However, the PRA notes that a variety of factors will affect a firm's decision to invest in software assets, including business, customer, operational, and risk management needs. Firms continued to invest in software assets when subject to a requirement for CET1 deduction under CRR. Given the significant business and risk drivers of software investment, including those applicable when the full CET1 deduction requirement, the PRA considers the prudential capital treatment to be unlikely to be sufficient to inhibit innovation materially. • **Relative standing of UK and competitiveness**: The PRA has considered whether this requirement could put UK firms at a competitive disadvantage relative to firms in some other jurisdictions. The PRA recognises that UK firms would be required to make CET1 deductions that some other firms would not be required to make. However, the extent of the potential effect on relative standing and competitiveness if unclear in practice. Some market participants have indicated that, in assessing banks' resilience, they may look through any capital benefit resulting from the inclusion of software assets. In addition, the PRA requirement will contribute towards ensuring the high quality of firms' capital resources, which is vital for maintaining market confidence in UK firms' resilience to financial shocks. • **Finance for the real economy, growth, and sustainable growth**: The PRA does not assess that the requirement for UK firms to deduct software assets from CET1 capital will have a significant adverse impact on finance for the real economy in the medium to long term. The approach will enhance resilience and confidence in the quality of UK banks' capital. The requirement helps to ensure that firms' lending is supported by high quality capital that can absorb losses effectively on a going concern basis. As a result, the PRA considers it to provide a firm foundation for sustainable lending and UK economic growth, including in a stress.

4. Market risk

Areas	Summary	PRA objectives and have regards
Prudent valuation	The following three requirements will be introduced to the prudent valuation requirements: 1. In the CRR, Article 34 states that the requirements on prudent valuation as set out in Article 105 apply to all fair-valued positions. However, Article 105 sets out the requirements on prudent valuation for trading book positions only, a subset of all fair-valued positions. The PRA will amend the prudent valuation requirements in Article 105 to clarify that the requirements apply to both trading and non-trading book positions measured at fair value. 2. Firms should revalue trading book positions at fair value at least on a daily basis, and that changes in the value of those positions shall be reported in the profit and loss account of	**Overview** • The PRA considers that its approach to prudent valuation will advance its primary objective, facilitate effective competition, align with Basel standards, and improve transparency. **PRA objectives** • **PRA's primary objective:** The rules are intended to provide minor clarifications on prudent valuation policy, serving to advance the PRA's primary objective by advancing the safety and soundness of firms. • **PRA's secondary objective:** The PRA considers that the rules will improve transparency on how the PRA exercises its functions, thereby advancing the PRA's secondary objective. **Have regards** • **Transparency:** See 'PRA's secondary objective' above. • **Finance for the real economy, growth, and sustainable growth:** The rules are unlikely to have a significant impact on capital requirements, balance sheet structure, or business activities. Hence, the rules are unlikely to have any material impact on finance for the real economy. Therefore, the impact on growth and sustainable growth is also not expected to be significant. • **Relative standing of the UK and competitiveness:** The PRA considers the rules to be unlikely to result in a material change in the current relative standing of the UK, or the competitiveness of the UK. • **International standards:** The PRA considers the approach to be consistent with Basel standards.

Areas	Summary	PRA objectives and have regards
	the institution. 3. The PRA is making rules to give effect to the content of the EU CRR II regulatory technical standards on prudent valuation without any substantive policy changes.	
Trading book management	The PRA is making a minor clarification and reordering of existing requirements for trading book management.	**Overview** • The PRA considers that clarifying the general requirements for trading book management will advance firms' safety and soundness, in line with the primary objective, and help to improve transparency, thereby facilitating effective competition. The requirements are also consistent with Basel standards. **PRA objectives** • **PRA's primary objective:** The changes to requirements for the trading book will clarify the general requirements for trading book management, improving the consistency of implementation which will advance the PRA's primary objective by improving the safety and soundness of firms. • **PRA's secondary objective:** The rules are a minor clarification and reordering of existing requirements, and the PRA considers that implementing those requirements, in this case, through rules (as opposed to for example conveying them bilaterally with individual firms) will improve transparency on how the PRA exercises its functions. The improved transparency will also facilitate effective competition, as smaller firms will not have to engage compliance resources as they would for more complex rules, thereby advancing the PRA's secondary objective. **Have regards** • **Finance for the real economy, growth, and sustainable growth:** The PRA considers the rules are unlikely to have a material impact on firms' capital requirements or balance sheet structure. As a result, they are unlikely to have a significant impact on finance for the real economy. Similarly, the PRA expects the impact on growth and sustainable growth not to be significant. • **International standards:** The PRA considers the requirements to be consistent with the requirements for trading

Areas	Summary	PRA objectives and have regards
		book management under the revised Basel standards on market risk. • **Relative standing of the UK and competitiveness:** As this requirement follows international standards, and other major jurisdictions' implementation of those standards, the PRA expects there will be no impact on the relative standing of the UK or the competitiveness of the UK.
Proportionality	The PRA is making three adjustments to the derogation for small trading book business, which allows firms with small trading books to capitalise those trading positions using the credit risk rather than market risk framework: 1. Increasing the absolute threshold for being considered a small trading book business, from €15 million to £44 million. 2. Amending the methodology for calculating trading book size, to exclude FX and commodities risks as well as credit internal hedges. 3. Amending the criteria for ceasing to use the derogation, so that firms must cease to use the	**Overview** • The PRA considers that the increase of the absolute threshold for eligibility to use the derogation for small trading book businesses will appropriately limit the use of the derogation, ensuring the overall safety and soundness of firms continues to be advanced. However, it will also facilitate effective competition and ensure that the market risk capital requirement framework is implemented proportionately. **PRA objectives** • **PRA's primary objective**: The changes to the derogation will increase the absolute threshold for firms to use the derogation. The changes will allow more firms to apply the derogation and allow firms to increase their trading book business while continuing to apply the derogation. However, the PRA considers that the increase of the threshold will still limit the use of the derogation to small trading book businesses, such that the overall safety and soundness of firms is advanced. • **PRA's secondary objective:** Having regard to the PRA's secondary objective, the PRA considers the changes will help to facilitate effective competition in the markets by potentially allowing smaller firms to increase trading activities while continuing to use the derogation. **Have regards** • **Proportionality and different business models**: The PRA considers that the requirements outlined in this PS are proportionate to the cost for firms in implementing and meeting the requirements on an ongoing basis, and will be proportionate to firms' size and complexity. In particular, the approach to increase the threshold for using the derogation will improve proportionality by potentially allowing a broader range of different business models with small trading book business to benefit from the more proportionate treatment that the derogation offers. • **Finance for the real economy, growth, and sustainable growth**: The PRA considers the rules to be unlikely to have a material impact on affected firms' capital requirements or balance sheet structure. As a result, the rules will be unlikely to have a significant impact on finance for the real economy. The PRA also expects the impact on

Areas	Summary	PRA objectives and have regards
	derogation where they exceed the threshold criteria in each of the past three months or in 6 of the past 12 months.	growth and sustainable growth not to be significant. • **International standards**: Basel standards apply to internationally active banks, so this derogation, which is expected to apply to smaller firms with limited trading activities, is not within the scope of Basel standards. • **Relative standing of the UK and competitiveness:** As the requirements are outside the scope of Basel standards, and consistent with the EU's amendments to the derogation in the EU CRR II, the PRA considers those rules will not impact the relative standing of the UK or the competitiveness of the UK materially.

5. Collective investment undertakings

Areas	Summary	PRA objectives and 'have regards'
Credit risk treatment of exposures to collective investment undertakings (CIUs).	The PRA is updating rules to implement the look-through approach (LTA), mandate-based approach (MBA) and fall-back approach (FBA), including setting eligibility criteria for the LTA and MBA, specifying how firms should calculate exposure values for derivative exposures and specifying a reporting frequency for CIUs	**Exposures to non-UK CIUs** **Overview** • The PRA considers that the requirements for exposures to CIUs will advance its primary objective. The revised hierarchy of approaches to capitalising exposures to CIUs improves the robustness of their treatment by ensuring the risks of the assets underlying a CIU are more appropriately addressed. The effect on effective competition is expected to be relatively low. In its recent consultation response[3], HMT removed the equivalence condition for CIUs managed in third countries for firms to use approaches other than the fall-back approach (FBA). The PRA's Pillar 2 framework will apply to any risks not adequately covered by the Pillar 1 approaches that result from the way funds are run by non-UK fund managers. Overall, the PRA considers its approach to be proportionate. **PRA objectives** • **PRA's primary objective:** The approaches to the treatment of firms' exposures to CIUs in third countries and standards on how firms should calculate exposure values for derivative exposures will improve the safety and soundness of firms by ensuring the regulatory capital treatment better reflects the risks of the underlying assets,

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/995628/OFFICAL_-_MARKET_SENSITIVE_Prudential_Consultation_Updated_220621.pdf.

Areas	Summary	PRA objectives and 'have regards'
		while avoiding an excessively conservative approach. The existing Pillar 2 capital framework will apply to any risks not captured in Pillar 1 treatments that result from the way funds are run by non-UK fund managers. To enable the PRA to appropriately monitor any risks that result from the way that funds are run, in the absence of equivalence determinations, the PRA will require firms to notify their supervisors when they are applying the LTA or MBA to a material amount of exposures to CIUs that are managed outside the UK. • **PRA's secondary objective:** The PRA expects there to be no material impact on competition from the notification requirement as the rules will apply equally to all UK firms with CIU exposures. **Have regards** • **Proportionality and different business models:** The PRA considers that the requirements are proportionate to the cost for firms in implementing and meeting the requirements on an ongoing basis, and will be proportionate to firms' size and complexity. There may be a non-material resource implication for firms to notify the PRA of their exposures to relevant CIUs, but the frequency of that requirement seeks to minimise the burden on firms, while also ensuring the necessary supervisory oversight. • **International standards**: The rules will implement the relevant Basel standards. Where the PRA's implementation differs, the PRA considers those differences not to be material. • **Relative standing of UK and competitiveness**: Applying Basel standards will help to ensure a level playing field for internationally active banks in the UK. The PRA considers that applying standards consistent with Basel requirements helps ensure consistency with requirements applied in other jurisdictions implementing Basel, which should support the UK's relative standing and competitiveness. Requiring firms to notify the PRA about their material exposures to CIU imposes some additional burden on firms, but the PRA does not expect that to be material. • **Finance for the real economy, growth, and sustainable growth**: The FBA could result in increased capital requirements for UK firms for certain exposures to CIUs. However, if certain conditions are met, firms can use the LTA or the MBA. In addition, the relatively low materiality of UK banks' risk-weighted exposures to CIUs means that these rules should not have a significant impact (positive or negative) on finance for the real economy or growth in the medium and long term. • **Efficient and economic use of resources:** The PRA has considered the efficient and economic use of PRA

Areas	Summary	PRA objectives and 'have regards'
		resources. Reviewing notifications by firms requires some use of PRA resources. However, the PRA considers the benefits of having a greater insight into the extent of firms' exposures to non-UK CIUs to outweigh the costs. **Reporting frequency** **Overview** • The PRA considers that specifying the frequency with which a CIU must report its exposures to investors, in order for its exposures to be treated under the LTA or MBA, will enhance clarity and transparency around the application of these approaches. The PRA considers that requiring reporting on at least a quarterly frequency supports firms' safety and soundness while also taking account of the operational burden on firms as well as international competitiveness and compliance with Basel standards. **PRA objectives** • **PRA's primary objective:** The PRA considers that clarity on the reporting frequency of CIUs supports its primary objective, by enhancing the information available to support the application of the LTA and MBA approaches, which enhances the robustness of that methodology and supports the safety and soundness of firms. • **PRA's secondary objective**: The PRA expects there to be no material impact on competition from the reporting frequency of CIUs, as the reporting frequency will apply equally to all firms with CIU exposures. **Have regards** • **Proportionality** and **different business models**: In developing its approach, the PRA has sought to minimise the costs to firms in implementing and meeting the requirements on an ongoing basis. Setting the reporting requirement on an at least quarterly basis allows firms greater flexibility in meeting this reporting requirement and is more proportionate. • **International standards:** The BCBS standard includes a requirement which relates to the reporting frequency of funds. It states that the frequency of financial reporting of the fund must be the same as, or more frequent than, that of the firm. The PRA's approach is in line with this standard, as it requires CIUs or their management company to report on at least a quarterly frequency. • **Relative standing of UK and competitiveness:** The approach is consistent with the EU's implementation of the Basel standards. The PRA considers that this will not result in a change in the relative standing of the UK.

Areas	Summary	PRA objectives and 'have regards'
		• **Finance for the real economy and growth**: The PRA expects its rules to be unlikely to have a significant impact on finance for the real economy, given they would provide for reporting that was at least quarterly.

6. Counterparty credit risk

Areas	Summary	PRA objectives and have regards
SA-CCR and Exposures to CCPs	The PRA is updating rules to implement revised approaches to counterparty credit risk and a revised treatment of exposures to CCPs.	**Overview** • The PRA considers its requirements on counterparty credit risk will advance its primary objective and facilitate effective competition. The requirements will introduce greater proportionality, with simplified measures tailored specifically for small and less complex firms. The PRA considers the introduction of the Standardised Approach to Counterparty Credit Risk (SA-CCR) to be a necessary, significant step towards more accurate counterparty credit risk measurement. The PRA expects there to be some potential for unequal impact of SA-CCR on certain types of transactions with higher risk profiles (eg bilateral and uncollateralised derivatives) and business models that rely on those activities. The PRA considers that closer and more accurate alignment of regulatory capital requirements with underlying risks will enhance firms' safety and soundness and help to support sustainable growth. The PRA also considers the requirements will help to provide a firmer foundation for finance for the real economy by ensuring a more risk sensitive allocation of capital. The requirements are also in line with Basel standards. • The PRA rules on the treatment of exposures to central counterparties (CCPs) will improve the robustness and proportionality of the prudential treatment of those exposures, in line with the primary objective. It also seeks to ensure consistency with international standards, and to support the central clearing of derivatives exposures. **PRA objectives** • **PRA's primary objective:** The requirements on counterparty credit risk will advance the safety and soundness of firms by improving their risk sensitivity. The PRA considers the introduction of SA-CCR to improve the regulatory framework on counterparty credit risk, introducing enhanced risk-sensitivity to provide a more accurate and meaningful measurement of risk that is more suitable to apply to a wider range of derivatives activities. As a result, it provides a more effective basis for firms to measure risk.

Areas	Summary	PRA objectives and have regards
		• **PRA's secondary objective:** The PRA does not expect the requirements to materially impact competition in the provision of services provided by PRA-authorised firms. The requirements are likely to affect firms with different business models in different ways, but should have the same impact on firms providing similar services. The requirements also embed proportionate counterparty credit risk measures tailored for small and less complex firms. Such firms will be able to choose an approach that works best for them, in light of the applicable regulatory capital requirements and compliance costs. **Have regards** • **Proportionality and different business models:** The PRA considers it important to ensure its requirements on counterparty credit risk are sufficiently proportionate. Therefore the PRA will allow smaller, less complex firms to apply simpler approaches to counterparty credit risk: the simplified SA-CCR and the Original Exposure Method. The PRA expects this will allow some firms to benefit from lower compliance costs, while applying standards that are prudentially robust. The PRA has also extended the transitional period from three months to six months for firms that cease to meet the thresholds for using the simplified methodologies. • **International standards**: The PRA considers its requirements to be in line with Basel standards on SA-CCR and on exposures to CCPs. The PRA has aligned the rules more closely with Basel standards by implementing a number of Basel FAQs and footnotes to provide additional clarity and specificity. • **Relative standing of the UK and competitiveness:** The PRA considered the responses with respect to the relative standing of the UK compared to countries that have implemented the relevant Basel standards. SA-CCR applies to a number of jurisdictions, and some of these have made modifications to the Basel standards for transactions with particular types of counterparties. The PRA has considered the implications for UK competitiveness and relative standing and of implementing SA-CCR without such modifications. The PRA considers the impact not to be material at this time, but intends, in implementing Basel 3.1, to take a holistic approach, considering the aggregate capital requirements for these types of transactions and taking account of all applicable elements of the capital framework. • **Finance for real economy**, **growth**, **and sustainable growth**: The PRA expects the requirements will help to improve firms' allocation of capital against counterparty credit risk. Without these rules, there is a risk that finance provided may not reflect the underlying risk sufficiently, which could increase the likelihood of losses for

Areas	Summary	PRA objectives and have regards
		firms, and adverse effects for real economy lending. The PRA expects the requirements will help to support the sustainability of economic growth by helping to reduce the risk that firms' ability to provide finance is adversely affected by unexpected losses or capital requirements that were underestimated. The PRA recognises that the impact will vary by firm due to their risk profile. The PRA's approach applies in both normal and stress periods and therefore is appropriate to support strong sustainable UK economic growth

7. Operational risk

Areas	Summary	PRA objectives and have regards
Operational risk	The PRA will create a new PRA rule (modifying requirements under CRR Article 316) in order to provide greater clarity on the calculation of the BIA and SA.	**Overview** • The PRA considers that the requirements advance its primary objective and facilitate effective competition by enhancing the clarity and transparency of the calculation of the Relevant Indicator (RI) in relation to leasing business, which in turn is used to calculate operational risk capital requirements under the Basic Indicator Approach (BIA) and the Standardised Approach (SA). The PRA considers this greater clarity will assist in firms' application of the requirements. The proposals are consistent with Basel standards. **PRA objectives** • **PRA's primary objective**: The approach provides greater clarity on the calculation of the RI in relation to leasing activities, fosters consistency of the application of requirements, and avoids unnecessary regulatory burden for firms in having to interpret the BIA and SA requirements. The PRA considers that this will advance the PRA's primary objective of promoting the safety and soundness of PRA-authorised persons. • **PRA's secondary objective**: The approach will increase the transparency and consistency of the BIA and SA calculation, which will support effective competition. **Have regards** • **Finance for the real economy, growth, and sustainable growth:** The rules are unlikely to have a material impact on affected firms' regulatory requirements or balance sheet structure. As a result, the rules are unlikely to have a significant impact on finance for the real economy. The impact on growth and sustainable growth is also not

Areas	Summary	PRA objectives and have regards
		expected to be significant. • **International standards:** The proposals are consistent with the Basel requirements for operational risk. • **Relative standing of the UK and competitiveness:** The PRA considers it unlikely that a significant change to the relative standing of the UK, or the competitiveness of the UK, will arise as a result of the proposals.

8. Large exposures

Areas	Summary	PRA objectives and 'have regards'
Eligible capital	The PRA will make Tier 1 capital the basis for setting limits on large exposures.	**Overview** • The PRA considers that the approach advances its primary objective, as there are safety and soundness benefits to limiting large exposures based on the capital that is available to absorb losses and allow a firm to remain a going concern. The approach is consistent with Basel standards and is implemented such that any burden arising from the requirements would be small and proportionate to the benefit of limiting large exposures to loss-absorbing capital on a going concern basis. **PRA objectives** • **PRA's primary objective:** Changing the definition of eligible capital to Tier 1 capital will advance the PRA's primary objective by improving the safety and soundness of firms. • **PRA's secondary objective:** The PRA assesses that the rules will not have a material impact on effective competition, as they will apply to all firms holding these types of exposures. **Have regards** • **Proportionality and different business models:** The PRA considers that the benefits of the rules are proportionate to the cost for firms in implementing and meeting the requirements on an ongoing basis, and will be proportionate to firms' size and complexity. In particular, any burden arising from the rules will be small and proportionate to the benefit of limiting large exposures to loss-absorbing capital on a going concern basis. Based on current large exposure returns, the PRA considers that this will impact a small number of firms with a small number of isolated exposures that might slightly breach the large exposure limits. The PRA considers that these

Areas	Summary	PRA objectives and 'have regards'
		rules are justified from a prudential perspective and that the restriction is proportionate to the benefits. • **Finance for the real economy, growth, and sustainable growth:** The PRA considers that the rules are unlikely to have a material impact on affected firms' capital requirements or balance sheet structure. Hence, the rules are unlikely to have a significant impact on finance for the real economy and the impact on growth and sustainable growth would also not be expected to be significant. • **International standards:** The requirements are consistent with the requirements for large exposures under the revised Basel supervisory framework for managing and controlling large exposures. • **Relative standing of the UK and competitiveness:** The PRA considers the approach will be unlikely to have a significant impact on the relative standing of the UK or competitiveness, as it is consistent with Basel standards and with the EU's implementation of those standards in the EU.
Calculating exposure values	The PRA will require that firms use revised approaches to counterparty credit risk to calculate large exposures from derivative exposures. The PRA will allow firms to offset long and short positions in different instruments issued by a given client provided the short position is junior or equal in seniority to the long position. The PRA will not permit credit risk mitigation techniques available under the IRB approach to be used for large	**Overview** • The PRA considers that the requirements promote its primary objective, as they ensure that the maximum possible loss a firm could incur as a result of an unexpected default of a client or group of connected clients would not endanger the firm's survival on a going concern basis, thereby improving the safety and soundness of firms. The requirements are consistent with Basel standards and are proportionate for the exposures of smaller firms. The PRA considers that the requirements will not affect the relative standing of the UK significantly. **PRA objectives** • **PRA's primary objective:** The requirements are intended to align with the objective of the large exposures framework, which is designed to ensure that the maximum possible loss a firm can incur as a result of an unexpected default of a client or group of connected clients would not endanger the firm's survival on a going concern basis, serving to advance the PRA's primary objective by improving the safety and soundness of firms. • **PRA's secondary objective:** The PRA does not assess the rules to materially affect competition, as all firms would be subject to the same sets of requirements for determining exposure values, albeit some would be able to use a more proportionate approach to measure derivatives exposure. **Have regards**

Areas	Summary	PRA objectives and 'have regards'
	exposures purposes.	• **Finance for the real economy, growth, and sustainable growth:** The PRA considers the rules are unlikely to have a material impact on firms' capital requirements or balance sheet structure, given their Tier 1 capital and exposure levels. As a result, the PRA considers the rules to be unlikely to have a significant impact on finance for the real economy. Similarly, the impact on growth and sustainable growth is also not expected to be significant. • **International standards:** The requirements are consistent with the requirements for large exposures under the new Basel supervisory framework for measuring and controlling large exposures. • **Relative standing of the UK and competitiveness:** The requirements will strengthen the UK approach to large exposures in a way that is consistent with the Basel framework and the EU's implementation of those standards. Therefore, the PRA considers the requirements will not have a significant impact on the relative standing or competitiveness of the UK.
Reporting requirements	Firms will have to report all exposures above £260 million as well as top ten exposures to shadow banking entities.	**Overview** • The PRA's regulatory reporting requirements will promote the primary objective of advancing safety and soundness by ensuring that the PRA has the information necessary to assess firms' concentration of counterparty risk as well as greater insight into concentrations of exposures to the shadow banking sector. The PRA sought to ensure the requirements are proportionate by applying reporting instructions that are consistent with the existing reporting framework in use by firms. In addition, the requirements make efficient and economic use of PRA resources by avoiding developing alternative reporting requirements via an additional taxonomy. The requirements are consistent with Basel standards, while maintaining the relative standing of the UK. **PRA objectives** • **PRA's primary objective:** The PRA considers the requirements will provide greater oversight of firms' concentration of counterparty risk as well as greater insight into concentrations of exposures to the shadow banking sector, serving to advance the safety and soundness of firms. • **PRA's secondary objective:** The PRA does not assess the rules to materially affect competition, as they relate solely to reporting and would have the same effect on firms with such large exposures. **Have regards**

Areas	Summary	PRA objectives and 'have regards'
		• **Finance for the real economy**: The rules do not affect firms' regulatory requirements, capital resources, or balance sheet structure. Hence, the rules are unlikely to have a significant impact on finance for the real economy. • **International standards:** The requirements are consistent with the requirements for large exposures under the Basel supervisory framework on measuring and controlling large exposures. • **Relative standing of the UK:** The requirements are consistent with the Basel supervisory framework and with the EU's implementation of those standards, so there is no change to the relative standing of the UK.
Exposures to G-SIIs	The PRA will limit exposures between G-SIIs to 15% of Tier 1 capital.	**Overview** • The PRA considers that the requirements promote its primary objective, as they limit the extent of interconnectedness between G-SIIs, reducing the risk that material losses in one could adversely impact the solvency of others, thereby advancing the safety and soundness of firms. The requirements will align with international standards while maintaining the relative standing of the UK. **PRA objectives** • **PRA's primary objective:** The requirements are intended to reduce interconnectedness between G-SIIs. A key lesson during the financial crisis was that material losses in one systemically important institution could trigger concerns about the solvency of other systemically important institutions. Limiting the extent of interconnectedness advances the safety and soundness of firms. • **PRA's secondary objective:** The PRA does not assess the rules to materially affect competition, as the PRA considers it likely that G-SII consolidated exposures to other G-SIIs would be below the 15% limit. **Have regards** • **Finance for the real economy, growth, and sustainable growth:** The rules are unlikely to have a material impact on affected firms' capital requirements or balance sheet structure. Hence, the rules are unlikely to have a significant impact on finance for the real economy and the impact on growth and sustainable growth is also not expected to be significant. • **International standards:** The requirements are consistent with the requirements for large exposures under the

Areas	Summary	PRA objectives and 'have regards'
		Basel supervisory framework on measuring and controlling large exposures. • **Relative standing of the UK and competitiveness:** The requirements are consistent with the Basel supervisory framework and with the EU's implementation of those standards, so there is no change to the relative standing or competitiveness of the UK.

9. Net stable funding ratio (NSFR)

Areas	Summary	PRA objectives and have regards
Requirement and associated reporting	The PRA will apply the NSFR, which requires firms to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities, and associated reporting.	**Overview** • The PRA considers that the safety and soundness benefits of the NSFR justify its inclusion in the PRA framework. The NSFR supports a sustainable funding structure that reduces the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. • On the secondary competition objective, the PRA considers the NSFR to promote effective competition, affording a consistent treatment of risks to longer term funding. • The following factors to which the PRA must have regard influenced the PRA's implementation of required stable funding (RSF) factors significantly: finance for the UK real economy, competitiveness, and relative standing of the UK. **PRA objectives** • **PRA's primary objective:** The NSFR requires firms to maintain a stable funding profile in relation to the composition of their assets. A sustainable funding structure reduces the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR promotes funding stability by limiting overreliance on short-term wholesale funding, and encourages better assessment of funding risk across all on and off-balance sheet items. It improves safety and soundness by addressing a key shortcoming identified in the financial crisis. • **PRA's secondary objective:** The PRA considered its secondary competition objective in a number of ways, including

Areas	Summary	PRA objectives and have regards

		by choosing to implement the simplified NSFR for smaller firms (see paragraphs on 'proportionality' and 'different business models' below) and assessing the differential impact of the NSFR on a range of business models.
		
		Have regards
		• **Proportionality and Different business models:**
		  ○ The PRA's approach includes the possibility for small, less complex firms to choose to use a 'simplified' NSFR (sNSFR) in order to improve the proportionality of the NSFR.
		  ○ The sNSFR will allow smaller, less complex firms to report a sNSFR template that is simpler than that of the full NSFR. This will reduce the reporting costs associated with the standard and better aligns the costs of the NSFR with the revenue and risk profile of the firms implementing it. Given the PRA's objective to promote effective competition, and having regard to proportionality, the PRA is applying an sNSFR treatment of mortgages that results in the same calibration as for the NSFR. This seeks to ensure that the treatment of residential mortgages facilitates effective competition and is proportionate.
		  ○ The sNSFR will advance the safety and soundness of firms by applying RSF and Available Stable Funding (ASF) factors that ensure that the level of a firm's sNSFR ratio would never be higher than it would be under the NSFR ratio. Given the funding risk profile of such firms and the amendments made in response to the consultation, the PRA considers that the RSF and ASF factors have been appropriately calibrated for the firms that will use the sNSFR.
		
		• **International standards**: The PRA considers the PRA's implementation of the NSFR to be consistent overall with the Basel standard
		
		• **Relative standing of the UK and competitiveness:** Given the NSFR is an internationally agreed standard, implemented in other Basel jurisdictions, the PRA generally assesses that its implementation will not have a material impact upon the relative competitiveness of the UK. In addition to ensuring the PRA's NSFR advances the PRA's

Areas	Summary	PRA objectives and have regards
		objectives, its specification was significantly influenced by the need to have regard to the standard's potential impact on the relative standing of the UK and UK competitiveness[4]. This is reflected in the RSF factors applied in PRA rules. The PRA considers its approach to be broadly consistent with the approaches taken in peer jurisdictions. • **Finance for the real economy, growth, and sustainable growth**: The PRA has had regard to these considerations when specifying its stable funding approach to derivative client clearing, trade finance, the residential mortgages under the sNSFR, precious metals, and own issuance securitisations. While the PRA recognises that the NSFR may still result in some increase in funding costs for certain firms and products, the PRA considers these to be proportionate, given the safety and soundness benefits noted above.

10. Disclosure

Areas	Summary	PRA objectives and have regards
Pillar 3 public disclosures	The PRA is updating Pillar 3 reporting requirements to implement revisions to the Basel disclosure framework.	**Overview** • The PRA considers that the disclosure requirements advance its primary objective, as there are safety and soundness benefits to ensuring that users of the Pillar 3 reports have access to relevant information on the impact of the Basel changes on the risk profile and capital levels of firms. In considering the secondary competition objective, the PRA notes that the disclosure requirements will enhance market transparency of UK firms by providing clear and consistent information on which external users can make decisions. The requirements are, by design, consistent with the Basel disclosure framework, which seeks to ensure that transparency and market discipline around UK banks' Pillar 3 disclosures is achieved proportionately, and in a manner that makes efficient and economic use of the PRA resources. **PRA objectives** • **PRA's primary objective:** The Pillar 3 disclosure requirements ensure that users of the Pillar 3 reports have access to

[4] Chapter 13 of this PS sets out the modifications made to the NSFR following consideration of responses on CP5/21 and have regards.

Areas	Summary	PRA objectives and have regards
		relevant information on the impact of the Basel changes on the risk profile and capital levels of firms. The requirements seek to ensure that UK firms disclose with the same level of transparency as their peers in other jurisdictions, thus supporting market discipline by providing consistent and comparable information to inform decisions made by a firm's external stakeholders. • **PRA's secondary objective:** The disclosure requirements will enhance market transparency of UK firms by providing clear and consistent information on which external users can make decisions, thereby facilitating effective competition. **Have regards** • **Efficient and economic use of resources:** The disclosure requirements support the efficient and economic use of the PRA's resources by using the relevant disclosure templates contained in the European Banking Authority's (EBA) final ITS to update firms' Pillar 3 disclosures for the new Basel methodologies. This approach aims to minimise the duplicative effort associated with the PRA designing alternative disclosures to meet the same objective, and conveys similar information to the market as the disclosure templates in this PS. **Proportionality and different business models:** The disclosure requirements have regard to proportionality through the varied application of certain templates to firms according to their classification as a 'large institution' or 'small, non-complex institution' and whether firms have listed securities. This seeks to ensure that the nature of information disclosed is aligned to the size of a firm and the complexity of its activities. The timing of the disclosure requirements also has been set with regard to the alignment to firms' other public disclosures, including the disclosure of G-SII indicator information. Coordinated disclosure may make disclosure preparation more efficient, and for G-SII indicator disclosure, may reduce the number of disclosures that firms need to make. • **International standards:** The disclosure requirements reflect the Basel disclosure framework for the Basel prudential methodologies now contained in PRA rules, and therefore ensure that firms' disclosures are aligned with international requirements. By requiring firms to disclose the composition of collateral subject to a threshold, the PRA is exercising the discretion contained in the Basel disclosure framework to exempt disclosure where this could reveal central bank liquidity assistance, thus supporting the financial stability of firms in the UK. • **Relative standing of the UK and competitiveness:** The disclosure requirements are consistent with the Basel standards and the EU's disclosure requirements, so the PRA considers there to be no material change to the relative

Areas	Summary	PRA objectives and have regards
		standing or competitiveness of the UK. • **Finance for real economy, growth, and sustainable growth:** The disclosure rules will not affect firms' capital resources or balance sheet structure. The alignment of the disclosure requirements with international requirements seeks to minimise the costs associated with preparing disclosures according to different frameworks for UK cross border banks. The PRA does not anticipate the disclosure requirements having an impact on the finance for the real economy.

11. Reporting

Areas	Summary	PRA objectives and 'have regards'
Regulatory reporting	The PRA has updated the UK version of COREP and FINREP to reflect revised Basel methodologies.	**Overview** • The regulatory reporting requirements seek to ensure that the PRA has the information necessary to supervise how firms are meeting the revised Basel requirements in a proportionate manner by implementing reporting templates and instructions that are consistent with the existing reporting framework in use by firms. The PRA considers that the reporting requirements will advance its primary objective, as there are safety and soundness benefits to the PRA having the necessary information to supervise how firms are meeting the revised Basel requirements, and to understand the drivers and relevant exposures underlying a firm's prudential and financial risks. In considering the secondary competition objective, the PRA considered that the proportionality of incremental costs and complexity of the reporting requirements to the size of firms will help to facilitate effective competition. The reporting requirements are proportionate and make efficient and economic use of PRA resources by avoiding developing alternative reporting requirements via an additional taxonomy. The reporting requirements have been designed to be consistent with Basel standards and to take account of the relative standing of the UK. **PRA objectives** • **PRA's primary objective:** The updates to regulatory reporting requirements will advance the safety and soundness objective by ensuring that the PRA has the necessary information to supervise how firms are

Areas	Summary	PRA objectives and 'have regards'
		meeting the revised Basel requirements, and to understand the drivers and relevant exposures underlying a firm's prudential and financial risks. • **PRA's secondary objective:** The incremental costs of changing reporting requirements may increase according to the size of the firm and the complexity of Basel methodologies used, and the PRA therefore considers that these reporting requirements are consistent with its secondary objective to facilitate effective competition. **Have regards** • **Efficient and economic use of resources**: The reporting requirements seek to make efficient and economic use of PRA resources by aligning with the templates contained in V3.0 of the EBA's reporting taxonomy. This approach delivers incremental updates to the existing taxonomy framework, and results in consistent data definitions and reporting formats. By following this approach rather than designing alternative templates, the PRA is able to deliver reporting changes on time and to maximise implementation time. In addition, following this approach reduces the cost impact for UK cross-border firms, many of which will be implementing the EBA templates across other jurisdictions. • **Proportionality and Different business models:** The PRA considers that the reporting requirements are proportionate to the cost for firms in implementing and meeting the requirements on an ongoing basis, and will be proportionate to firms' size and complexity. In particular, the use of the reporting templates in version 3.0 of the EBA reporting taxonomy seeks to minimise the reporting implementation burden on cross-border firms through implementing a single taxonomy that is consistent with existing reporting. The PRA has considered how liquidity reporting can be more proportionate, and has streamlined existing requirements by removing the C66 liquidity maturity ladder template. The PRA has also considered the impact on the timing of reporting requirements on firms. By aligning the timing of supplementary reporting for the purpose of identifying and assigning G-SII buffer rates with reporting under the annual Basel G-SII identification exercise, the PRA has had regard to cost to firms' of reporting similar information separately in short order. • **International standards:** The Basel standards do not specify reporting requirements. The reporting requirements update UK FINREP and UK COREP to enable the PRA to supervise the prudential methodologies developed by the BCBS.

Areas	Summary	PRA objectives and 'have regards'
		• **Relative standing of the UK and competitiveness:** The reporting requirements update UK FINREP and UK COREP to enable the PRA to supervise the prudential methodologies developed by the BCBS. Since the reporting requirements largely mirror the EU reporting requirements, they are unlikely to have a significant impact on the relative standing of the UK. • **Finance for real economy, growth and sustainable growth:** The rules for reporting do not affect firms' capital requirements or balance sheet structure. The use of the reporting templates in version 3.0 of the EBA reporting taxonomy seeks to minimise the implementation costs for firms by maintaining a single taxonomy. Hence, the reporting rules are unlikely to have a significant impact on finance for the real economy.

12. Currency redenomination

Areas	Summary	PRA objectives and 'have regards'
Currency redenomination	The CRR contains a number of prudential thresholds and monetary values, which are currently set in EUR. The PRA will, in the main, set thresholds and limits in PRA rules in GBP.	**Overview** • The redenomination of EUR prudential thresholds and monetary values into GBP helps to advance the primary objective by reducing the risk that the prudential requirements applicable to firms vary because of movements in exchange rates. This has been affected by consideration of the relevant international standards. **PRA objectives** • **PRA's primary objective:** Setting thresholds and monetary values in GBP advances the safety and soundness of firms by ensuring that prudential thresholds and monetary values in PRA rules do not fluctuate over time depending on the GBP/EUR exchange rate. • **PRA's secondary objective:** The PRA expects that the effect of specifying thresholds and monetary values in GBP on effective competition will be relatively low, as it has the same effect on all firms. **Have regards** • **International standards:** A number of the EUR thresholds in the CRR have been derived from Basel text.

Areas	Summary	PRA objectives and 'have regards'
		Redenominating these EUR thresholds into GBP would provide an equivalent standard to Basel as at the date of redenomination. For the threshold in relation to G-SIB disclosure requirements, the PRA is redenominating the threshold derived from the Basel text into GBP, in line with international standards. The PRA retains the ability to update the GBP values in PRA rules, should fluctuations in the exchange rate cause it to deviate significantly from the original Basel standard. Given this is consistent with international standards, there is no material impact on the **relative standing of the UK or competitiveness**. • **Finance for the real economy, growth, and sustainable growth**: Specification of thresholds and monetary values in GBP is not expected to have a material impact on firms' regulatory requirements, capital resources, or balance sheet structure. Hence, the rules are unlikely to have a significant impact on finance for the real economy.

13. The temporary transitional power

Areas	Summary	PRA objectives and 'have regards'
Temporary Transitional Power (TTP)	The temporary transitional power (TTP) enables the UK's financial services regulators to delay the application of firms' regulatory obligations where they have changed as a result of an onshoring change made under the EU (Withdrawal) Act 2018. In order to preserve the effect of the TTP	**Overview** • The PRA considers that the mirror TTP provision advances its primary objective by enabling firms to benefit from another three months of the TTP for related PRA rules, which would continue to smooth the impact of the UK's withdrawal from the EU on firms, and thereby benefit safety and soundness. The mirror TTP provision is proportionate, affording firms time to adjust to changes resulting from onshoring and reducing the burden on them. **PRA objectives** • **PRA's primary objective:** The TTP cannot be used in areas where it would adversely affect the advancement of the regulators' statutory objectives, and the PRA has identified a number of exceptions, expressly provided for in the PRA's transitional direction, where the TTP will not be used. These exceptions will continue to apply to the mirror provision, protecting the PRA's primary objective. In addition, the carve-out for changes to LCR rules from the application of the mirror provision is to reduce inconsistencies that may arise with the PRA's NSFR rules, where the TTP cannot apply. This will continue to advance the safety and soundness of firms.

Areas	Summary	PRA objectives and 'have regards'
	for CRR restatement provisions, the PRA has included a mirror provision in the CRR 2 (Revocations and Other Amendments) Instrument 2021, amending the Interpretation Part of the PRA Rulebook.	• **PRA's secondary objective:** The TTP is designed to help firms adjust to changes in their regulatory obligations resulting from onshoring. The approach applies equally for all firms that currently benefit from the TTP. For that reason, the PRA expects the effect on competition will be low. **Have regards** • **Proportionality and Different business models:** The TTP gives firms time to adjust to changes resulting from onshoring, reducing the burden on firms. The mirror provision aims to preserve the effect of the TTP for CRR restatement provisions. The PRA is therefore acting proportionately in trying to smooth the impact of the UK's withdrawal from the EU on firms. • **International standards**: There are no international standards on transitional powers, and the TTP is therefore not relevant to international standards • **Relative standing of the UK and competitiveness**: The TTP gives firms additional time to adjust to changes to their regulatory obligations resulting from onshoring. The mirror provision preserves the effect of the TTP on certain rules, which are CRR restatement provisions. The proposals therefore mean that firms can continue to benefit from the TTP for an additional 3 months. • **Finance for the real economy, growth, and sustainable growth**: The proposals provide more time for firms to adjust. The proposals will therefore likely have, if anything, a very small positive impact on finance for the real economy.