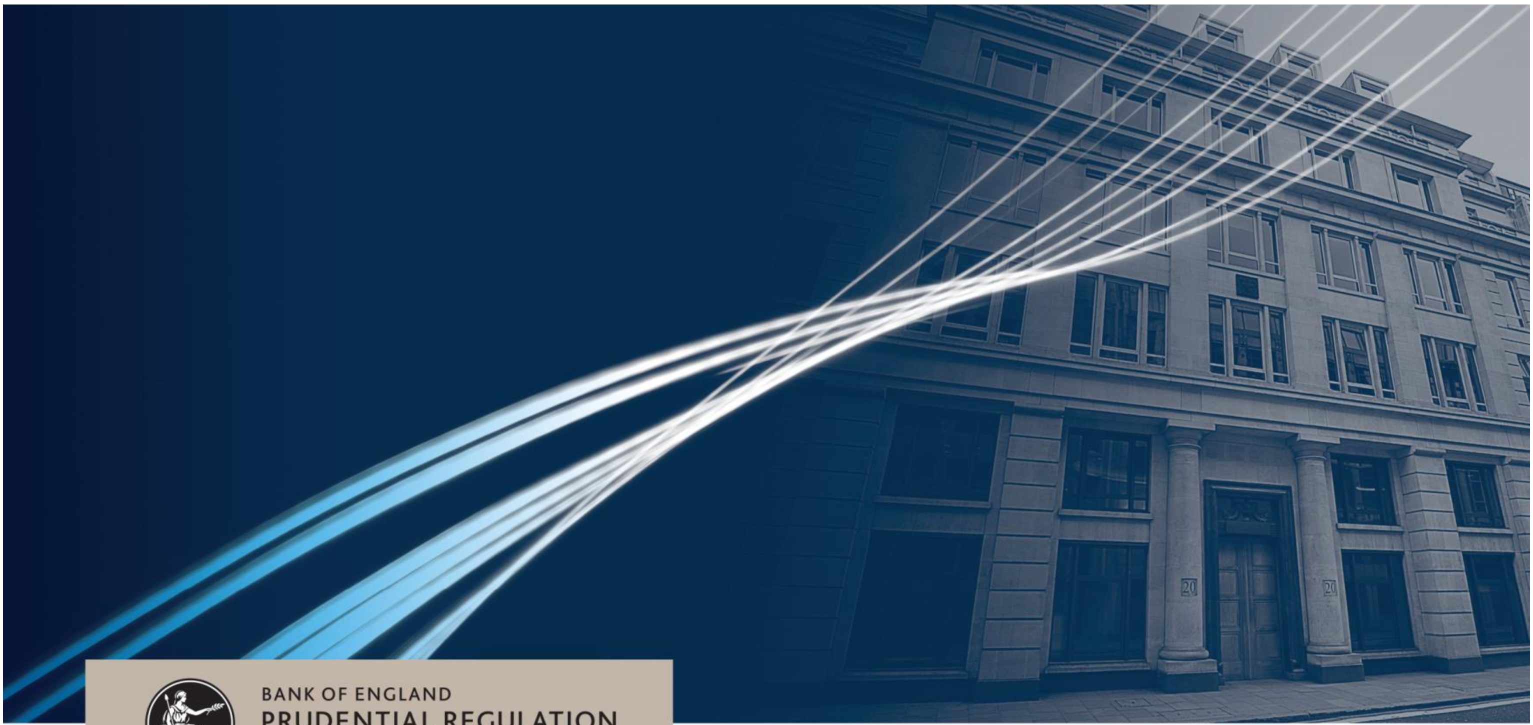

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

Consultation Paper | CP29/18

The systemic risk buffer: Updates to the Statement of Policy

November 2018

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The response will be assessed to inform our work as a regulator and central bank, both in the public interest and in the exercise of our official authority. We may use your details to contact you to clarify any aspects of your response.

The consultation paper will explain if responses will be shared with other organisations (for example, the Financial Conduct Authority). If this is the case, the other organisation will also review the responses and may also contact you to clarify aspects of your response. We will retain all responses for the period that is relevant to supporting ongoing regulatory policy developments and reviews. However, all personal data will be redacted from the responses within five years of receipt. To find out more about how we deal with your personal data, your rights or to get in touch please visit bankofengland.co.uk/legal/privacy.

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Responses are requested by Thursday 6 December 2018.

Please address any comments or enquiries to:
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Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

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1 Overview

1.1 In this consultation paper (CP) the Prudential Regulation Authority (PRA) proposes minor updates to its Statement of Policy 'The PRA's approach to the systemic risk buffer' (the 'SoP').[1]

1.2 The CP is relevant to ring-fenced bodies (RFBs) within the meaning of section 142A of the Financial Services and Markets Act 2000 (FSMA) and large building societies that hold more than £25 billion in deposits (where one or more of the account holders is a small business) and shares (excluding deferred shares) – jointly 'SRB institutions'.[2]

Background

1.3 In line with the Independent Commission on Banking (ICB) recommendations,[3] the UK legislation implementing the SRB (the 'SRB Regulations') requires the Financial Policy Committee (FPC) to establish a framework for an SRB that applies to large building societies and RFBs.[4] The SRB Regulations require the PRA to apply that framework from Tuesday 1 January 2019.

1.4 The FPC published 'The Financial Policy Committee's framework for the systemic risk buffer' (the 'SRB framework') in May 2016.[5] Alongside the SRB framework, the SoP forms the Bank's broader framework for the SRB.

1.5 The PRA stated that it would review the SoP in 2018 after the FPC's first biennial review of the SRB framework. The FPC reviewed the SRB framework in 2018 Q1, and concluded that no alteration is needed.[6] The PRA has now reviewed the SoP and decided not to alter its approach to implementing the SRB.

1.6 However, the PRA does propose to make three minor amendments aimed at clarifying the SoP and bringing it up to date with recent policy developments.

Proposals

1.7 The PRA proposes to:

- remove the statement that the PRA's approach to reviewing the SoP every two years is mandated by the SRB regulations;[7]
- replace references to CP25/16 with the corresponding PRA SoP on its methodologies for setting Pillar 2 capital following publication of the final policy;[8] and
- include references to Supervisory Statement 45/15 'The UK leverage ratio framework',[9] which was recently updated with respect to the application of an additional leverage ratio buffer (ALRB) rate to SRB institutions.

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1 December 2016: https://www.bankofengland.co.uk/prudential-regulation/publication/2016/the-pras-approach-to-the-implementation-of-the-systemic-risk-buffer-sop.

2 For the full definition of the institutions in scope see: The Capital Requirements (Capital Buffers and Macro-prudential Measures) (Amendment) Regulations 2015 (SI 2015/19).

3 Available at https://webarchive.nationalarchives.gov.uk/20120827143059/http://bankingcommission.independent.gov.uk/.

4 The Capital Requirements (Capital Buffers and Macro-prudential Measures) (Amendment) Regulations 2015.

5 https://www.bankofengland.co.uk/paper/2016/the-financial-policy-committees-framework-for-the-systemic-risk-buffer.

6 'Record of the Financial Policy Committee Meeting on 12 March 2018', March 2018, available at https://www.bankofengland.co.uk/-/media/BoE/Files/record/2018/financial-policy-committee-meeting-march-2018.

7 The PRA, however, will continue to review the SoP every two years.

8 'The PRA's methodologies for setting Pillar 2 capital', April 2018: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-methodologies-for-setting-pillar-2-capital.

9 November 2018: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-uk-leverage-ratio-framework-ss.

Responses and next steps

1.8 Given the minor nature of the proposed updates, this consultation closes on Thursday 6 December 2018. The PRA invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to CP29_18@bankofengland.co.uk.

2 The PRA's statutory obligations

2.1 The PRA is required by FSMA to consult when setting its general policies and practices.[10] In doing so, it is required to comply with several statutory and public law obligations. The PRA meets these obligations by providing the following in its consultations:

- a cost benefit analysis;
- an explanation of the PRA's reasons for believing that making the proposed policy is compatible with the PRA's duty to act in a way that advances its general objective,[11] insurance objective[12] (if applicable), and secondary competition objective;[13]
- an explanation of the PRA's reasons for believing that making the proposed policy is compatible with its duty to have regard to the regulatory principles;[14] and
- a statement as to whether the impact of the proposed policy will be significantly different to mutuals than to other persons.

2.2 The Prudential Regulation Committee (PRC) should have regard to aspects of the Government's economic policy as recommended by HM Treasury.[15]

2.3 The PRA is also required by the Equality Act 2010[16] to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

2.4 The proposals in this CP are compatible with the PRA's statutory obligations under FSMA.[17] The SRB is intended to increase the capacity of UK domestic systemically important RFBs and building societies to absorb stresses, thereby increasing their resilience relative to the system as a whole and promoting the safety and soundness of PRA regulated firms.

Cost benefit analysis

2.5 The proposals in this CP do not imply changes in the PRA's current approach to implementing the systemic risk buffer. Therefore, the PRA concludes that the proposals do not cause any incremental costs and benefits, which would alter the assessment already outlined in CP27/16 'The PRA's approach to the implementation of the systemic risk buffer'.[18]

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10 Section 2L of FSMA.
11 Section 2B of FSMA.
12 Section 2C of FSMA.
13 Section 2H(1) of FSMA.
14 Section 2H(2) and 3B of FSMA.
15 Section 30B of the Bank of England Act 1998.
16 Section 149.
17 Section 138J of FSMA.
18 July 2016: https://www.bankofengland.co.uk/prudential-regulation/publication/2016/the-pras-implementation-of-the-systemic-risk-buffer.

Competition

2.6 The proposals in this CP do not imply changes in the PRA's current approach to implementing the systemic risk buffer. Therefore, the PRA concludes that the proposals do not have a significant impact on competition.

Regulatory principles

2.7 In developing the proposals in this CP, the PRA has had regard to the regulatory principles. Of those principles, that of transparency is the most relevant. The purpose of the consultation is to make changes to the SoP in an open manner.

Impact on mutuals

2.8 In the PRA's opinion, the impact of the proposals on mutuals is expected to be no different from the impact on other firms.

HM Treasury recommendation letter

2.9 HM Treasury has made recommendations to the PRC about aspects of the Government's economic policy to which the PRC should have regard when considering how to advance the PRA's objectives and apply the regulatory principles.[19] The proposals in this CP are not expected to have an impact on the Government's economic policy.

Equality and diversity

2.10 The PRA has concluded that the proposals do not give rise to equality and diversity implications.

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19 Information about the PRC and the recommendations from HM Treasury are available on the Bank's website at: https://www.bankofengland.co.uk/about/people/prudential-regulation-committee.

Appendix - Draft Statement of Policy 'The PRA's implementation of the systemic risk buffer'

This appendix outlines proposed amendments to SoP 'The PRA's approach to the implementation of the systemic risk buffer'. Underlining indicates new text and striking through indicates deleted text. Footnote numbering is indicative, and will be finalised in the updated SoP following consultation.

1 Introduction

…

1.4 ~~The PRA will review this SoP in 2018, following the review of the FPC framework. Should the FPC framework be reviewed before then, the PRA will bring forward the review of this SoP accordingly.~~ The PRA will ~~then~~ review this SoP at least every two years~~, as is mandated by the SRB Regulations~~.

3 SRB capital implications

…

3.5 ~~In July 2016, the PRA proposed in Consultation Paper 25/16~~ The PRA amended its Statement of Policy on its methodologies for setting Pillar 2 capital[4] to take account of this type of group risk when assessing capital adequacy at the consolidated group level under Pillar 2 to ensure that sufficient capital of appropriate quality is held within, and distributed appropriately across, the consolidated group to cover the risks faced by the RFB sub-group itself and, separately, group entities that are not members of the RFB sub-group. ~~The consultation has now closed and the final policy will be published in due course.~~

3.6 As indicated in SS45/15 'The UK leverage framework',[n1] ~~the FPC leverage ratio policy statement and the FPC's SRB framework~~, SRB institutions subject to an SRB ~~would~~ will also be subject to an additional leverage ratio buffer (ALRB) rate~~, calibrated at 35% of the SRB rate~~.~~[5]~~ As set out in the June 2018 Financial Stability Report, the FPC intends to review the UK leverage ratio framework once there is clarity on the finalised implementation of the leverage ratio requirement in EU law.[n2]

…

5 Application of the framework following the initial SRB rates

5.1 Following application of the initial SRB rates, the PRA will re-apply the SRB framework annually in the manner outlined in paragraphs 4.1 to 4.6 of this SoP. The PRA expects to announce the SRB rates resulting from its assessment by 15 December of each year and to require institutions to apply them on an ongoing basis by 1 January of the second year

4 ~~'The implementation of ring-fencing: reporting and residual matters'; www.bankofengland.co.uk/pra/Pages/publications/cp/2016/cp2516.aspx.~~ PRA Statement of Policy; 'The PRA's methodologies for setting Pillar 2 capital', April 2018, https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-methodologies-for-setting-pillar-2-capital.

n1 PRA Supervisory Statement 45/15 'The UK leverage ratio framework', November 2018: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-uk-leverage-ratio-framework-ss.

~~5 FPC Policy Statement, 'The Financial Policy Committee's powers over the leverage ratio', July 2015, www.bankofengland.co.uk/financialstability/Documents/fpc/policystatement010715ltr.pdf. Please note that in this Policy Statement, the additional leverage ratio buffer is referred to as 'supplementary leverage ratio buffer'~~

n2 https://www.bankofengland.co.uk/financial-stability-report/2018/june-2018.

following the calendar year when the rates were announced.[1] For example, the SRB rates announced in December 2019 would take effect as of 1 January 2021. The PRA may adapt this timeline, where appropriate, in light of its objectives and statutory responsibilities.

1 This will align the implementation timelines of the SRB with those of the G-SII buffer as outlined in the 'Commission Delegated Regulation (EU) 2016/1608 of 17 May 2016 amending Delegated Regulation (EU) No 1222/2014 with regard to regulatory technical standards for the specification of the methodology for the identification of global systemically important institutions and for the definition of subcategories of global systemically important institutions' , https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R1608&from=EN.~~This will align the implementation timelines of the SRB with those of the G-SII buffer as outlined in: European Banking Authority, 'FINAL draft Regulatory Technical Standards on the methodology for the identification of global systemically important institutions (G-SIIs) under Article 131 of Directive 2013/36/EU', June 2014, EBA/RTS/2014/07, www.eba.europa.eu/documents/10180/717782/EBA-RTS-2014-07+(Final+Draft+RTS+on+G-SII+identification).pdf~~