

Bank of England

Prudential Regulation Authority

Appendices to the Strong and Simple Framework: Liquidity and disclosure requirements for Simpler-regime Firms

Consultation Paper | CP4/23

February 2023

Draft for consultation



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Draft for consultation

1: List of specific questions in CP

Please find below a list of the questions included in this CP, for which the PRA would welcome specific responses, but the PRA would welcome responses on all aspects of the CP.

Q1: Do you have any comments on the proposed implementation date and whether it would strike an appropriate balance between allowing firms to implement the measures set out in this CP quickly and providing sufficient time to implement the measures?

Q2: Do you have any comments on potential future changes to the content, clarity, and presentation of PRA rules and policies that could help to achieve the aims of Strong and Simple?

Q3: Do you have any comments on the PRA's proposals for the scope and level of application for the simplifications set out in this CP?

Q4: Given the simplified approach to stable funding under the simpler regime that is set out in this chapter, do you have any comments on the appropriateness and proportionality of the proposed approach to the sNSFR?

Q5: Are there any factors or stakeholders the PRA has not identified or considered sufficiently in respect of the proposed exclusion of non-listed Simpler-regime Firms from Pillar 3 requirements?

2: Draft Statement of Policy - Operating the Simpler-regime Firm criteria

Published separately, please see: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2023/february/cp423app2>

Draft for consultation

3: Draft amendments to SS24/15 – The PRA’s approach to supervising liquidity and funding risk

In this appendix, new text is underlined and deleted text is struck through.

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Producing an ILAAP document

2.4 As a general guide, the PRA expects that the ILAAP document which supports its liquidity review and evaluation process is in line with the EBA guidelines on common procedures and methodologies for SREP and aligns with the further guidance in this supervisory statement. The PRA has provided ~~a~~ templates in Appendices 1 and 2 as a guide for firms when producing their ILAAP documents.

2.5 The PRA recognises that for small firms with simple business models it may not be necessary to follow the template in appendix 1, or all elements in the template, provided all the key aspects are covered. For Simpler-regime Firms and Simpler-regime consolidation entities, the PRA has developed the template in Appendix 2. This approach is consistent with the PRA’s secondary competition objective. The PRA expects the document to be firm specific, not prepared in a formulaic manner, and to reflect the applicable business model. The PRA is equally sceptical of overly large, unwieldy documents as it is of documents providing too little detail.

2.6 Firms should refer to Title 5 of the EBA SREP guidelines when assessing the soundness, effectiveness, and comprehensiveness of their ILAAP document. In particular, the PRA expects a firm to demonstrate in its ILAAP document that it complies with the expectations outlined in the rest of this chapter.

2.6A An overview of how the firm applies the LCR and Net Stable Funding Ratio (NSFR) rules in its reporting may also be appropriate, including, if relevant, how the firm has interpreted the classifications of retail and operational deposits and the work undertaken annually in response to Liquidity Coverage Ratio (CRR) Article 23 and Liquidity (CRR) Article 428p(10) ~~and 428aq(10)~~.

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Application of the NSFR to Simpler-regime Firms

2.45 Chapter 4 of the Liquidity (CRR) Part sets out the requirements a firm must meet in relation to its stable funding profile, including the application of the NSFR.

2.46 The following examples provide guidance on the application of the NSFR for Simpler-regime Firms¹, in accordance with Chapter 5 of the Liquidity (CRR) Part of the PRA Rulebook. Chapter 5 sets out the calculation of the Retail Deposit Ratio (RDR). Chapter 5 also sets out that a firm may disapply the NSFR if it meets the RDR condition i.e. if its four-quarter moving average RDR is greater than or equal to 50% for four consecutive

¹ ‘Simpler-regime Firms’ or ‘firms’ refers to Simpler-regime Firms and Simpler-regime consolidation entities for the rest of this section (‘Application of the NSFR to Simpler-regime Firms’).

quarters. Firms should calculate the RDR on a quarterly basis using data submitted in the C68 template by the remittance date for the relevant quarter.

2.47 These examples consider:

- a reporting reference date of 31 March 2025;
- a remittance date of six weeks from the 31 March 2025 (ie 12 May 2025).

Example of a firm that may disapply the NSFR because its four-quarter moving average RDR is greater than or equal to 50% for four consecutive quarters

By 12 May 2025, the firm calculates the four-quarter moving average using its RDR as at 31 March 2025 and as at the three preceding quarterly reference dates:

$$(1) \quad \frac{RDR_{2025 Q1} + RDR_{2024 Q4} + RDR_{2024 Q3} + RDR_{2024 Q2}}{4}$$

The firm would also consider the moving averages as at the end of the three preceding quarters:

$$(2) \quad \frac{RDR_{2024 Q4} + RDR_{2024 Q3} + RDR_{2024 Q2} + RDR_{2024 Q1}}{4}$$

$$(3) \quad \frac{RDR_{2024 Q3} + RDR_{2024 Q2} + RDR_{2024 Q1} + RDR_{2023 Q4}}{4}$$

$$(4) \quad \frac{RDR_{2024 Q2} + RDR_{2024 Q1} + RDR_{2023 Q4} + RDR_{2023 Q3}}{4}$$

If the firm's four-quarter moving average RDRs for the most recent four quarters were all greater than or equal to 50%, the NSFR requirement would not apply to the firm.

Example of a firm that must apply the NSFR because its four-quarter moving average RDR is below 50%

By 12 May 2025, the firm calculates the four-quarter moving average using its RDR as at 31 March 2025 reference date, and as at the three preceding quarterly reference dates:

$$\frac{RDR_{2025 Q1} + RDR_{2024 Q4} + RDR_{2024 Q3} + RDR_{2024 Q2}}{4}$$

If the output from this calculation is below 50% on the remittance date on 12 May 2025, then under Rule 5.7 of Chapter 5 of the Liquidity (CRR) Part of the Rulebook, the firm would be required to notify the PRA without delay and, under Rule 5.6, the firm would be required to implement the NSFR one year from the day after the remittance date.

However, if the firm's four-quarter moving average RDRs for the quarters Q2 2025, Q3 2025, Q4 2025 and Q1 2026 were all greater than or equal to 50%, the firm would now meet the RDR condition so the NSFR requirement would not apply.

New firms

2.48 A Simpler-regime Firm may disapply the NSFR provisions, including Chapters 3 and 4 of the Liquidity (CRR) Part of the PRA Rulebook, if the four most recent four-quarter moving average RDRs (using data submitted in the C68 template from the previous seven quarters) are all greater than or equal to 50%.

2.49 However, a new firm including one in mobilisation will not have reported sufficient historical data to calculate four four-quarter moving average RDRs. For new firms that are eligible for, and intend to enter, the simpler regime, the PRA recognises that, in many cases, it may not be appropriate for them to be required to apply the NSFR. For example, a firm may be able to demonstrate how it will be primarily retail funded and so have a high RDR. In such a case, the firm may be able to show how it would be unduly burdensome to require it to apply the NSFR for what would likely to be a temporary period until it built up sufficient quarterly data points.

2.50 The PRA encourages new firms that are eligible for, and intend to enter, the simpler regime to consider whether there is a case for the PRA to modify its rules to disapply the NSFR. The PRA would consider applications for such modifications as part of the new firm authorisations process.

2.51 For new firms who are authorised without restriction on accepting deposits exceeding an aggregate of £50,000 (ie new firms not utilising mobilisation), the PRA expects that RDRs calculated for reporting reference dates from the point of authorisation should be representative of its long term business model. A modification to disapply the NSFR for such a firm would generally be expected to have effect for 7 quarters starting from the point of authorisation (i.e. until the point at which it can calculate its fourth four quarter moving average RDR using data submitted in the C68 template).

2.52 New firms utilising mobilisation are authorised with a restriction on their permissions to prevent them accepting deposits exceeding an aggregate of £50,000 while in mobilisation. For these firms, the PRA considers that an RDR calculated while this mobilisation restriction is in place would be unlikely to be representative of the funding model of the firm once no longer subject to the restriction. The PRA therefore expects that only RDRs calculated for reporting reference dates after this mobilisation restriction has been removed should be used in assessing whether a firm should disapply the NSFR. Therefore, where the PRA grants a modification to a firm in mobilisation to disapply the NSFR, it would expect the modification to only have effect until the firm can calculate its fourth four-quarter moving average RDR after the restriction is lifted. Once the modification stops having effect, the firm could disapply the NSFR if its four-quarter moving average RDR was greater than or equal to 50% for four consecutive quarters, as set out in Chapter 5 of the Liquidity (CRR) Part of the Rulebook.²

Monitoring of the RDR

2.53 The RDR should be calculated using data submitted in the C68 template, and as set out in Chapter 5 of the Liquidity (CRR) Part of the Rulebook. Firms should calculate the RDR on a quarterly basis using data from the relevant quarter end reference dates.

2.54 Chapter 5 sets out that firms must notify the PRA without delay from the remittance date if they cease to meet the RDR condition (or if, having previously notified the PRA that they ceased to meet the condition, they now meet it). The PRA also expects firms to notify the PRA if their funding model shifts materially towards wholesale funding intra-quarter, further to Fundamental Rule 7 of the PRA Rulebook. If the PRA believes that a firm's funding position could pose shorter-term risks, it may consider using its powers to require the firm to apply the NSFR before the application date specified in Rule 5.6 of Chapter 5 of the Liquidity (CRR) Part of the

² Note the references to the restriction on accepting aggregate deposits in excess of £50,000 represents the PRA's approach to mobilisation at the time of writing.

Rulebook.

Use of Additional Liquidity Monitoring Metrics (ALMM) data pre-dating the Simpler Regime

2.55 The quarterly submission of a completed C68 template provides the PRA with information on Simpler-regime Firms' concentration of funding by product type. Simpler-regime Firms must report the ALMM information specified in the C68 template showing all product totals, without distinguishing product types showing concentrations greater than 1% of total liabilities from other product types. During the first year of implementation of the simpler regime, Simpler-regime Firms may use data from C68 submissions prior to the simpler-regime effective date (which exclude liabilities of a product type comprising less than 1% of total) together with new quarterly C68 data (without the 1% threshold applied, including all liabilities) to calculate their RDR. The PRA considers that this would be proportionate, in light of basis for the reporting of liabilities in the C68 prior to the date of implementation of the simpler regime.

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4 Drawing down liquid asset buffers

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4.5 The PRA expects that firms required to apply the NSFR will maintain a NSFR of at least 100% in normal times. In times of market-wide or idiosyncratic stress, the PRA recognises that NSFRs may fall below 100%. In those situations, the PRA requires¹⁶ that firms take action to return their NSFRs to at least 100% in a timeframe that is consistent with the anticipated duration of the stress. The PRA intends that such a timeframe will ensure that firms have sufficient time to restore their NSFR to at least 100%, and without taking actions which are harmful to UK financial stability, or to firms' financial resilience.

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Appendix 1: Suggested structure and content of ILAAP document

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NSFR reporting	
Available Stable Funding	In this section, firms should discuss their approach to ensure compliance with the NSFR. The following areas, where relevant, should receive particular focus: the approach to determining the residual maturity of a liability or of own funds as per Liquidity (CRR) Article 428j and 428ak, the approach to determining the RSF factors for off balance-sheet exposures as per Liquidity (CRR) Article 428p and 428aq, the approach to determining the residual maturity of assets as per Liquidity (CRR) Article 428q and 428ar, an overview of items that are excluded from the NSFR including derivative client clearing items to which the firm applies Liquidity (CRR) Article 428da.
Required Stable Funding	

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Appendix 2: Suggested structure and content of an ILAAP document for Simpler-regime Firms

- The ILAAP document must record a firm's process for the identification, measurement, management, and monitoring of liquidity and funding risks (the ILAAP) carried out in accordance with the Internal Liquidity

Adequacy Assessment Part of the PRA Rulebook (ILAA rules). A key purpose is to help a firm's management body to approve the ILAAP and to conclude that Chapter 2 of the ILAA rules (Overall Liquidity Adequacy Rule) is met. Firms should structure the document with this purpose in mind.

- To that end, each Simpler-regime Firm and Simpler-regime consolidation entity is encouraged to produce a document that is proportionate to the nature, scale, and complexity of its activities. It should be clear, concise, and avoid unnecessary duplication. Firms are not required to follow this template, and should structure their ILAAP document in the way they consider would best deliver its purpose.
- The PRA considers that the following template may help to cover the relevant information in an ILAAP document in a concise fashion without unnecessary duplication.
- In producing the ILAAP document, firms should also consider paragraphs 2.4-2.6A of this Supervisory Statement.

1: Overview

- Describe the business model of the firm. This information can be the same as that provided in other documents such as the ICAAP document or Recovery Plan.
 - Presentation of a current and forecast balance sheet would be helpful to provide an overview of how the firm is funded and how the funding is used, in broad product categories.
- Describe material internal and external changes impacting the liquidity or funding profile, or the risk management framework for liquidity and funding since the ILAAP document was last approved.

2: Overall Liquidity Adequacy Rule (OLAR) – risk strategy and appetite

- Present the risk strategy and appetite established for ensuring compliance with OLAR.
 - The liquidity and funding risk strategy and appetite should capture any elements of bespoke liquidity risk which are not captured well either in LCR or in the Statement of Policy on Pillar 2 liquidity, bearing in mind that compliance with LCR does not guarantee that OLAR is met.
- Explain which quantified risk appetite(s) represents the firm's binding constraint.

3: Stress testing

3.1: Framework

- Explain the internal stress testing framework, including:
 - stress scenarios used;
 - how these were chosen and why they are considered appropriate;
 - how stress testing is linked to the risk appetite, including how the survival horizon has been chosen and what the 'point of failure' is considered to be (eg remaining liquid asset buffers or LCR falling below a certain level); and
 - the process by which the stress testing results are produced, with what frequency and timeliness.

3.2: Evaluation of liquidity buffers and counterbalancing capacity

- Present a breakdown of the liquid asset buffers. This should include assets considered to be liquid or committed facilities assumed to be drawable in stress but which are not eligible as HQLA in LCR, if they meet the firm's internal definition of liquid assets.
- For non-cash liquid assets, describe the monetisation options for these assets and how these are tested (note that reference to coverage of Article 8 of the Liquidity Coverage Ratio (CRR) Part of the PRA

Rulebook in Section 4 of this template: 'LCR and NSFR reporting' below may be sufficient to avoid duplication).

- Explain how the risk driver 'marketable assets risk' in Article 11.5 of the Internal Liquidity Adequacy Assessment Part of the PRA Rulebook is taken into account in each stress scenario (for example, in haircut and monetisation timing assumptions).

3.3: Evaluation of liquidity risk and funding risk

Purpose of this section

- The purpose of this section is to identify the liquidity and funding risks the firm is exposed to, set out how these are measured, managed, and monitored, and to quantify them for the purpose of liquidity stress testing.

Presentation of risk assessment

- Analysis should be limited to risk drivers that firms are exposed to, among those set out in Article 11.5 of the Internal Liquidity Adequacy Assessment Part of the PRA Rulebook and listed below, and risks related to asset encumbrance. Note that:
 - no coverage is necessary for risk drivers that are not relevant to the firm's business model; for example, a single-entity Simpler-regime Firm with a GBP-only balance sheet will not need to assess cross-currency funding risk or intragroup funding risk;
 - certain risk drivers may be best discussed in the context of another risk driver to avoid duplication; for example, risks arising from the correlation between funding markets and risks arising from the firm's funding tenors may be discussed in the context of the retail funding risk and/or wholesale secured and unsecured funding risk drivers, without necessarily needing to be separately discussed;
 - internalisation risk is assumed not to be relevant to Simpler-regime Firms and has been omitted from the list below;
 - funding risks resulting from estimates of future balance sheet growth are assumed to be considered in the funding plan and have been omitted from the list below;
 - marketable assets risk is covered in Section 3.2 of this template and need not be covered in this section; and
 - for relevant risk drivers, coverage should include an explanation of how the risk has been captured in each stress scenario, such as setting out the outflow/inflow factors that have been applied to relevant on and off-balance sheet items.

(1) Retail funding risk

- Present deposit balances outstanding by product and customer type, and analyse the likelihood and magnitude of run-off of each in stress, given the features of the products and customers who hold them.
- When presenting the analyses on the likelihood and magnitude of run-off, firms should consider not only the factors considered in categorising deposits for the LCR calculation, but also any bespoke risk factors that are relevant to their specific product or customer type.

(2) Wholesale secured and unsecured funding risk

- Present balances outstanding for wholesale secured and unsecured funding, by product type, and analyse the likelihood and magnitude of run-off of each in stress, taking account of features such as the level of creditor seniority, the type of counterparty and the relationship they have with the firm, the type of underlying collateral (if applicable) and the residual maturity.

(3) Non-marketable assets risk

- Explain if: assets that cannot be monetised immediately via repo or outright sale are used, or could be used, to generate liquidity; and how the ability to use those funding instruments may be affected in stress.
- Explain the inflows received on non-marketable assets (eg repayments of principal and interest) and analyse the potential impact on these inflows in stress.

(4) Off-balance sheet funding risk

- Explain any exposures to off-balance sheet funding risk and how these are monitored. These should include a list of committed and uncommitted lending arrangements (eg facilities, undrawn loans and mortgages, overdrafts, and credit cards), with total amounts that can be drawn down. Consideration should also be given to the potential for new lending arrangements that would continue to be generated after the onset of the stress scenarios. Explain how any derivative or repo transactions would require additional cash outflow (eg additional margin).
- Any analysis of historical drawdown/outflow rates should be presented, and how this analysis is used to determine drawdown/outflow rates in stress should be explained.

(5) Cross currency funding risk

- If there are material exposures to non-GBP currencies, describe the overall approach to cross currency funding risk explaining: the sources and uses of non-GBP exposure; the firm's risk appetite, limits and monitoring framework for currency mismatch; and how any breaches would be managed.
- Discuss the approach to the use of FX swaps, and assess exposures to cross currency funding risk in the event of disruption to the FX swaps market.

(6) Risks arising from the correlation between funding markets and lack of diversification between funding types

- Assess any concentration risks from factors such as product or instrument type, market, currency, customer type, or counterparty.

(7) Risks arising from the firm's funding tenors

- Assess any vulnerabilities to liabilities resulting from their term structure – such as maturity concentrations – that might materialise due to external or internal events or contractual events (including where the funding provider has call options).

(8) Franchise risk

- Assess any implicit liquidity requirements arising from a need to fulfil non-contractual expectations to, for example: acquire assets; roll over or buy back assets; permit premature termination of retail term/notice deposits; permit premature termination of non-margined derivative exposures; or extend/maintain other forms of liquidity support.

(9) Risks related to asset encumbrance

- Assess whether levels of asset encumbrance have potential to make the funding profile unstable, having regard to the risks outlined in paragraph 2.17C of this SS. Such assessment should make reference to any metrics and limits used to monitor or constrain asset encumbrance as outlined in paragraph 2.17D of this SS.

(10) Risks associated with a deterioration of a firm's credit rating

- If rated by an external credit rating agency, assess the outflows that would result from credit downgrades, the types of collateral which may be required, and the speed of outflow where appropriate.

(11) Risk that liquidity resources cannot be transferred across entities, sectors and countries

- Only where relevant, explain how intragroup funding arrangements could create any liquidity risk.

(12) Intra-day risk

- Summarise payment and settlement activities and assess to what extent this creates intra-day risk. This should include:
 - what payment schemes the firm accesses and how;
 - what the payment flows are across these payment schemes and how these are funded; and
 - what the risk management framework is for payment and settlement activity, including how payment flows are controlled, any limits or risk appetite metrics used and how these are monitored.
- Explain how intra-day risk is quantified for each stress scenario, either:
 - following one of the methods set out in the SoP on Pillar 2 liquidity; or
 - using an alternative (potentially simpler) method that sets out and justifies the amount of liquidity held for intra-day risk in each stress scenario.

3.4: Stress testing output

- Present the output of stress testing for each stress scenario; this may be presented both in the form of a table and a graph:
 - in the form of a table showing:
 - a) starting liquid asset buffers gross and net of any assumed haircuts:
 - b) for key outflow and inflow components: balances and (where relevant) off-balance sheet exposures; outflow/inflow factors; and cash flows across the survival horizon that is, or is used to calibrate, the firm’s liquidity risk appetite;
 - c) the inflows/reduction in outflows resulting from any management actions; and
 - d) remaining liquid asset buffers at the end of the survival horizon.

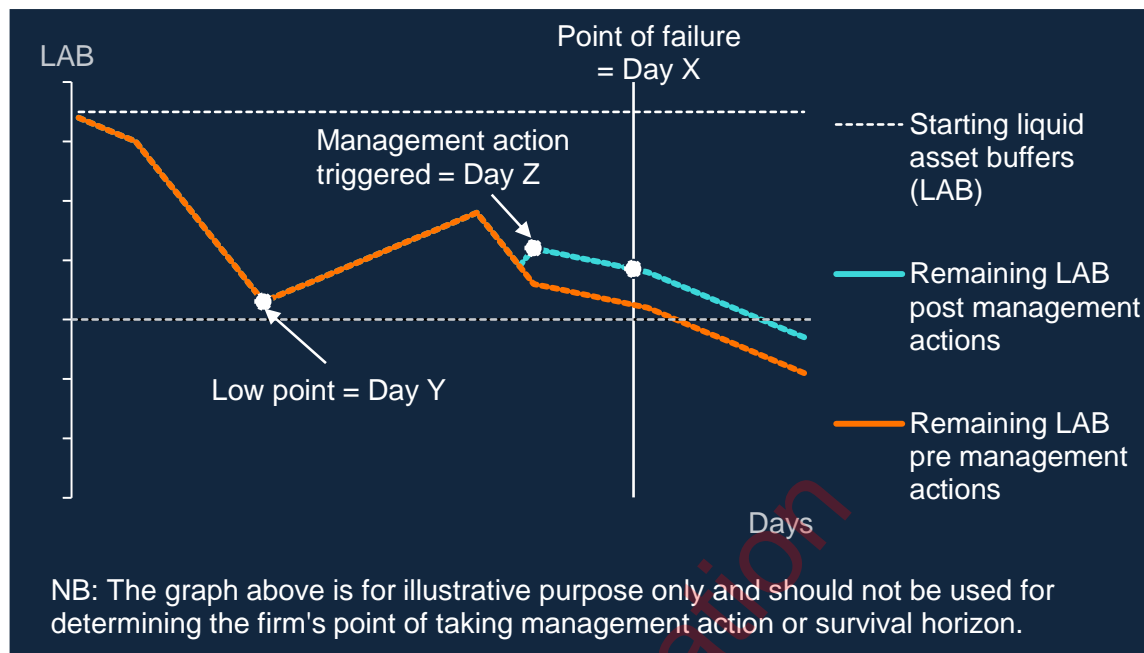
Illustrative example:

		i	ii	iii=i x ii	iv
		Initial balance	Haircut / Outflow/inflow factor**	Post haircut value / Outflow / Inflow at the end of survival horizon	Position at low point (if earlier than Day X)
				Day X	Day Y
Liquid asset buffer (LAB)					
A	Cash				
	Non-cash HQLA*				
	Other*				
	Total				
Outflows (cumulative)					
B	Retail funding*				
	Wholesale funding*				
	Off-balance sheet*				
	Other (e.g. intraday)*				
	Total				
Inflows (cumulative)					
C	Loans*				
	Other*				
Total					
D=A-B+C Remaining LAB pre management actions					
E Management actions					
F=D+E Remaining LAB post management actions					

* NB firms should provide appropriate levels of granularity.
 ** NB this column should summarise the outflow/inflow factors set across the survival horizon. Firms should describe the detailed outflow/inflow assumptions in Section 3.3.

- in the form of a graph plotting remaining liquid asset buffers on the y axis and time on the x axis; this would show – for at least the survival horizon that is, or is used to calibrate, the firm’s liquidity risk appetite – the changing level of the firm’s liquid asset buffers as these are impacted by stressed cash flows; this should enable assessment of any low-point and cliff risk and demonstrate whether their liquid asset buffers are sufficient to cover for the largest net cash outflow positions in the survival horizon.

Illustrative example:



- Explain whether and how OLAR (as per Section 2 of this template) is met, referencing the stress testing output above. Where relevant, comment on the impact of the stress scenarios on other risk appetite metrics such as asset encumbrance.
- Present any sensitivity analysis of key stress testing assumptions that has been undertaken (eg through reverse stress testing) and consider whether such sensitivity analysis is plausible.

4: LCR and NSFR reporting

- Discuss the approach to compliance with the PRA Rulebook Parts on Liquidity Coverage Ratio (CRR) and, if applicable, Liquidity (CRR) on the Net Stable Funding Ratio.
- The following areas, where relevant, should receive particular focus:

Liquidity Coverage Ratio (CRR) Part of the PRA Rulebook:

- Article 8: explain the framework for testing the ability to monetise liquid assets, referencing Article 8.
- Article 23: explain how Article 23 is applied, particularly with regard to undrawn loans such as mortgages, credit cards and overdrafts.
- Articles 24 and 25: explain how Articles 24 and 25 are applied to classify retail deposits. If non-natural persons are treated as retail depositors (eg SMEs), explain how it is determined that they are retail rather than wholesale depositors.
- Article 27: explain how Article 27 is applied to classify operational deposits.

5: Liquidity and funding risk management framework

5.1: Organisational framework, policies, and procedures

- Describe the following. Where possible, avoid coverage of the overall risk management framework or other risk types (eg credit, market or operational risk) where this does not relate to the management of liquidity and funding risks.

- policies, processes and procedures in place to manage liquidity and funding risks;
- governance arrangements (how the management body and senior management are involved in the risk management framework);
- the risk appetite and limit structure;
- the organisational structure (including whether a three lines of defence model is followed, and, if so, how this is used to manage liquidity and funding risks).
- Firms should also describe how the risk appetite and strategy are devised, approved, monitored and reported, and how they are communicated throughout the firm.

5.2: Risk identification, measurement, monitoring, and reporting

- Summarise the framework for measuring and monitoring liquidity and funding risks through internal and external reporting by setting out the following. This section should be simple and concise.
 - a complete list of all liquidity risk metrics monitored and any other management information (MI) reported in business as usual;
 - the frequency and timeliness with which they are produced;
 - whether the firm is able to produce ad-hoc MI specific to a stressed part of the portfolio if a stress occurs;
 - teams responsible for producing the MI;
 - who receives the MI;
 - the IT systems used in MI production; and
 - the escalation process in the event of a limit breach.

6: Other materials

- In order to avoid the need to summarise the following documents in the ILAAP document, firms are encouraged to include the following documents directly as part of their ILAAP document.

6.1: Contingency plans

- The liquidity contingency plan, or the recovery plan if the liquidity contingency plan is integrated with the recovery plan.

6.2: Funding plans

- The full funding plan (or if not formalised in a document, a summary of how projected business activities will be funded in both business as usual and stress).

6.3: Funds transfer pricing policy

- The full funds transfer pricing policy (or if not formalised in a policy document, a summary of how Chapter 6 of the Internal Liquidity Adequacy Assessment Part of the PRA Rulebook is met).

6.4: Minutes related to ILAAP document

- Minutes from governance committees where final or near-final versions of the ILAAP were recommended for approval or approved.

Draft for consultation

4: Draft amendments to Statement of Policy – Pillar 2 Liquidity

Contents

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1 Introduction

1.1 ...

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1.5 ...

1.6 The PRA does not generally apply Pillar 2 guidance for Simpler-regime Firms and Simpler-regime consolidation entities, except where warranted in the case of a particularly material idiosyncratic risk or risks. Therefore, most Simpler-regime Firms and Simpler-regime consolidation entities are not required to provide information that would be needed specifically to calculate Pillar 2 add-ons as part of the L-SREP process, and Chapters 4 and 5 of this SoP will not be relevant for these firms.

1.7 ...

Draft for Consultation

5: Draft amendments to Statement of Policy – Liquidity and funding permissions

In this appendix, new text is underlined and deleted text is struck through.

1 Introduction

1.2 This Statement of Policy (SoP) sets out the PRA's approach to granting selected regulatory permissions that are relevant to the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) requirements. ~~It also sets out the PRA's expectation that eligible firms should notify the PRA if they intend to use the simplified NSFR (sNSFR) methodology.~~ It is relevant to all UK banks, building societies, and PRA-designated investment firms, referred to collectively as 'firms', except for Chapters 4 and 5 which are only relevant to firms which are required to apply the NSFR.

2 General matters

2.1 ...

3 Ongoing expectation to notify the PRA of material information that is relevant to permissions

3.1 ...

3.2 ...

3.3 ...

3.4 ...

3.5 ~~The expectations in paragraphs 3.1 and 3.2 do not apply to changes in matters set out in paragraph 6.1 (information which firms should provide as part of pre-notifications to use the sNSFR methodology).~~

3A Liquidity (CRR) Rule 2.2: Domestic Liquidity sub-groups (DoLSubs)

3A.1 ...

4 Liquidity (CRR) Article 428F: Interdependent assets and liabilities

4.1 ...

5 Liquidity (CRR) Article 428H: Preferential treatment within a group

(a) ...

6 ~~Liquidity (CRR) Article 428AI: Calculating simplified NSFR (sNSFR)~~

6.1 The PRA expects to receive the following information alongside firms' pre-notifications that they will calculate the sNSFR:

- ~~(i) evidence that the firm meets the definition of 'small and non-complex' in CRR Article 4(145);~~
- ~~(ii) confirmation that the firm expects to continue to meet the definition in bullet (i), above, for the foreseeable future;~~
- ~~(iii) evidence that the firm's sNSFR is at least 100%, and the basis on which the firm expects that it will continue to be at least 100% for the foreseeable future; and~~
- ~~(iv) assessment that the complexity of the firm's funding profile is such that the sNSFR is not an inappropriately simple methodology for the calculation of funding risks.~~

6.2 The PRA expects that firms which use the sNSFR methodology notify it promptly when the following occurs or is expected to occur:

- ~~(i) the firm no longer meets the definition of 'small and non-complex' in CRR Article 4(145);~~
- ~~(ii) the firm's sNSFR falls below 100%; or~~
- ~~(iii) the complexity of the firm's funding profile is such that the sNSFR is an inappropriately simple methodology for the calculation of funding risks.~~

7 Liquidity Coverage Ratio (CRR) Article 12(3): Permission to derogate in respect of Level 2B assets for reasons of religious observance

(i) ...

8 Liquidity Coverage Ratio (CRR) Article 17(4): Liquidity buffer composition requirements

8.1 ...

9 Liquidity Coverage Ratio (CRR) Article 29: Permission to apply lower LCR outflow rate to certain outflows within a group

9.1 ...

10 Liquidity Coverage Ratio (CRR) Article 33(3) and 33(4): Permission to exempt from cap on inflows or increase cap on inflows

10.1 ...

11 Liquidity Coverage Ratio (CRR) Article 34: Permission to apply higher inflow rate to certain inflows within a group

11.1 ...

Draft for consultation

6: Draft Rulebook instrument

Published separately, please see: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2023/february/cp423app3>

Draft for consultation

7: 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.

- *For rules instruments and UK Technical Standards Instruments:* Purpose of the policy proposals (FSMA s138J(2)(b)).
- *For rules instruments and UK Technical Standards Instruments:* Cost benefit analysis (FSMA s138J(2)(a) and (7)(a)); and an estimate of those costs and benefits (if reasonable) (FSMA s138J(8)).
- *For rules instruments and UK Technical Standards Instruments:* 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 a living organism or type of habitat, restoring or enhancing a population or habitat (Natural Environment and Rural Communities Act 2006, s40).
- *For rules instruments and UK Technical Standards Instruments:* Consultation of the FCA (FSMA s138J(1)(a)).
- *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

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- the likely effect of the rules on the ability of CRR firms to continue to provide finance to businesses and consumers in the United Kingdom 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 Treasury about the likely effect of the rules on relevant equivalence decisions (s144C (3) & (4) FSMA)
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Draft for consultation