

Bank of England PRA

Strong and Simple: The simplified capital regime for SDDTs

Near-final policy statement (PS)20/25

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Caveat

These slides should not be relied on as a source of law or policy. Where the slides refer to near-final policy published on 28 October 2025, they contain only a high-level summary of detailed near-final policies that are set out in PS20/25 ‘The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers (SDDTs) – near-final’. Similarly, the slides contain only a high-level summary of the proposals set out in the related consultation paper, CP7/24. The slides should not be used as an alternative source of information to the near-final PS or the CP.

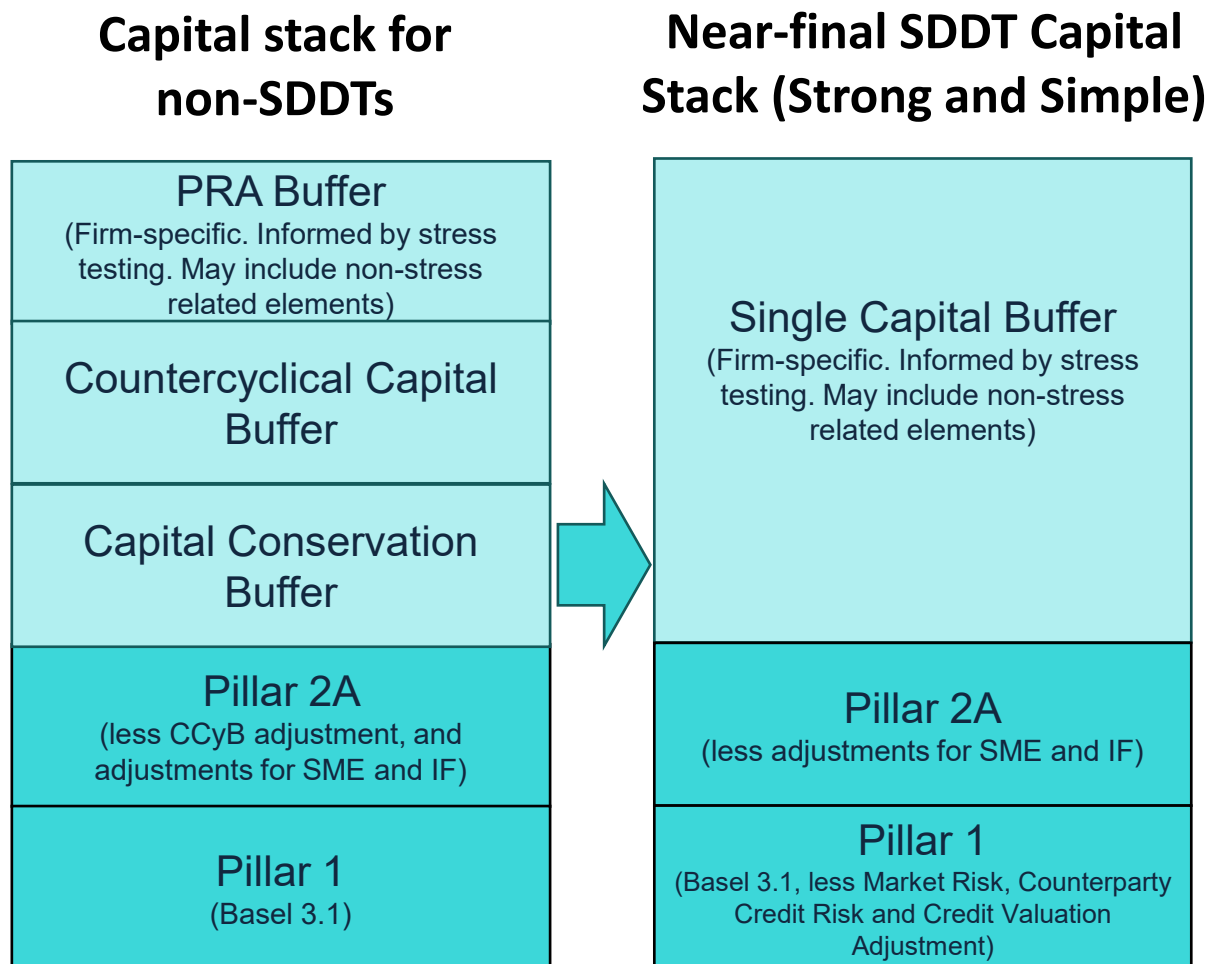
Welcome and purpose

- On 28 October, the PRA published the near-final policy for the simplified capital regime for Small Domestic Deposit Takers (SDDTs). The near-final policy represents the **second and final phase** of the Strong & Simple project, building on the liquidity and disclosure simplifications already available to SDDTs.
- Purpose of today's presentation:
 - To provide an **overview of the near-final policy for the simplified capital regime for SDDTs, without re-opening consultation feedback.**
 - **Set out the next steps:**
 - The PRA plans to publish a final policy statement on the simplified capital regime for SDDTs in Q1 2026 for implementation on 1 January 2027.
 - SDDT-eligible firms should engage with their supervisor (if not already done so) on whether they intend to be in the SDDT regime or Basel 3.1 from 1 January 2027. **All firms**, regardless of their chosen regime, are **expected to submit their relevant data request submission** for the off-cycle review of firm-specific Pillar 2 capital requirements by **31 March 2026**.
 - **Answer any questions you might have about PS20/25 and its appendices.**

Key messages

- Thank you for your engagement and high-quality responses to the CP. We listened and addressed areas of most substantial feedback (e.g. Pillar 2A operational risk).
- We've also held firm against weakening in areas that would risk decreasing the overall resilience of SDDTs (e.g. the calibration of the Single Capital Buffer (SCB)).
- As a result, we have arrived at a near-final policy package that **significantly simplifies the capital regime for SDDTs without weakening their overall resilience** and which will, together with the liquidity and disclosure simplifications, **support a dynamic, diverse and sustainable banking sector**.
- The near-final policy sets out simplifications to all elements of the capital stack:
 - **Pillar 1** will be calculated using **Basel 3.1 rules**, but simplified in some areas for SDDTs;
 - **Pillar 2 will be simplified**;
 - There will be **a single, more constant and predictable capital buffer**, rather than three buffers (two of which vary over time); **regulatory capital will be simpler** to calculate; and
 - There will be **simplifications to ICAAP, ILAAP**, and **some reporting requirements**.

Summary of near-final simplified capital regime for SDDTs



The simplified capital regime for SDDTs simplifies all aspects of the capital framework for SDDTs:

- Basel 3.1 Pillar 1, but with simplifications for credit, counterparty credit, market and CVA risk
- Simpler Pillar 2A methodologies
- Leverage Ratio Expectation
- Single Capital Buffer (instead of three) and no automatic MDA restrictions
- Simpler ICAAP policy and reduced frequency
- Simpler capital deductions rules and reporting

These simplifications build on the simplifications for liquidity and disclosure requirements already in place for SDDTs.

Pillar 1

(see Chapter 2 of PS20/25)

- The PRA proposed to apply the **Basel 3.1 standardised approaches (SA) for calculating Pillar 1 RWAs for credit risk (CR) and operational risk** as set out in the Basel 3.1 near-final PSs. SDDTs would be **descoped from 'due diligence requirements'** related to credit risk. The PRA also proposed to **simplify the market risk framework** for SDDTs, **disapply capital requirements for counterparty credit risk for derivatives** (with minor exceptions) and **credit valuation adjustment (CVA) risk**, and consequential changes to the Leverage Ratio and Large Exposures rule.
- The PRA received broad support for implementing the Basel 3.1 CR SA, though some respondents argued against the need to calibrate requirements for smaller firms against international standards. Some respondents suggested specific adjustments and clarifications should be made for SDDTs, and there were comments raised on the difference between Basel 3.1 CR SA risk weights for real estate compared to IRB.
- **In the near-final policy, the PRA has decided to maintain the proposal to implement the Basel 3.1 CR SA** (exc. due diligence requirements). We have three reasons for this: (a) we consider Basel 3.1 to provide the most accurate assessment of asset riskiness; (b) it enables a consistent and comparable calculation of RWAs inside and outside the SDDT regime; and (c) as respondents' comments have already been considered through feedback received on Basel 3.1.

Pillar 1: further details

Area	Near-final policy	Further details Update
Credit risk	SDDTs will apply the Basel 3.1 standardised approach to credit risk and credit risk mitigation.	Paras 2.8 - 2.18 in PS20/25
	SDDT will not be subject to the due diligence requirements in the Basel 3.1 standardised approach to credit risk.	
	SME and infrastructure lending adjustments in Pillar 2A will apply to SDDTs if they choose to provide the necessary data	Para 3.98 in PS20/25
Operational risk	SDDTs will apply the Basel 3.1 standardised approach to operational risk.	Paras 2.19 - 2.21 in PS20/25
Market risk	SDDTs will calculate Pillar 1 capital requirements for their trading book business using the Basel 3.1 standardised approach to credit risk (akin to the 'Small Trading Book' derogation in CRR).	Paras 2.22 - 2.24 in PS20/25
	SDDTs do not have to calculate Pillar 1 capital requirements for business activities subject to foreign exchange risk or commodity risk. These activities are limited for SDDTs by the SDDT criteria.	
	SDDTs can continue to use a foreign exchange permission for the purposes of assessing themselves against the SDDT criteria.	Paras 2.25 - 2.27 in PS20/25
Credit valuation adjustment (CVA) risk	SDDTs do not need to calculate Pillar 1 capital requirements for CVA risk.	Paras 2.43 - 2.45 in PS20/25

Pillar 1: further details

Area	Near-final policy	Further details
Counterparty credit risk (CCR)	SDDTs do not need to calculate Pillar 1 capital requirements for CCR for banking-book and trading-book derivatives (with some exceptions), including credit derivatives, where a CCR method would need to be used to determine the exposure value.	Paras 2.28 - 2.32 in PS20/25
	The exceptions are: default fund contributions and trade exposures to a CCP if an SDDT is a CCP clearing member; securitisation positions resulting from a derivative instrument listed in Annex II of the CRR.	
	SDDTs must continue to apply capital requirements for securities financing transactions and long settlement transactions, but determine exposure value using the CRM rules. SDDTs cannot use the Internal Models Method (IMM).	Paras 2.33 - 2.34 in PS20/25
	So that SDDTs don't have to continue to use CCR methods: the derivative exposure measure used in the leverage ratio and in large exposures would become $\alpha \cdot \max(\text{current market value of derivative contract}, 0)$ for SDDTs; and there would be consequential changes to the credit-risk treatment of exposures in the form of units or shares in collective investment undertakings (CIUs).	Paras 2.35 - 2.42 in PS20/25
Other aspects of Pillar 1	SDDTs could continue to be able to submit an IRB application while remaining an SDDT. The Pillar 1 minimum requirements (as a % of risk weighted assets) remain unchanged.	Paras 2.48 - 2.51 in PS20/25

Pillar 2A (1 of 2)

(see Chapter 3 of PS20/25)

- The PRA proposed **simplifications to Pillar 2A approaches** for:
 - **credit risk** (use of firm's credit scenarios to assess their exposure);
 - **credit concentration risk** (base add-ons for wholesale and retail exposures); and
 - **operational risk** (a simple 'bucketing' approach, clearer and more proportionate expectations related to operational risk scenario analysis).
- The PRA received **general support for the simplifications**, especially those for credit risk and credit concentration risk (CCoR).
- There was **criticism of the bucketing approach** to operational risk (e.g. the number of buckets, and the calibration of the capital add-ons)
- The CCoR **base add-ons for wholesale exposures were challenged** (e.g. their application to SME lending).

Pillar 2A (2 of 2)

(see Chapter 3 of PS20/25)

- In the near-final policy in PS20/25¹, the PRA has decided to:
 - **Remove the bucketing approach** for operational risk, instead **aligning SDDTs with the methodology for non- SDDTs**;
 - **Update CCoR add-ons for certain exposures** (covered bonds, securitisations, defaulted equity and high-risk exposures), with a review of CCoR add-ons for all firms in Phase II of the Pillar 2A review;
 - **Exclude credit institutions from cluster limit and reduce the limit to 200% of Tier 1 capital**;
 - **Clarify how SME and infrastructure lending adjustments apply** for SDDTs; and
 - **Clarify the firms in scope** of a detailed credit risk Pillar 2A assessment.

1. See also PS18/25, where the PRA set out that it will retire the refined methodology to Pillar 2A for all firms, including SDDTs, from 1 January 2027.

Capital buffer framework

(see Chapter 4 of PS20/25)

- The PRA proposed to introduce a new firm-specific and non-cyclical Single Capital Buffer (SCB) replacing the current buffer framework, and removal of automatic capital conservation measures under the maximum distributable amount (MDA) framework. The PRA also proposed to replace the cyclical stress testing framework with a non-cyclical stress test to inform the SCBs.
- Respondents broadly welcomed the SCB, its usability/disclosure and non-cyclical nature. However, respondents also asked for clarification on the calibration of the 3.5% SCB level, and how the risk management and governance (RMG) scalar would be applied. Respondents also requested for examples of stress scenarios for SDDTs.
- In the near-final policy, the PRA has decided to:
 - Maintain the proposal to introduce a firm-specific SCB which is set no lower than 3.5% of RWAs;
 - Provide an example of the SDDT stress scenarios and guidance on how it expects the stress testing framework to work in an appendix to the near-final PS;
 - Make small amendments to the near-final SDDT Pillar 2 SoP to add greater clarity for SDDTs on the calculation of the capital expectation included in the SCB for a firm subject to an RMG capital add-on.

ICAAP and ILAAP

(see Chapter 5 of PS20/25)

- The PRA proposed simplifications to the ICAAP, **including a reduction in the frequency of updates to the ICAAP document to every two years** (for SDDTs other than new and growing banks), except for Pillar 2 elements. We also **proposed a comparable reduction in the frequency of updates to the ILAAP** document.
- **Respondents were broadly supportive of the proposals** but encouraged the PRA to make further simplifications, including **reducing the frequency of updates to the Pillar 2 elements of the ICAAP document**, more **streamlined regulatory documents**, and **better alignment of ICAAP/ILAAP with the SREP cycle**. Respondents also requested an early implementation of ICAAP/ILAAP frequency reductions.
- **In the near-final policy, the PRA has decided to reduce the frequency of the Pillar 2 elements of the ICAAP document to every two years** (except for new and growing banks that are SDDTs). The **ICAAP/ILAAP frequency changes will take effect from the date of publication of the final policy statement**, which we're aiming to publish in Q1 2026.

Simplified capital deductions

(see Chapter 6 of PS20/25)

- **The PRA proposed simplifications to certain complex capital deduction rules** for SDDTs by requiring them to assess a number of items as a single group against a threshold of 25% of CET1 capital.¹ Under this proposal, an SDDT would need to deduct amounts in excess of the threshold and risk weight amounts below the threshold. This would streamline existing complex threshold calculations, and remove optionality for SDDTs to either fully deduct certain items from CET1 or risk weight them at 1250%.
- **Respondents welcomed the proposals but asked that certain items subject to 1250% risk weighting** (qualifying holdings, certain securitisation positions, and free deliveries) **be fully deducted from CET1** instead of partially.
- **In the near-final policy, the PRA has decided to broadly maintain the proposed approach, but will require SDDTs to deduct qualifying holdings, certain securitisation positions, and free deliveries** in full from CET1, as requested in the responses.

1. These items are Deferred Tax Assets dependent on future profitability and arising from temporary differences; holdings in regulatory capital instruments of financial sector entities (including significant investments and non-significant investments), qualifying holdings outside the financial sector, certain securitisation positions which the firm could risk weight at 1250%, and free deliveries.

Reporting

(see Chapter 7 of PS20/25)

- The PRA proposed to apply **Basel 3.1-based capital reporting to SDDTs, with simplifications**. The PRA also proposed to create a **separate (much simpler) reporting module, rules and instructions for SDDTs for Pillar 1 capital reporting**.
- Respondents **welcomed the proposals**, but asked the PRA to **go further by descope SDDTs from further templates or reducing collection frequency**. They also requested the PRA accelerate longer-term work on reporting changes so **all reporting changes be implemented at the same time**.
- **In the near-final policy, the PRA has decided to:**
 - **descope SDDTs from a further nine Pillar 1 capital templates and four leverage templates;**
 - **maintain the implementation timeline for the SDDT reporting changes.**

Operating the SDDT regime

(see Chapter 8 of PS20/25)

- In CP7/24, the PRA proposed:
 - to **update SoP2/23 - Operating the SDDT regime to clarify expectations for entering or leaving the regime;**
 - to **conduct an off-cycle review of Pillar 2 capital requirements** for SDDTs ahead of the SDDT capital regime implementation date; and
 - to **set a deadline by which SDDTs would need to consent**, or inform the PRA of their intention to consent, to the SDDT MbC if they want to be subject to the SDDT regime on the implementation date of the SDDT capital regime.
- Respondents welcomed the flexibility offered by the Interim Capital Regime (ICR) but asked the PRA to provide further details on how the Pillar 2 reset exercise would work.
- **In the near-final policy, the PRA has decided to maintain the majority of the policy proposals,** apart from updates to remove the ICR-related proposals (see next slide). **The PRA also published further details on how the Pillar 2 reset will work** – including details of the **SDDT MbC deadline** – on the PRA's [Strong and Simple webpage](#) following the publication of the near-final PS.

Implementation date

(see Chapter 1 of PS20/25)

- The PRA proposed that the **implementation date** for the changes resulting from this CP (**other than certain changes to SoP 2/23**) would be **1 January 2027**.
- Respondents were generally supportive of the proposed implementation date of 1 January 2027.
- In the near-final policy, the PRA has decided to maintain the **1 January 2027 implementation date for the SDDT capital regime**. However, the reduction in frequency of updates to the ICAAP and ILAAP documents and changes to SoP2/23 will be implemented when the final PS is published.
- **1 January 2027 is also the same date on which the PRA plans to implement the majority of Basel 3.1**. Basel 3.1 and the Strong and Simple capital regime will be implemented on the same date, and therefore **the ICR is no longer be required**.

Key messages – recap

- We've listened and addressed areas of most substantial feedback (e.g. Pillar 2A operational risk).
- We've also held firm against weakening in areas that would risk decreasing the overall resilience of SDDTs (e.g. the calibration of the Single Capital Buffer (SCB) level).
- **The near-final policy package significantly simplifies the capital regime for SDDTs without weakening their overall resilience** and, together with the liquidity and disclosure simplifications, will **support a dynamic, diverse and sustainable banking sector**.
- The near-final policy package sets out simplifications to all elements of the capital stack:
 - **Pillar 1** will be calculated using **Basel 3.1 rules**, but simplified in some areas for SDDTs;
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 - There will also be **simplifications to ICAAP, ILAAP and some reporting requirements**.

Next steps

For SDDTs and SDDT-eligible firms

- **SDDT eligible firms should engage with their supervisor** (if they haven't already done so) **on whether they intend to be subject to the SDDT regime or Basel 3.1** from 1 January 2027.
- **All firms**, regardless of their chosen regime, are expected to **submit their data request submission for the off-cycle review of firm-specific Pillar 2 capital requirements by 31 March 2026.**

For the PRA

- The PRA plans to publish the final policy and rules for the simplified capital regime for SDDTs in Q1 2026.
- The PRA plans to conduct the off-cycle of firm-specific Pillar 2 capital requirements for SDDTs and non-SDDTs ahead of the Basel 3.1 and SDDT capital regime implementation date (1 January 2027).

