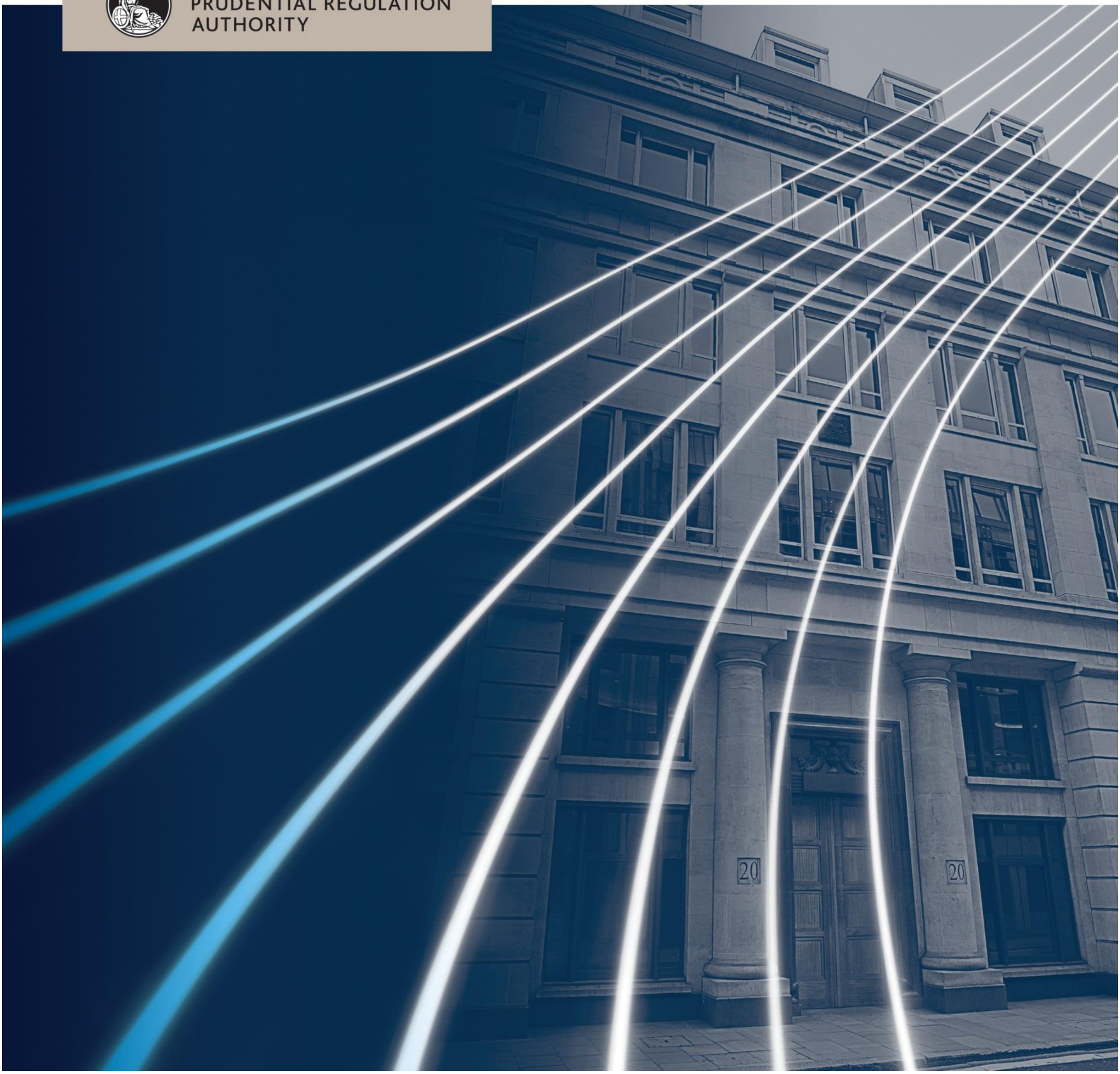
Policy Statement | PS28/18

UK leverage ratio: Applying the framework to systemic ring-fenced bodies and reflecting the systemic risk buffer

November 2018

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY



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Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

Contents

1 Overview

1.1 This Prudential Regulation Authority (PRA) Policy Statement (PS) provides feedback to responses to Consultation Paper (CP) 14/18 'UK leverage ratio: Applying the framework to systemic ring-fenced bodies and reflecting the systemic risk buffer'.[1] It also contains the PRA's final policy to update:

- The Leverage Ratio, Public Disclosure, Reporting Leverage Ratio, and Ring-fenced Bodies Parts of the PRA Rulebook (Appendix 1);
- Supervisory Statement (SS) 45/15 'The UK leverage ratio framework' (Appendix 2);
- SS46/15 'UK leverage ratio: instructions for completing data items FSA083' (Appendix 3); and
- FSA083 Leverage Ratio Reporting template, and reporting instructions (Appendix 4).

1.2 This PS is relevant to those firms in scope of the UK leverage ratio framework[2] that are also systemic risk buffer (SRB) institutions,[3] or part of a group containing an SRB institution.

1.3 In CP14/18 the PRA proposed to:

- apply the UK leverage ratio framework on a sub-consolidated basis to RFBs in scope;
- amend the additional leverage ratio buffer (ALRB) to reflect the SRB; and
- where applicable, expect firms to hold capital on a group consolidated basis to address RFB group risk[4] (the 'Leverage Ratio Group Add-on').

1.4 The changes support the implementation of the SRB from 2019, and complement the risk-weighted capital framework by guarding against the risks of relying only on models or standardised approaches to set capital requirements. This promotes the safety and soundness of firms whose distress or failure could cause material harm to the UK economy.

1.5 The PRA received one response to the CP asking for clarification on the scope and timing of the proposals. The PRA's feedback to this response is set out in Chapter 2.

1.6 The PRA has made no changes to the proposals in CP14/18.

1.7 The changes to the rules and expectations, and new versions of the FSA083 template and accompanying instructions, will take effect from Tuesday 1 January 2019.

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1 July 2018: https://www.bankofengland.co.uk/prudential-regulation/publication/2018/uk-leverage-ratio-applying-the-framework-to-systemic-rfbs-and-reflecting-the-srb.

2 These are PRA-regulated banks and building societies with total retail deposits equal to or greater than £50 billion, whether on an individual or a consolidated basis, on a firm's financial year end date.

3 SRB institutions are RFBs, within the meaning of section 142A of the Financial Services 2.1 and Markets Act 2000 (FSMA), and large building societies that hold more than £25 billion in deposits (where one or more of the accountholders is a small business) and shares (excluding deferred shares).

4 RFB group risk means, in relation to a consolidation group containing an RFB sub-group the risk that the financial position of a firm on a consolidated basis may be adversely affected by the minimum capital and buffers applicable at the level of the RFB sub-group, such that there is insufficient capital within (or an inappropriate distribution of capital across) the consolidated group to cover the risks of the consolidated group.

1.8 The policy contained in this PS has been designed in the context of the current UK and EU regulatory framework. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including changes arising once any new arrangements with the European Union take effect.

2 Feedback to responses

2.1 Before making any proposed rules, the PRA is required by the Financial Services and Markets Act 2000 (FSMA) to have regard to any representations made to it, and to publish an account, in general terms, of those representations and its response to them.[5]

2.2 The PRA received one response to the CP. The respondent supported the PRA's proposals and noted they have been well signalled in advance. But the respondent questioned whether RFBs should be subject to the Reporting Leverage Ratio and Public Disclosure Leverage Ratio Parts of the PRA Rulebook, and requested clarity on the PRA's timelines for reviewing the UK leverage ratio framework in light of international standards.

2.3 The PRA proposed to apply the Reporting Leverage Ratio and Public Disclosure Leverage Ratio Parts to RFBs whose groups are already required to meet leverage ratio requirements on a consolidated basis –hereafter 'RFBs in scope'. The respondent questioned whether the costs of a daily averaging reporting process at RFB level outweighed the benefits, given the business model of RFBs.

2.4 Having considered the response, the PRA has decided to proceed with the application of these requirements on RFBs in scope. The PRA considers that the application of the PRA reporting and disclosure requirements will enhance market discipline and transparency. The PRA recognises that there may be cost implications but does not consider this cost to be disproportionate to the size and systemic importance of these firms. The PRA does not expect the proposed reporting requirements to have material cost implications given that the affected firms already are part of groups that already have to meet UK-specific leverage-related reporting requirements. Therefore the benefits of the proposals are expected to outweigh the costs.

2.5 The respondent also requested clarification on the timeline of any potential transition of the UK leverage ratio framework to the international standards. In the June 2018 Financial Stability Report[6] the FPC re-iterated it would conduct a comprehensive review of the leverage ratio framework in light of revised international standards. This includes Basel III and the European Capital Requirement Regulation (known as CRR2) currently under negotiation. The FPC has decided that it will conduct and communicate the outcome of its review once there is further clarity on the finalised implementation of the leverage ratio requirement in EU law and how it might affect UK firms. The PRA expects to review its implementation of the UK leverage ratio framework in light of the conclusions of the FPC's review.

5 Sections 138J(3);2L; and 138J(4) of FSMA
6 https://www.bankofengland.co.uk/financial-stability-report/2018/june-2018.

Appendices

1	**PRA RULEBOOK: CRR FIRMS: LEVERAGE RATIO (AMENDMENT) INSTRUMENT 2018, available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2018/uk-leverage-ratio-applying-the-framework-to-systemic-rfbs-and-reflecting-the-srb**
2	**Update to SS45/15 'The UK leverage ratio framework', available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-uk-leverage-ratio-framework-ss**
3	**Update to SS46/15 'UK leverage ratio: instructions for completing data items FSA083 and FSA084', available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/uk-leverage-ratio-instructions-for-completing-data-items-ss**
4	**Update to FSA083 Leverage Ratio Reporting template, and reporting instructions, available at: https://www.bankofengland.co.uk/prudential-regulation/regulatory-reporting/regulatory-reporting-banking-sector**