APPENDIX 13: PURPOSE OF THE RULES (to accompany PS17/21[1])

This appendix sets out a summary of the purpose of the rules, as required by section 144D(2)(a) of FSMA.

1. Level of application		
Areas and rules	**Summary of the rules**	**Summary of the purpose of the rules**
Levels of application provisions relating to large exposures, liquidity, reporting, and disclosure in the Large Exposures (CRR), Liquidity (CRR), Liquidity Coverage Ratio (CRR), Reporting (CRR), and Disclosure (CRR) Parts	The rules specify the individual, consolidated, and sub-consolidated level of application.	The purpose of the rules is to set out whether the PRA rules in these Parts apply to an individual firm or on a group-wide basis, and how the rules should be applied as a result.
Cross-referencing to the UK CRR in the Own Funds and Eligible Liabilities (CRR), Trading Book (CRR), Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR), Counterparty Credit Risk (CRR), Operational Risk (CRR), and Credit Valuation Adjustment Risk (CRR) Parts	The rules specify the level of application of the Own Funds and Eligible Liabilities (CRR), Trading Book (CRR), Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR), Counterparty Credit Risk (CRR), Operational Risk (CRR), and Credit Valuation Adjustment Risk (CRR) Parts in a way that cross-references the corresponding level of application provisions that remain in the CRR.	The purpose of the rules is to clarify that the level of application provisions for the rules in these Parts remains in the UK CRR.
Methods of consolidation Chapter 2 of the Groups Part	The rules make a number of minor changes in the Groups Part to reflect the revised approach to determining methods of prudential consolidation.	The purpose of the rules is to clarify that certain methods of consolidation rules in the Groups Part apply to a firm for the purposes of its obligations under Parts Two and Three of the CRR.

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

2. Definition of capital		
Areas and rules	**Summary of the rules**	**Summary of the purpose of the rules**
Prudential treatment of CET1 deductions Article 36 of Chapter 3 and Chapter 4 of the Own Funds and Eligible Liabilities (CRR) Part	The rules modify Article 36 of the CRR and Regulation (EU) No 241/2014 when it is transferred into PRA rules, to require the full deduction from CET1 of all intangible assets, with no exception for software assets.	The purpose of the rules is to enhance the quality of capital which firms are required to hold. This addresses a concern that there is a lack of credible evidence that the value of intangible software assets is realisable to absorb losses on a going concern basis, including during stress.

3. Market risk		
Areas and rules	**Summary of the rules**	**Summary of the purpose of the rules**
Requirements for prudent valuation Article 105 of Chapter 3 and Chapter 4 of the Trading Book (CRR) Part	The rules modify Article 105 of the CRR and Regulation (EU) No 2016/101 when they are transferred into PRA rules to: (i) clarify that the prudent valuation requirements apply to both trading and non-trading book positions measured at fair value; (ii) require that 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 the institution; and (iii) give effect to the content of the EU CRR II regulatory technical standards on prudent valuation, which provides additional, more specific, requirements relative to the Basel standards on prudent valuation.	The purpose of the rules is to clarify the application of the prudent valuation policy on fair valued positions. The rules also introduce more specific additional requirements on prudent valuation. This ensures that market risk capital requirements are calculated based on the actual positions and realistic valuations, in a consistent manner.
Trading book management	The rules transfer and amend the presentation of Articles 102, 103, 104, 104b, and 106 of the CRR into PRA rules to incorporate and clarify	The purpose of the rules is to improve transparency by clarifying the general requirements for trading book management.

3. Market risk		
Articles 102,103, 104, 104b, and 106 of Chapter 3 of the Trading Book (CRR) Part	requirements on inclusion of positions in the trading book and on internal hedges between the trading book and non-trading book.	
Proportionality Article 94 of Chapter 3 of the Trading Book (CRR) Part	The rules modify Article 94 of the CRR when it is transferred into PRA rules to increase the proportionality thresholds for firms with limited trading activity and revise the approach to calculation of trading book size for eligibility to use the derogation.	The purpose of the rules is to ensure a proportionate framework by increasing the absolute threshold for firms to use the derogation for small trading book business.

4. Collective investment undertakings		
Areas and rules	**Summary of the rules**	**Summary of the purpose of the rules**
Prudential treatment of firms' exposures to collective investment undertakings (CIUs) Articles 128, 132, 132a, 132b, 132c, and 152 of Chapter 3 of the Standardised Approach and Internal Ratings Based Approach to Credit Risk (CRR) Part.	The rules modify Articles 128, 132, and 152 of the CRR when they are transferred into PRA rules, and introduce Articles 132a, 132b, and 132c to clarify the capital treatment of firms' exposures to units and shares to CIUs.	The purpose of the rules is specify the capital treatment of firms' exposures to units and shares to CIUs. The rules set out three different approaches that can be used for calculating risk-weighted assets for CIU exposures, which are calibrated to reflect the level of risk. The rules also introduce a notification requirement for material amounts of exposures to CIUs, including both an absolute and a relative materiality threshold.

5. Counterparty credit risk		
Areas and rules	**Summary of the rules**	**Summary of the purpose of the rules**
Counterparty credit risk – SA-CCR Articles 272 to 280f of Chapter 3 of the Counterparty Credit Risk (CRR) Part	The rules implement the Basel Committee standards on the standardised approach to measuring counterparty credit risk (SA-CCR).	The purpose of the rules is to enhance the standardised measurement of firms' counterparty credit risk exposures on derivatives activities. The approach better aligns capital requirements in the existing standardised approaches with the underlying risk profile.
Counterparty credit risk – proportionality	The rules introduce simplified methodologies for firms with	The purpose of the rules is to enhance proportionality by allowing firms with smaller

5. Counterparty credit risk		
Articles 281 and 282 of Chapter 3 of the Counterparty Credit Risk (CRR) Part	smaller derivatives activities to calculate counterparty credit risk exposures.	derivatives activities the option to adopt simpler but more conservative methodologies to measuring counterparty credit risk exposures.
Exposures to central counterparties (CCPs) Articles 300 to 311 of Chapter 3 of the Counterparty Credit Risk (CRR) Part	The rules implement relevant Basel changes on the calculation of banks’ exposures to CCPs.	The purpose of the rules is to enhance and update the calculation of capital requirements for firms’ exposures to a qualifying CCP, including the use of the SA-CCR methodology.

6. Operational risk		
Areas and rules	**Summary of the rules**	**Summary of the purpose of the rules**
Operational Risk Article 316 of Chapter 3 of the Operational Risk (CRR) Part	The rules modify Article 316 of the CRR when it is transferred into PRA rules to provide greater clarity on the calculation of the Basic Indicator Approach (BIA) and the Standardised Approach (SA).	The purpose of rules is to provide greater clarity to firms on the calculation of the Relevant Indicator (RI) in relation to leasing activities, which is in turn used to calculate operational risk capital requirements under the BIA and the SA. This clarity reduces the burden on firms in interpreting this provision, and aids transparency.

7. Large exposures		
Areas and rules	**Summary of the rules**	**Summary of the purpose of the rules**
Large exposures Large Exposures (CRR) Part	The rules modify Articles 387 and 389 to 403 of the CRR and Regulation (EU) No 1187/2014 when they are transferred into PRA rules, to set out requirements related to large exposures.	The purpose of the rules is to limit large exposures to the capital that is available to absorb losses and allow a firm to remain a going concern.

8. Liquidity coverage ratio		
Areas and rules	**Summary of the rules**	**Summary of the purpose of the rules**
Liquidity Coverage Ratio (LCR) Articles 411, 412, and 414 to 426 of Chapter 4 of the Liquidity CRR (Part) and Chapters 2, 3, and 4 of the Liquidity Coverage Ratio (CRR) Part.	The rules replicate the LCR requirements of the CRR (Articles 411, 412, and 414 to 426) and Delegated Acts by introducing a new Liquidity Coverage Ratio (CRR) Part and Liquidity (CRR) Part to define the LCR.	The purpose of the LCR rules is to ensure that firms maintain sufficient high quality liquid assets to survive a significant stress scenario lasting 30 calendar days. This improves the short-term liquidity resilience of firms and reduces the risk of failure due to liquidity risk.
High quality liquid assets (HQLA) Articles 417 to 419 of Chapter 4 of the Liquidity (CRR) Part Articles 6 to 17 of Chapter 2 and Chapter 3 of the Liquidity Coverage Ratio (CRR) Part	The rules replicate the LCR requirements of the Delegated Acts which define which assets qualify as HQLA for the purpose of the LCR.	The purpose of HQLA rules is to ensure banks hold a stock of assets to cover their stressed net cash outflows over 30 days. To qualify as HQLA, assets should be liquid in markets during a time of stress so that firms can quickly and easily convert them into cash (in order to meet outflows) at little or no loss of value.
Net outflows Articles 420 to 425 of Chapter 4 of the Liquidity (CRR) Part Articles 20 to 34 Chapter 2 and Chapter 4 of the Liquidity Coverage Ratio (CRR) Part	The rules replicate the LCR requirements of the Delegated Acts, which define net cash outflows for the purpose of the LCR.	The purpose of the rules is to continue to define the outflow and inflow rates that constitute the LCR's stress scenario that would lead to a significant materialisation of liquidity risk, eg a partial run-off of retail deposits, a partial loss of unsecured funding, or a partial loss of secured financing.

9. Net stable funding ratio		
Areas and rules	**Summary of the rules**	**Summary of the purpose of the rules**
Net stable funding ratio (NSFR) Articles 413 and 427 to 428az of Chapter 4 of the Liquidity (CRR) Part	The rules define the NSFR in the Liquidity (CRR) Part.	The purpose of the NSFR rules is to ensure that firms maintain a stable funding profile. This reduces the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position and increase the risk of its failure, which could potentially lead to broader systemic stress.

9. Net stable funding ratio		
Available Stable Funding (ASF) Articles 428i to 428o and 428al to 428ap of Chapter 4 of the Liquidity (CRR) Part	The rules define the categories of liabilities that qualify for ASF and the factors that should be given to each category in the Liquidity (CRR) Part.	The purpose of rules is to define ASF, which is the portion of capital and liabilities that can be relied on to provide funding over the one-year time horizon considered by the NSFR.
Required Stable Funding (RSF) Articles 428p to 428ah and 428aq to 428az of Chapter 4 of the Liquidity (CRR) Part	The rules define the categories of assets and off balance sheet exposures that qualify for RSF and the factors that should be given to each category in the Liquidity (CRR) Part.	The purpose of rules is to define RSF, which reflects the liquidity characteristics and residual maturities of the various assets held by a firm as well as those of its off balance sheet exposures.

10. Disclosure		
Areas and rules	**Summary of the rules**	**Summary of the purpose of the rules**
Part Eight CRR Articles 431 to 455 of Chapter 4 of the Disclosure (CRR) Part	The rules require institutions to make quarterly, semi-annual, and annual disclosures in accordance with the requirements highlighted for large, small, and non-complex and other institutions. The rules require that disclosures should also be made in the specified format, but may omit information which is regarded as non-material, proprietary, and confidential.	The purpose of the rules is to specify the information which is to be publicly disclosed by firms in order to promote market discipline.
Disclosure formats and instructions Chapter 5 of the Disclosure (CRR) Part	The rules set out on a more granular level how institutions must meet the disclosure requirements that were previously contained in Technical Standards.	The purpose of the rules is to highlight the detail of what is to be disclosed in the templates.
Pillar 3 templates and instructions Chapter 6 of the Disclosure (CRR) Part	The rules list the disclosure templates and instructions that firms must use when publishing details on their risks, capital adequacy, and policies for managing risk.	The purpose of the rules is to enhance market discipline by ensuring consistency and comparability of firms' disclosures. They specify the exact format of the templates, which are to be disclosed, as well as the instructions to populate the templates to ensure that firms disclose on a consistent basis.

11. Reporting requirements		
Areas and rules	**Summary of the rules**	**Summary of the purpose of the rules**
Reporting (Part Seven A CRR) Articles 430 and 430a of Chapter 4 of the Reporting (CRR) Part	The rules set out the specific areas upon which reporting is required, in relation to an institution's compliance with own funds requirements, large exposures, liquidity requirements, asset encumbrance, financial information, and aggregate data for each national immovable property market.	The purpose of the rules is to define the scope of the areas for which the PRA requires information to supervise institutions' compliance with the prudential requirements set out in the CRR sections of the PRA Rulebook. This also includes specific reporting obligations for the immovable property market.
Reporting requirements Chapter 5 of the Reporting (CRR) Part	The rules set out on a more granular level how institutions must meet the reporting requirements highlighted in Articles 430 and 430a that were previously contained in Technical Standards. The rules require institutions to report the information in accordance with the frequency and remittance dates highlighted.	The purpose of the rules is to highlight the detail required to be reported in the templates, definitions, and the data principles for institutions to report to the competent authority. The rules highlight how the reporting thresholds will operate as well as the frequency in which information is required and the associated remittance dates.
Templates and instructions Chapter 6 of the Reporting (CRR) Part	The rules list reporting templates and instructions that firms must use when submitting information to the PRA to comply with the reporting requirements rules.	The purpose of the rules is to specify the exact format of the templates, which are to be reported, as well as the content of instructions to populate the templates so that firms report to the PRA consistently on areas relevant to compliance with the prudential requirements set out in the CRR chapters of the PRA rulebook.

12. Temporary transitional power		
Areas	**Summary of the rules**	**Summary of the purpose of the rules**
The temporary transitional power Rule 2.10 of the Interpretation Part	To provide a mirror provision which ensures that the PRA's transitional direction continues to apply to CRR restatement provisions (except in the Liquidity (CRR) Part and the Liquidity Coverage Ratio (CRR) Part of the PRA Rulebook) for the intended duration of the direction.	The purpose of the rule is to ensure that firms do not lose the benefit of the temporary transitional power, as set out in the PRA's transitional direction, simply because the provisions are moved from the CRR into PRA rules.

13. Consequential amendments to the PRA Rulebook		
Areas and rules	**Summary of the rules**	**Summary of the purpose of the rules**
Amendments to the following Parts of the PRA Rulebook – Glossary, Interpretation, Capital Buffers, Counterparty Credit Risk, Internal Capital Adequacy Assessment, Large Exposures, Permissions, and Regulatory Reporting	The rules make consequential amendments to the PRA Rulebook.	The purpose of the rules is to ensure that the PRA Rulebook continues to operate effectively as a result of the PRA Rulebook CRR Instrument 2021.