

A response to the The PRA's CP16/22

Chapter 6 Market risk

March 2023

UK Finance is the collective voice for the banking and finance industry. Representing more than 250 firms, we act to enhance competitiveness, support customers, and facilitate innovation.

We are pleased to briefly respond to [chapter 6](#) of the PRA's CP 16/22 on implementing Basel 3.1 in the UK, which describes its proposals to implement the Basel 3.1 standards on Market risk.

Our members have worked closely with ISDA in the creation of its response to chapter 6 of CP16/22. We reiterate below some key points that are of particular importance to our members, which would benefit from being further considered by the PRA:

- **Requirements for the IMA permissions:** provide guidance in advance on the extent of evidence required for model approval for IMA, as well as clarify the scope of those approvals from operational perspective.
- **FRTB SA Authorisations:** clarify the components of the SA that require supervisory approval, particularly when a firm wishes to use alternative sensitivities.
- **IMA Default Risk Charge (DRC):** consider removing the 3 basis-point floor in the IMA DRC for the exposures subject to 0% risk weight in the SA DRC.
- **Risk Factor Eligibility Test (RFET) /Non-Modelled Risk Factor (NMRF):** further engagement is required to find an appropriate solution to improve banks' ability to practically meet the requirements.
- **Profit and Loss Attribution test (PLAT):** review the thresholds for the PLA test once banks are able to develop the system capabilities and produce sufficient and reliable data.
- **Collective Investment Undertakings (CIUs):** include data vendors in the list of 3rd party providers under the External Party Approach (EPA); for the calculation of risk-weighted

(RW) exposures, introduce a correlation parameter rather than using an absolute simple sum and for DRC and RRAO RWs to be provided separately.

- **Residual Risk Add-on (RRAO) - clarification on the term “instrument”:** allow exemption of exactly matching back-to-back transactions from the RRAO, in line with the Basel standards, as well as recognising the hedge benefit for the same instrument.
- **Fair Valued Through P&L (FVTPL) trades:** amend the PRA’s proposal so that TB would not capture instruments that are not held for trading purposes but are FVTPL.
- **Re-assignment:** clarify specific cases where notification or permission is required and the industry recommends specific cases that should fall out of scope for re-assignment.

Responsible executives

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