UK FINANCE

A response by UK Finance to HMT's consultation on:
Implementation of the Investment Firms Prudential Regime and Basel 3 standards

Introduction

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.

Our members, ranging from globally systemically important banks, both UK and international, mid-tier banks and building societies as well as newer banks, have reviewed the consultations implementing Basel 3 standards, from HM Treasury and the PRA, CP 5/21 which make proposals to implement CRR2. We include in this response the industry's views, taking account of section 144C of the forthcoming Financial Services Bill, which states that "When making CRR rules, the PRA must, among other things, have regard to "(a) relevant standards recommended by the Basel Committee on Banking Supervision from time to time, (b) 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 and (c) 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…".

We agree with the Bank of England that the UK banking system is resilient and well placed to withstand the financial impacts of Brexit and the Covid-19 pandemic. This has been demonstrated by the response to the pandemic over the last year. So that the UK financial services sector remain innovative and competitive both domestically and internationally post-Brexit and post-pandemic, it is important that the HMT and the PRA, in advancing their objectives of prudential safety and soundness objectives, suitably recognise the need to continue to support the UK's globally strong position in the international capital markets, which has been achieved over many years.

In a challenging interest rate and macro-economic environment, the additional cost and complexity of potentially unnecessary and untested regulatory changes could constrain banks and building societies' ability to invest in innovation and improve customer service and, over the longer term, undermine UK's attractiveness and competitiveness.

We discuss aspects of the proposals in both CRR 2 consultations that could have adverse strategic consequences for UK financial services.

Key messages

The Financial Services Bill has set out the UK's competitiveness and to be world leading in prudential standards as principles underpinning the UK's approach to financial services sector regulation. In line with these principles and in the new post Brexit and pandemic environment, it is paramount that the UK implements global prudential standards in a way that is appropriate to the structure of the UK banking market, taking the opportunity to mitigate a number of headwinds stemming from internationally or EU agreed prudential standards. To this effect, we noticed that:

A. ***inconsistent and unduly restrictive EU requirements such as those relating to Eligible Liabilities have been excluded from the scope of this consultation and hence not been revoked.***

B. ***the investment industry may be constrained by the approach on collective investment undertakings (CIUs).***

C. ***the unduly accelerated implementation of Fundamental Review of Trading Book (FRTB) may put UK at a disadvantage compared with the EU and other jurisdictions.***

D. ***the proposed PRA treatment of software assets creates an uneven playing field relative to other major jurisdictions and is inconsistent with government's economic policy considerations outlined in the Chancellor of the Exchequer's remit letter to the PRC and impede the development of innovative financial technology.***

E. ***the proposed implementation of the standardised approach to counterparty credit risk (SA-CCR) without the alpha factor adjustment could have significant negative implications for end users and for the attractiveness of the UK for global derivatives activity. In considering the UK's approach to Basel implementation of all capital standards affecting derivatives, we would encourage UK authorities to consider how to ensure a level playing field for all firms operating derivatives businesses in the UK, given the UK's role as a global financial centre for both OTC and exchange-traded derivatives.***

F. ***the proposed large exposures (LE) framework, whilst international in principle, is untested and lacks an impact analysis, and if implemented as proposed, would potentially hamper UK's wholesale markets which are facing some headwinds post Brexit.***

G. ***the net stable funding proposals with higher funding requirements could lead to less competitive clearing, equity facilitation and trade finance markets and consequently higher costs for banks' clients.***

H. ***certain reporting and disclosure requirements could benefit from a more proportionate and pragmatic approach without jeopardising timely and relevant information requirements of both supervisors and the market.***

Therefore, while we strongly encourage the UK authorities' leadership in and commitment to international standards, the UK should consider more adaptations where appropriate, to continue ensure the UK financial markets remain both financially resilient and competitive.

A. Eligible liabilities – unduly restrictive calibration and issuance path

- We note that the scope of this consultation excludes the removal of CRR Article 92b which reflects the EU's approach to implementing internal MREL requirements in a way that is inconsistent and duplicates the Bank of England's existing approach, as the UK Resolution Authority. We consider that Article 92b and the restrictions it includes on both the calibration of internal MREL and issuance paths should be removed (We also raised this issue in our recent response to the Bank of England's MREL discussion paper).

- Prepositioning internal MREL at the highest end of the range of the FSB's term sheet, as adopted in CRR 2, may increase funding costs for international banks, penalise balance sheet management in the UK, constrain their ability to mobilise group-wide resources (particularly in times of stress) and act as a barrier to the provision of finance to UK clients and customers. The removal of Article 92b would leave banks with 75-90% calibration..

B. CIUs – global competitiveness of funds industry

- For requirements relating to exposures to CIUs, we strongly believe that HM Treasury and the PRA should implement the capital requirements for funds on the basis set out in the Basel standards. Specifically, we request that HM Treasury remove the need for any equivalence assessment in this area. This would allow banks to continue to invest in funds abroad and support the UK as a financial centre, allowing more investment avenues for capital.

- A notable risk is that if equivalence assessments are retained, there may be unintended cliff edge effects as banks try to manage the significant increase in capital requirements during the period when equivalence assessments are forthcoming. The third country restrictions do not solely impact investments but also collateral positions.

- Furthermore, the overall objective is to treat underlying investments in funds as if they were held directly. In our view, it is not clear that there are prudential grounds for requiring an additional equivalence decision for fund structures when the relevant risk weighting treatment for underlying investments sufficiently addresses risks associated with third country investments, particularly given the significant increases in RWAs for equity investments under the forthcoming Basel framework.

- If HM Treasury retain the equivalence decision, we request that such decisions are made as soon as possible. This will ensure that firms can plan and manage their investments in an appropriate manner. Given the cliff effect of a 1250% risk weight (equivalent to a straight deduction from capital) any short notice on equivalent decisions may result in firms being required to sell such investments quickly, potentially harming market liquidity and resulting in unnecessary losses.

- The PRA (and/or Financial Conduct Authority given potential remit over fund managers) could require banks to make 'case-by-case' equivalence assessments using external consultants. The bank would incur the cost of soliciting the assessment. This is an approach that has been previously used by the authorities in certain circumstances.

C. FRTB – level playing field on implementation timescales

We would welcome a roadmap for FRTB, given the ongoing work by our members on internal model approach (IMA) and related approvals (which will be constrained by the requirement to provide 250 business days of historical results), and we would challenge whether the EU's FRTB Standardised Approach reporting requirements should be introduced in the UK before the implementation date of January 2023 for the Basel 3 FRTB framework's binding capital requirement. These reporting requirements are not a part of the internationally agreed standards and have not been imposed by any jurisdiction other than the EU. Should the UK regulators go ahead, we have commented on some implementation issues in our response to 3.2 below. In addition, given other key jurisdictions (such as the EU) are unlikely to meet the internationally agreed 2023 go-live for FRTB own funds requirements, we would also encourage the UK to consider a delay to implementation and provide clarity on the timeline.

D. Capital and software assets – innovation and level playing field

- In today's highly digitised world, software assets are increasingly important to the functioning of banks and are fundamental to the value proposition of challenger banks and fintechs. Digitalisation is also key in improving clients' banking experience and accessibility, as demonstrated by the limitation of physical contact during the Covid-19 crisis.

- UK banks and building societies make significant investments in software, and these can support innovation (as well as core operations) in the sector, which we and HMT are keen to encourage. The software deduction may limit incentives to digitalisation, as it effectively forces banks to treat software expenditure as a cost rather than as an investment. This will result in non-regulated entities outside of banks and building societies having an even greater competitive advantage in the development of software if the PRA approach is adopted.

- The reversion to full CET1 deduction of software assets would also mean that UK banks will suffer a disadvantageous treatment to banks in both the EU and US, which will provide an unlevel playing field internationally. We would encourage UK regulators, preferably in coordination with other prudential regulators at Basel, to examine the loss absorbency capacity of software assets and the relationship of this loss absorbency to risk weighting treatment under regulatory capital rules. The inconsistent treatment of software assets across different jurisdictions, which is largely driven by accounting treatment than specific policy decisions, can raise level playing field issues and it would be preferable for the UK to align with other jurisdictions' capital outcome for software assets.

- If the Article 36 provisions of CRR are revoked, it is essential that any rules developed by the PRA for the treatment of software assets are consistent with HM Treasury's economic policy, as set out in the Chancellor's remit letter to the PRC, in particular those related to competitiveness and innovation. We strongly believe that reverting to the original CRR rule requiring full CET1 deductions for software assets would be inconsistent with this. We recognise the PRA's concerns on loss absorbency of software assets and so will be putting forward options to the PRA that balance both their concerns and our members' concerns on innovation and competition, in our response to the CP 5/21.

E. CCR: UK's standing in global derivatives markets and provision of finance

- SA-CCR is one of the most significant capital drivers for derivatives activity. Impact studies have shown that the increase in capital requirements can be material despite the standards aiming to be more risk sensitive; the 1.4x alpha factor is a key driver of the increase.

- As HMT Treasury and PRA consider implementation of Basel 3, we support the commitment to international standards and favour continued alignment with Basel as a starting position. Nevertheless, we believe that the increase in capital requirements expected as a result of the implementation of SA-CCR warrants further attention by UK authorities, in particular given its potential impact on end-users. We consider that an adjustment in the application of the alpha factor to be necessary in order to prevent negative implications to end users and to avoid damaging UK's derivatives markets which provide vital risk reduction and funding services to customers globally. The removal of the alpha factor for corporate end users would also help achieve the principle (c) in section 144c of provision of finance to UK clients and ensure a level playing field in the regulatory treatment of derivatives activity.

- Other jurisdictions have made adaptations to Basel standards for their specific markets, counterparties, products and risks. In particular, the US has allowed for exemption of the alpha factor for end users (i.e. set at 1). The EU has also granted exemptions in CVA requirements for derivatives transactions with a range of counterparties.

- In this context, we believe that applying the Basel standards as is, when other jurisdictions have opted to adapt the standards for domestic rules, could damage the UK's attractiveness for global derivatives market activity. Other jurisdictions could emerge as increasingly more efficient booking locations in an environment, post Brexit, where global banks have had to enhance their ability to book transactions based on client preferences and jurisdictional factors.

F. Large exposures – UK's standing in global wholesale markets

The general view of our members is that the LE proposals are unclear and should be consulted on separately, after an impact analysis, as other significant prudential changes are.

Substitution approach

- The main area of concern is the substitution approach in relation to financial collateral for securities financing transactions (SFTs) and derivatives. Our members believe this approach is questionable on economic grounds and the rationale for it has not been subject to sufficient scrutiny. In the case of a protection provider (e.g. AIG), there is a degree of inherent wrong way risk - the protection provider would potentially suffer losses if the protection is called. In this case, the substitution approach makes sense. However, where an obligor (i.e. a borrower or a protection provider) provides collateral with no connection to itself (e.g. government bonds) there is no impact on the credit quality of collateral if the obligor defaults or if its credit quality worsens. Banks will often be able to make margin calls or request for collateral switches if the credit quality of the collateral deteriorates. So, the use of the substitution approach in all situations where the collateral is received is flawed and is not based on actual market practice or sound economic reasoning.

- Further, the scope of CRR 2 rules (which the PRA propose to import into its rulebook) is unclear. It is interpreted to mean that substitution is required where there has been a risk-weight substitution using the Financial Collateral Simple Method only.

- Should the PRA go ahead with implementation of the CRR 2 LE proposals as planned and follow the Basel 3 rules the lack clarity is likely to lead to differing interpretation and implementation by firms without further guidance. A separate consultation would enable the PRA and industry to work together to clarify some of these as well as informing the implementation of standards globally.

- This would support the smooth functioning of repo and securities lending markets and avoid significantly reduced liquidity in these markets which are important to the global standing of the UK's wholesale markets.

Reporting on large exposures: definition of an 'institution'

- We query how the equivalence determination for the purposes of LE in CRR 2 will work under Article 391. The UK decision[1] was extended solely to EEA countries in contrast to those under Article 107(4). This means that the identification of the top 10 'shadow banking entities' will include non-EEA/UK institutions in North America and Asia, which appears to be unintentional and undesirable.

- Furthermore, any subsequently applied limits to the 'shadow banking entities' would capture firms that the 2016 EBA Guidelines (EBA/GL/2015/20) appeared to intend as 'excluded undertakings' from the definition. We would request that the PRA clearly define 'shadow banking'. The removal of the EU mandate for technical standards may not be intended to signal otherwise however we note for confirmation. Therefore, we query the scope and definition of an institution for LE purposes.

[1]https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/952320/Table_of_UK_Equivalence_Decisions_Jan_2021.xlsx

G. NSFR: continuation of certain wholesale markets and Trade finance business in the UK

UK clearing business

- Firms facilitate client transactions on exchanges and clearing houses to provide those clients with access to futures and listed derivatives products. Clients use derivatives as one of their risk management tools to manage their exposures to various asset classes. This activity is self-funded as the margin received from clients is sufficient to cover any margin posting to the exchanges. As industry practice, firms do not offer any guarantee for the performance of the exchanges to their clients. There is no need for banks to fund this business activity with long term funding as contemplated by the NSFR proposals, when they have existing back-to-back matched funding from their clients where any frictional mismatches are limited to few days. Any term funding requirement would increase the funding costs which will ultimately be borne by the clients who take this higher cost into account while making their decisions about the location in which they do business in a very competitive global derivatives market.

Short-term equity market facilitation transactions and activities

- Users of financial services may wish to gain exposure to securities for a variety of reasons. Banks play an important role in providing end-users with this exposure but must hedge the risk of the transaction by purchasing the underlying security. For example, an asset manager may require exposure to equity stock, which the bank will provide to the client, by purchasing the stock to hedge the position from a market risk perspective. The calibration of the securities RSF within the NSFR (e.g. 5-85% RSF) fails to take into account the short-term nature of hedging instruments and the legal and operational provisions in place which ensure the close out price is fully absorbed by the client.

- We would therefore recommend the application of less penal stable funding requirements for securities that are hedging other derivatives (a 0% stable funding for securities that are hedging a client facing derivative on which initial margin has been provided and less penal RSF factors for securities that are hedging other derivatives).

- This would encourage firms to provide these capital market services to pension funds, mutual funds, endowments/foundations in the UK, helping protect the UK's leading role in investment banking equity market facilitation in Europe.

Securities financing transactions

- The proposed carry over of EU rules introduce additional netting conditions whereby transactions using Level 1 HQLA cannot be netted against transactions using non-Level 1 HQLA. This is super-equivalent to the BCBS standard and there is no indication that the likely impact of this change on the users of financial services or on system wide financial stability has been considered.

- The PRA is intending to copy across the CRR text. This will include Articles 428p(2) and 428p(3) which are not clear and have caused some confusion among regulators and firms. It would be more straight forward and mitigate the risk of any further interpretative difficulties or errors if the BCBS text in this area could be adopted. This would not lead to any differences to treatments in practice or to amounts of stable funding requirements.

On balance sheet trade finance

- A significant portion of trade finance loans are booked in the UK supporting auxiliary financial services and business opportunities. The pandemic and Brexit backdrop will see increased focus on financial and related professional services exports in their contribution to the wider UK economy.

- Maintenance of the stable funding requirement for on-balance sheet trade finance loans deviates from the current UK CRR and EU CRR 2, which will impact UK competitiveness in this area. The current proposal has a higher requirement for trade finance loans with less than 6 months maturity compared with EU's CRR2 rules which include an adaptation. Data (being shared with the PRA) on balance sheet trade finance exposures supports a maintenance of the existing 10% RSF factor and appropriately reflects the associated risk.

- Corporate on-balance sheet trade finance products have a residual maturity of less than 6 months at any point in time. A high NSFR weighting will impact the cost of funding for short-term trade finance products for both the import and export legs of the transaction. The cost and capital of this low risk business will increase, with end consumers impacted by changes in pricing for these trade finance instruments and the global supply chain.

- Funding for trade finance products is transacted based on underlying documents such as shipment documents submitted under associated letters of credit, invoices or bill of exchange. Additionally, under documentary credit, banks rely on International Chamber of Commerce (ICC) rules that govern international trade. These are upheld in most jurisdictions and provide precedents for cases in other jurisdictions. The documentation and due diligence requirements are onerous for clients but enable better risk management for the bank and a more resilient portfolio.

- In contrast, short terms loans have no underlying documents or transaction details submitted for drawdowns. If on balance sheet trade finance loans have the same high RSF requirements as short-term loans, their costing will be similar and more expensive than currently. A consequence of this will be that short-term loans (without associated documentation requirements) become a more desirable product for clients although they are potentially riskier for the bank.

H. Reporting & Disclosure

- We urge the UK authorities to critically evaluate the frequency and proportionality of reporting requirements, particularly those that relate to less volatile or less key measures. In this regard our members would welcome a pragmatic approach consistent with the PRA's safety and soundness objectives as well as 'keep it strong and simple" intentions. As examples members question the value of and rationale for introducing new quarterly reporting of GSII indicator data; and challenge the value of extending quarterly disclosure requirements to a greater number of banks.

- Members would welcome a review of reporting timelines at year-end to allow for greater alignment between disclosure and reporting, notably to eliminate the burdensome and time-consuming need for resubmissions of regulatory returns after Board approval and completion of external audit of annual accounts.

- We would welcome clarification on UK's approach relating to the FAQ process that has been an important and necessary feature under the EBA regulatory regime. There is also uncertainty about the standing of existing and future EBA Q&As on CRR2 which do not appear to have been incorporated into UK's CRR 2 proposals.

Responses to Sections and Questions in the consultation

Implementing the Basel 3 standards: Exercise of the Clause revocation power

Chapter 2's Statement on CRR revocations

We have assumed that all revocations have been reviewed by the UK authorities to ensure that the resultant CRR2 framework, comprised of the on-shored EU rules in Statute (i.e. CRR I), any amending Statutory Instruments, the on-shored technical standards, and the proposed additions to the PRA Rulebook, is holistically fit for purpose, comprehensive and that there are no overlaps, gaps or inconsistencies. Our members have concentrated their reviews on specific areas and there has not been sufficient time to undertake a detailed end-to end review. As our members progress through this review as part of the implementation, should we encounter any issues, we will inform the UK authorities as relevant.

Chapter 2's Statement of policy on two issues which depart from the EU's CRR2 approach – Eligible Liabilities

- We note that the scope of this consultation excludes the removal of CRR Article 92b which reflects the EU's approach to implementing internal MREL requirements in a way that is inconsistent and duplicates the Bank of England's approach, as the UK Resolution Authority. We consider that Article 92b and the restrictions it includes on both the calibration of internal MREL and issuance paths should be removed. We note that the Bank of England's 2018 MREL Policy Statement states that "By setting internal MREL, the Bank will also implement the Financial Stability Board (FSB) Total Loss Absorbing Capacity (TLAC) standard".
- Furthermore, notable inconsistencies exist between the Bank of England and the EU's approaches in relation to calibration and issuance paths. While the Bank of England provides appropriate flexibility to achieve its policy outcomes in consultation with home authorities, the EU's implementation via Article 92b is more prescriptive and can be unduly restrictive.
- With respect to calibration, the Bank of England sets internal MREL requirements in the 75 to 90% range of the full amount of external MREL requirement, as agreed at international level. This provides an important mechanism to authorities and incentive to firms to encourage coordination and progress across jurisdictions. In contrast, Article 92b sets a fixed scalar at the upper bound of the range.
- In addition, prescriptive restrictions with regards to issuance paths in Article 92b (2) are unhelpful. Different paths should be able to be considered by firms and by the resolution authority, as long as losses can effectively be absorbed and passed up to the resolution entity. The Bank of England's existing approach is consistent with this principle (ref. MREL SoP, para 8.4).
- Finally, we note that inconsistencies in requirements creates confusion among investors and stakeholders, rather than supporting the Bank of England's objective to increase transparency in the resolution process, as set out in the Resolvability Assessment Framework. As a result, we recommend that HMT further allow departure from the EU's CRR2 approach on eligible liabilities by removing Article 92b.

1. *Do you have any comments on the value of keeping this equivalence in Article 132 of the UK CRR*

- If any equivalence requirement is retained, we believe HM Treasury should take a pragmatic approach to implementation of exposures to CIUs, specifically in relation to having a standalone equivalence assessment. Currently, HM Treasury's CRR 132(3) equivalence table solely

references the EEA as an equivalent jurisdiction. This is very restrictive and should be expanded to cover other jurisdictions as soon as possible. We urge HMT to widen this and prioritise the inclusion of, in alphabetical order, Australia, Canada, China, Hong Kong, Malaysia, Mexico, Singapore and the US. We would also appreciate clarity on timelines for equivalence assessments for business planning purposes.

- We believe that such equivalence determinations could be expedited, considering a smaller number of factors relevant to funds specifically including:
    - The general compliance of jurisdictions with the standards recommended by the Basel Committee, as evidenced by periodic independent assessments.
    - The scale of investments by UK-domiciled banks in these jurisdictions and the resulting individual and collective risk to the UK financial system (which we believe, in many cases, will be *de minimis* to the capital base) – to be monitored on a periodic basis.
    - The extent to which funds located within the jurisdiction are subject to local conduct regulations.

- Additionally, an allowance for 'case-by-case' equivalence assessments could be overlaid with the current UK CRR framework and provide an interim and/or transitional route ahead of a formal HMT equivalence determination to add additional jurisdictions. The authorities would be able to access the bank-solicited consultant assessments and oversight provided by the PRA/FCA thereby optimising its own resource and costs. Furthermore, there would be no obligation to add any further jurisdictions where the UK regulators found any findings inconclusive or insufficient to demonstrate supervisory and regulatory equivalence.

- Furthermore, we believe there should be a specific treatment for investments which are made either (a) to satisfy Government investment requirements (such as investments under the Community Reinvestment Act in the US) or (b) support Government endorsed investment programmes (such as the Business Growth Funds in the UK, Canada and Australia). It is possible that these investments may not qualify as legislative programmes within the meaning of the Basel standards and so would not benefit from a lower risk-weight. But if they are specifically intended to support government objectives, for example, in providing longer term investments for smaller businesses, we do not believe they should be penalised by an additional UK equivalence test.

Fundamental Review of the Trading Book

2. *Do you have any comments on HM Treasury's propose timeline for the implementation of these regulations?*
3. *The EU Commission adopted the delegated act referred to above on 17 December 2019. Do you have any comments on the form these regulations should take in the UK?*

- We would encourage the UK authorities to consider whether there is significant utility in having an earlier reporting requirement for the Standardised Approach (SA), rather than focus on reporting implementation to be aligned with the binding capital requirement of FRTB. We note that the early SA FRTB reporting requirement is not required by the Basel Standards, and given the relatively short period of 1 year between the SA FRTB reporting requirement and binding capital requirement from 1 Jan 2023, any benefit is likely to be outweighed by the cost of a rushed implementation. Any relief on this aspect, will benefit smaller domestic banks more since most large banks will have built SA FRTB reporting requirements to meet the EU CRR 2 requirements already.

- Should the decision be to retain the reporting requirement, we would request that firms be given sufficient time to make any required implementation changes. Therefore, the regulations should be finalised at least 6 months before the first reporting date. Based on the PRA's proposal in CP5/21 to re-use the EU template, which we support, we ask that they should be available by September 2021 to enable the first reporting date as of March 2022 (so a 3 month delay from Jan 2022). Additionally:

    - This timetable is even tighter if banks are required to apply for “SA permissions”. Our recommendation is these should not be required for the parallel reporting beginning in 2022.
    - We also note that there is a dependency on the Binding Technical Standard for IMA liquidity horizons which also should be available in final form by September 2021.

- We recognise that rewriting the FRTB reporting requirements to align them with the Basel FRTB framework would be a Herculean task in the time available. However, where Basel and CRR2 conflict, our members prefer that the UK align with the Basel framework, for instance:
    - The UK should use all currency pairs, not just GBP crosses, as FX Vega risk factors.
    - The Credit Spread Risk Non-Securitisation buckets, risk weights and correlations should be aligned to BCBS requirements.
    - General Interest Rate Risk (GIRR) delta risk weights: the risk weight reduction should be aligned to the BCBS requirements and should apply to all three risk factors under GIRR.
    - The CRR 2 text on correlation trading portfolios is hard to use, particularly as it applies to the decomposition of indices and index-tranches of Credit Spread Risk Securitisations, for bucketing purposes, compared to non-indexed exposures.
- In addition, given that other major jurisdictions (such as the EU) are unlikely to meet the January 2023 go-live for FRTB capital requirements, and the importance of promoting the UK’s international standing in the post-Brexit context, we view the UK authorities should ensure the UK implementation of FRTB capital requirements does not front-run other major jurisdictions.
- We would also highlight that the January 2023 implementation deadline creates operational challenges, in particular for banks applying for model permissions under the IMA approach. For the banks to benefit from an AMA under FRTB they must produce 250 business days (i.e. 12 months) of results, for each desk they intend to nominate for IMA, and the regulator will need to review these results before making a decision – we would expect approvals to take 6 months. The end to end process would therefore require 6 months of consultation + 12 months of IMA results + 6 months for approval, which amounts to 24 months without leaving the banks any room to implement/adapt their models to the specific flavour of the regional regulation.
- Given the UK has not officially started the consultation period, the January 2023 implementation deadline presents major implementation concerns for banks operating in the UK and also penalises global markets businesses and the management of market risk in the UK. Given these concerns, we would urge the UK authorities to consider a delay to FRTB implementation not only to align with other key jurisdictions but also allow for an adequate implementation period.

Q4 – Q9
No comments

We look forward to meaningful changes to the CRR 2 proposals that will continue to allow the UK financial services sector to remain competitive, both domestically and internationally, and to be innovative post-Brexit and post-pandemic without jeopardising prudential standards, in line with HM Treasury’s economic policy objectives. Of course, I and UK Finance members would be delighted to discuss any aspect of this response where this would be helpful.

Responsible Executive

✉ nala.worsfold@ukfinance.org.uk
☎ 07384 212633