

A response to the Prudential Regulation Authority's Consultation Paper 19/21 on

changes to the Domestic Liquidity Sub-Groups

11th October 2021

Introduction

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

We are pleased to respond to PRA's [Consultation Paper 19/21](#) on the application of prudential liquidity requirements to Domestic Liquidity Sub-Groups (DoLSub) and the process of applying for the necessary waiver.

We welcome the proposal to permit the inclusion in a DoLSub of firms that are subsidiaries of a common immediate UK qualifying parent undertaking that is not a bank or PRA-designated investment firm (a 'sibling DoLSub'). We also welcome the ability to use just one DoLSub waiver application to cover both LCR and NSFR requirements.

We agree with the PRA that this will enhance the proportionality of the liquidity and funding risk regulatory framework by allowing groups with a wider range of structures to benefit from the DoLSub permission, regardless of the legal form of their immediate parent undertaking. We also agree that this should help facilitate effective competition, by enabling a potentially broader range of group structures to be eligible for the DoLSub permission. These outcomes are completely aligned with our own objectives for prudential regulation, which should support safety and soundness in a proportionate way whilst enhancing competition.

Whilst many of our members could take advantage of the DoLSub waiver our belief is that only the largest systemically important UK banks currently benefit from it. This allows them to avoid trapped pools of liquidity by optimising their use of liquidity and funding to meet the Basel framework's LCR and NSFR prudential regulatory requirements.

So our response to CP19/21 has been informed principally by our discussions with those UK banks that are systemically important and currently using the DoLSub waiver.

A pragmatic approach is needed

As the PRA will be aware, banks that currently use the DoLSub waiver have recently devoted significant time and attention to preparing waiver applications which are now with the PRA for approval, or which have recently been approved. These waiver applications were submitted based on existing Handbook requirements which have now been augmented by the proposals in CP19/21.

Draft waivers are subject to considerable internal independent scrutiny before being presented for approval to the relevant DoLSub boards, or senior executive prior to their submission. The availability of senior management or board time is currently very limited. Our members are concerned that it will be challenging to find sufficient senior executive or board time in the near future to put a renewed DoLSub application forward for their consideration. However an updated version, of an earlier submission, focussing only on incremental changes would likely progress through the scrutiny and governance chain more expeditiously.

A requirement to prepare and re-submit a new waiver application in its entirety seems unnecessarily resource intensive, both for banks and, we expect the PRA.

This concern could be allayed by the PRA:

- allowing banks to leverage their existing submissions rather submitting a completely new waiver application
- providing precise clarity on the incremental new requirements with examples of what additional information should be provided to evidence that new incremental requirements can be met.
- recognising that a bank's first submissions under the new regime proposed in CP19/21 may be less comprehensive than both it and the PRA may wish
- considering the possibility of interim waiver approval, which would allow banks to remediate non-material shortcomings identified by the PRA during their assessment of waiver applications over a period of 3 months.

So we hope that banks will be able focus only on the new elements of the DoLSub requirements in the waiver applications they will be required to submit in the immediate future.

Topics on which further information is sought

It would be helpful to understand how banks can 're-use' pre-existing governance related material which has already been provided to the PRA to support its wider supervisory activity, such as Risk Frameworks, Policies, and Procedures. This other material already in the possession of the PRA could be signposted in updating, supplemental material in support of existing DoLSub waiver applications. This is clearly resource efficient and to be preferred. Where there is a new requirement, for example relating to the conflict-of-interest framework, the PRA should provide further guidance on how banks can satisfy it, in the interest of coherent cross-industry implementation.

Banks recognise the importance of obtaining an *independent legal opinion* referred to in the draft amendment 3A.65, confirming that the matters referred to in sub paragraphs (xliv) to (xlviii) have been addressed satisfactorily. They are however aware of the compressed and demanding timetable that will need to be met to ensure waivers are renewed by the beginning of 2022 and the current scarcity of independent legal resource. To alleviate this issue we request that those banks that have submitted legal opinions to the PRA may be allowed to re-use these opinions as part of this new

application on the basis that nothing substantive has changed since the last external opinion. This would be consistent with the messaging banks have received as part of their bilateral discussions with the PRA.

We note that this industry response to CP 19/21 has been completed against an understandably compressed timetable and that we have not explored the relevance of more peripheral issues, such as the need to amend the loan agreement to include the interim hold-co.

We understand from members that there is already good bilateral engagement between firms and their supervisory teams which is welcome. UK Finance would be pleased to convene a roundtable that could address and clarify common areas of supervisor and member concern in order that DoLSub waiver applications can be processed swiftly and successfully by the end of the year.

Responsible Executive

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