



Strong & Simple

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A new dawn?



- Basel framework applies to ‘Internationally active banks’
- EU CRR applies to all banks – single market

The complexity problem

“The complexity problem arises because there are economies of scale to understanding, interpreting, and operationalising prudential requirements, or because the factors driving smaller and larger firm distress are different, but the requirements have been designed with larger firms in mind.”

DP1/21 A Strong and Simple framework

What is proportionality?

A sledge
hammer to
crack a nut?



Strong and Simple

- DP1/21 proposed 'streamlined' or 'focussed' approach
- Focussed – cruder but higher calibration e.g. leverage ratio
- Streamlined – building block approach

Streamlined approach

- Building block approach avoids cliff edges



Scope

- Small Domestic Deposit-Takers (SDDT)
 - Up to £20bn assets
 - No approved IRB models
 - Limited trading activity (Trading book < 5% TA or £44m; FX <2% own funds; no commodity positions)
 - Limited non-UK exposures (85% of credit exposures in UK)
- Large and Simple
 - Tbc!

SDDT – liquidity & reporting

PS15/23 published December 2023, now in place

- NSFR replaced with retail deposits ratio (RDR)
- Pillar 2a liquidity add-ons not generally set
- ILAAP template
- Removal of regulatory returns (4 of 5 ALMM)
- Removal of Pillar III for firms that don't issue listed securities

SDDT – capital – from Jan 2027

- Pillar 1 = Basel 3.1
 - No counterparty credit risk or CVA charge
 - No DD requirements on counterparty ratings
 - trading book exposures calculated using standardised approach to credit risk
- Pillar 2a
 - New credit risk methodology – required for unsecured retail and sub-prime, and new/growing firms
 - Operational risk buckets
 - HHI replaced for credit concentration risk
 - IRRBB and pension risk approaches are unchanged
 - Removal of the ‘refined approach’
- Simplified capital deductions

SDDT Buffers

- Single Capital Buffer (SCB) of at least 3.5%RWA
- Methodology is based on non-cyclical stress, management and governance, supervisory judgment



Incentives matter



How much of the ICAAP has become a comfort blanket?

Slido question

What do you think of the proposed simplifications?

A) Simplifications are significant and beneficial for SDDTs

B) Simplifications could be material but there is a risk that they are not implemented proportionately by my firm

C) Simplifications could be material but there is a risk of gold-plating by advisors, auditors and PRA supervisors

D) The proposed simplifications aren't material - its tinkering around the edges

Conclusion

The music sounds good, but we all need to learn a new dance



....and don't forget

...to exercise your
democratic right
to respond to the
consultation

By 12th December



Q&A

Thanks for listening – any questions?

For more commentary on proportionality and regulation, follow me on:
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