

PRA updates on Strong and Simple Framework

AT A GLANCE

December 2023

What's new?

- The PRA published [Policy Statement \(PS\) 15/23: The Strong and Simple Framework: Scope Criteria, Liquidity and Disclosure Requirements](#) on 5 December 2023. The PRA has decided to rename Simpler-regime firms to Small Domestic Deposit Takers (SDDTs), and Simpler-regime consolidation entities to SDDT consolidation entities.
- The PS also includes feedback to responses to several consultation papers which laid out the proposed draft rules for this regime, including [CP4/23](#), [CP14/23](#), [CP16/22](#), and [CP5/22](#).

What does this mean?

- The final rules are largely aligned with the proposals included in the consultation papers. In particular the PRA has confirmed its policy in a number of key areas.
- The PRA reaffirmed its intention to publish proposals for simplified prudential requirements in distinct phases. Phase 2 will focus on simplifications to Pillar 2 capital requirements and buffers with a Phase 3 on Pillar 1 capital requirements to follow subsequently.

Key confirmed policy positions

- **Size:** The maximum size threshold for being in scope of the regime is £20 billion of assets on average over a 36 month period. This decision will be reviewed by the end of 2028.
- **Limited trading activity:** In CP5/22, the PRA proposed three criteria for limited trading activity for SDDTs: a trading book business threshold of 5% of total assets or £44 million, an FX position limit of 2% of own funds, and no commodity positions. These criteria are confirmed.
- **Internal ratings based (IRB) approach:** The PRA upholds that SDDTs must not have IRB approvals, but will allow them to develop and submit IRB models without affecting their status until approval.
- **Exclusion:** The PRA confirmed that SDDTs would be excluded from

operating a payment system. They will also be unable to undertake clearing, settlement, custody or correspondent banking (other than on an intra-group basis).

- **Domestic activity:** The PRA has maintained the domestic threshold for qualifying for the regime. This requires a 36-month average ratio of at least 85% of total exposures being UK exposures (including exposures secured on UK land and buildings), with a minimum of 75% at any time.
- **Operating the regime:** The PRA's final approach allows firms to opt into the SDDT regime at any time and provides for modification or revocation of this status, ensuring flexibility in transitioning between different regulatory frameworks.
- **Stable Funding:** Proposals in CP 4/23 which included a new Retail Deposit Ratio (RDR) to measure retail funding are confirmed. Firms with an average RDR above 50% over four consecutive quarters would not have to monitor the Net Stable Funding Ratio (NSFR). Proposals to remove the simplified NSFR and minor NSFR reporting corrections have also been confirmed.
- **Pillar 2 Liquidity:** The PRA has confirmed that Pillar 2 liquidity add-ons for SDDTs will not be applied (except for particularly material idiosyncratic risks).

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- A streamlined Individual Liquidity Adequacy Assessment Process (ILAAP) template will also be introduced. The PRA did however receive feedback on the burden of producing an ILAAP annually, and will consider this in future work
- **Liquidity reporting:** The PRA proposed in CP4/23 to exempt SDDTs from reporting four of the five Additional Liquidity Monitoring Metrics (ALMM) returns, except for concentration by product type, which will now include all relevant liabilities. This has been confirmed.
- **Pillar 3 Disclosures:** In CP4/23, the PRA proposed new Pillar 3 disclosure requirements, requiring listed SDDTs to make certain disclosures, while exempting non-listed SDDTs from Pillar 3 disclosures. Additionally, the PRA proposed remuneration disclosure requirements for listed SDDTs and exemptions for non-listed ones. The PRA has confirmed these proposals.
- Firms with a financial year-end between 1 January and 1 July, opting into the SDDT regime before their 2023/24 annual disclosures, can benefit from reduced disclosure requirements a year earlier than initially planned.

What do firms need to do?

- Firms must actively opt into the SDDT regime. This decision should be informed by a strategic assessment of a firm's current situation and future business and growth plans. Firms will need to balance the benefits of the regime (with a current substantial degree of uncertainty on outstanding elements of the framework) against the limitations posed by the eligibility criteria (for example the limitations on the use of IRB). The PRA is allowing firms the flexibility of waiting until the capital elements of the framework are finalised before deciding on whether to enter the regime.
- Firms which are entering the regime should prepare for new Pillar 3 disclosure requirements, and changes in liquidity requirements. This includes the introduction of the RDR and amendments to liquidity reporting templates. Firms will need to update their reporting processes and systems to align with these new requirements.
- The application of the SDDT criteria should be at both the solo and group levels for firms that are part of a UK consolidation group. This requires comprehensive assessment and certification from the group's CRR consolidation entity. Firms in unique group structures may apply for a modification to be treated as an SDDT, highlighting the need for tailored approaches for different organisational structures.
- Firms in scope of the regime will need to develop processes to ensure they comply on an ongoing basis with the criteria for qualifying as a SDDT.

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Key changes to draft policy

- The PRA has also indicated a number of changes to policy previously consulted on. These include:
- **Modification by consent for consolidation groups:** The process will now require the group's Capital Requirements Regulation (CRR) consolidation entity, instead of the solo entity, to certify compliance with SDDT criteria. This entity is also tasked with notifying the PRA if the criteria are no longer met.
- **New implementation date:** The PRA sets the implementation date for the rules relating to the definition of an SDDT, the ability for eligible firms and consolidation entities to become SDDTs and SDDT consolidation entities, along with glossary changes, application rules, definitions, and the disclosure rules as 1 January 2024. The liquidity rules will apply from 1 July 2024.

Next steps

SDDT definition and eligibility rules, along with disclosure requirements, become effective on 1 January 2024. Other related rules will be implemented on 1 July 2024. The PRA intends to consult on simplifications to Pillar 2 and buffer requirements in Q2 2024 and Pillar 1 capital requirements at a later date.

