

UK delays timeline for prudential reforms

AT A GLANCE

November 2020

What's new?

- HM Treasury (HMT), the PRA and the FCA published a [joint statement](#) on the implementation of the prudential reforms contained in the Financial Services Bill on 16 November 2020.
- The statement sets out that the implementation date of the UK's Investment Firms Prudential Regime (IFPR) and version of CRR II will be delayed from June 2021 to 1 January 2022.
- HMT and the PRA have stated that the implementation timeline for the further round of prudential reforms for banks (known as Basel 3.1 or more commonly Basel IV) will be unaffected and that their previous [statement](#) on the topic still stands.

What does this mean?

- At the EU level both the IFPR and CRR II will be implemented in June 2021. The IFPR creates a new prudential regime for investment firms and CRR II implements a range of Basel Committee-agreed standards such as the Net Stable Funding Ratio, leverage ratio and Standardised Approach for Counterparty Credit Risk (SA-CCR).
 - The UK authorities have committed to implement a UK version of both regulations and the Government is legislating through the Financial Services Bill to give the FCA and PRA powers to implement the IFPR and CRR II respectively.
 - The UK authorities have, however, decided to delay the implementation due to industry feedback on the volume of regulatory change in 2021. It may also have proved challenging to pass the Financial Services Bill in time to meet the original June 2021 deadline.
 - The regulators are expected to publish consultation papers on their implementation of the IFPR and CRR II in the coming months.
- From 1 January 2021 the UK's on-shored CRR will take effect. These rules have been on-shored into legislation, although HMT has indicated they will be transferred into regulatory rules. Investment firms will remain under the CRR framework until the IFPR is implemented.
 - HMT and the PRA have restated their commitment to implementing Basel IV on the timeline agreed by the Basel Committee. Implementation of Basel IV will start on 1 January 2023. A proposal from the EU to implement these requirements is expected next year, which could lead to further divergence between the UK and EU approaches.

What do firms need to do?

- Both the IFPR and CRR II are complex pieces of regulation, meaning firms should use the extra time wisely, rather than pausing implementation programmes.
- The extent to which the regulators in the UK seek to diverge from the substance of the EU's IFPR and CRR II will only be clear once the regulators' consultations are published. A degree of divergence is, however, expected, meaning firms with entities in both the UK and EU will need to manage this.

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Next steps

The FCA and PRA are expected to publish respective consultations on the UK's implementation of the IFPR and CRR II in the coming months. The UK IFPR and version of CRR II will be implemented on **1 January 2022**.

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