



Financial Services Act 2021

2021 CHAPTER 22

Prudential regulation of credit institutions and investment firms

3 Transfer of certain prudential regulation matters into PRA rules

- (1) The Treasury may by regulations revoke provisions of the Capital Requirements Regulation relating to the matters listed in subsection (2).
- (2) The matters are—
 - (a) deductions from Common Equity Tier 1 items;
 - (b) the following aspects of the standardised approach to credit risk—
 - (i) exposure value;
 - (ii) risk weights for exposures to institutions;
 - (iii) exposures to corporates;
 - (iv) exposures secured by mortgages on immovable property;
 - (v) retail exposures;
 - (vi) subordinated debt and equity exposures;
 - (vii) the use of credit assessments;
 - (viii) exposures with particularly high risk;
 - (ix) exposures in the form of units or shares in collective investment undertakings;
 - (c) classification of off-balance sheet items;
 - (d) the following aspects of the internal ratings based approach to credit risk—
 - (i) the advanced internal ratings based approach for asset classes that cannot be modelled in a robust and prudent manner;
 - (ii) input parameters;
 - (iii) the requirement to use the internal ratings based approach for all significant exposure classes;
 - (iv) the 1.06 scaling factor for estimating risk-weighted assets;
 - (v) exposures in the form of units or shares in collective investment undertakings;
 - (vi) risk-weighted exposure amounts for equity exposures;

- (vii) the treatment of expected loss amounts by exposure types;
 - (e) the use of credit risk mitigation techniques for exposures risk-weighted under the standardised approach to credit risk or the internal ratings based approach to credit risk;
 - (f) the following aspects of own funds requirements for counterparty credit risk—
 - (i) requirements to use particular methods for calculating the exposure value;
 - (ii) the mark-to-market method;
 - (iii) the original exposure method;
 - (iv) the standardised method;
 - (v) own funds requirements for exposures to a central counterparty;
 - (g) own funds requirements for operational risk;
 - (h) the following aspects of own funds requirements for market risk—
 - (i) the approaches for calculating the own funds requirements for market risk;
 - (ii) the scope and structure of the alternative standardised approach;
 - (iii) foreign exchange risk factors in the alternative standardised approach;
 - (iv) the scope and structure of the alternative internal model approach, including the use of alternative internal models;
 - (v) regulatory back-testing requirements and multiplication factors in the alternative internal model approach;
 - (vi) requirements relating to risk measurement in the alternative internal model approach;
 - (i) own funds requirements relating to—
 - (i) derogations for small trading book business;
 - (ii) the trading book;
 - (j) own funds requirements for credit valuation adjustment risk;
 - (k) large exposures;
 - (l) liquidity requirements;
 - (m) the leverage ratio;
 - (n) reporting requirements;
 - (o) disclosure requirements;
 - (p) any other matter which is the subject of a CRR Basel standard.
- (3) The Treasury may by regulations revoke a provision of the Capital Requirements Regulation where—
- (a) the provision is connected with provision relating to a matter listed in subsection (2), and
 - (b) the Treasury consider the revocation necessary or desirable in order to maintain or improve the coherence of the prudential regime comprised in, and in provision made under, the Capital Requirements Regulation and in general rules made by the Prudential Regulation Authority.
- (4) The Treasury may only make regulations under subsection (1) or (3) revoking a provision if they consider that—
- (a) the provision has been, or will be, adequately replaced by general rules made, or to be made, by the Prudential Regulation Authority, or
 - (b) it is appropriate for the provision not to be replaced.

- (5) The Treasury may by regulations make consequential, supplementary, incidental, transitional, transitory and saving provision in connection with the revocation of provisions under subsection (1) or (3), including provision amending, repealing or revoking provisions of the Capital Requirements Regulation or another enactment.
- (6) Regulations under this section may make different provision for different purposes.
- (7) Regulations under this section are subject to the affirmative procedure.
- (8) Where the Treasury make regulations in reliance on subsection (2)(p), the Treasury must, when laying a draft of the regulations before Parliament, also lay before Parliament a statement explaining which provisions are made in reliance on that paragraph and identifying the relevant CRR Basel standard.
- (9) The reference in subsection (2)(p) to a matter that is the subject of a CRR Basel standard includes such a matter as it relates to any CRR firm (even where the standard in question does not apply to all CRR firms).
- (10) In this section—
 - “CRR Basel standard” has the meaning given in section 4;
 - “general rules” has the same meaning as in the Financial Services and Markets Act 2000 (see section 417 of that Act).
- (11) Terms used in this section and in the Capital Requirements Regulation have the same meaning in this section as they have in that Regulation (or any part of it).