HM Treasury

Applying the Financial Services and Markets Act 2000 model to the Capital Requirements Regulation

Policy Update

September 2024

HM Treasury

Applying the Financial Services and Markets Act 2000 model to the Capital Requirements Regulation

Policy Update

September 2024

© Crown copyright 2024

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3.

Where we have identified any third-party copyright information you will need to obtain permission from the copyright holders concerned.

This publication is available at: www.gov.uk/official-documents.

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gov.uk

Contents

Chapter 1	**Introduction**	**7**
Chapter 2	**Basel 3.1**	**10**
Chapter 3	**Revocations of the remaining elements of the Capital Requirements Regulation**	**16**
Chapter 4	**Savings Provisions**	**20**

Chapter 1
Introduction

Background

1.1 HM Treasury is progressing work to bring the prudential regime for banks, building societies and investment firms into line with the UK's established model for financial services regulation, as provided for in the Financial Services and Markets Act 2000 (FSMA 2000), often referred to as "the FSMA model". This work involves revoking relevant parts of assimilated law on financial services so that the Prudential Regulation Authority (PRA) and the Bank of England can replace requirements in legislation with requirements set out in regulator rules and statements of policy. Assimilated law refers to EU legislation which was incorporated into UK law on the UK's withdrawal from the EU.

1.2 The relevant parts of assimilated law for the prudential regime are set out in the UK Capital Requirements Regulation (CRR) and Capital Buffers Regulations (CBR).[1] [2] The CRR and CBR specify the prudential requirements for banks, building societies and investment firms in scope of the PRA's rules for deposit takers.

1.3 The FSMA model of regulation was established through the introduction of FSMA 2000. Central to the FSMA model approach is the setting of regulatory standards by expert, independent regulators that work within an overall policy framework set by government and Parliament. The model maximises the use of expertise in the policy-making process by allowing regulators with day-to-day experience of supervising financial services firms to bring that real-world experience into the design of regulatory standards. It also allows regulators to flex and update those standards efficiently to ensure that regulation responds to emerging challenges and is tailored to the needs of the UK.

1.4 The Financial Services and Markets Act 2023 (FSMA 2023) revoked assimilated law on financial services so that areas of regulation covered by assimilated law can be made consistent with the UK's FSMA model approach. Revocation of parts of the CRR has already taken effect and been replaced with PRA rules. This document sets out HM Treasury's plans to commence revocation of the remainder of the CRR and revocations and restatements with modifications of the CBR in accordance with FSMA 2023 and explains how the PRA and Bank of England will replace revoked CRR and CBR provisions with regulator rules and statements of policy.

---

[1] The Capital Requirements Regulations 2013

[2] The Capital Requirements (Capital Buffers and Macro-prudential Measures) Regulations 2014

1.5 For the revocation of any particular part of financial services assimilated law to take effect, HM Treasury must first commence revocation by making commencement regulations under FSMA 2023. Wherever this document refers to the revocation of CRR or CBR provisions, it includes the commencement of revocation by HM Treasury.

1.6 Applying the FSMA model to the CRR and CBR will take place in three stages.

1.7 The first stage will be to revoke articles of the CRR which the PRA needs to replace with rules in order to implement its Basel 3.1 package. The Basel 3.1 related CRR revocations are explained in Chapter 2 of this document. Savings provisions related to the implementation of Basel 3.1 are explained in Chapter 4 of this document.

1.8 The next stage will revoke any CRR provisions left on the statute book following Basel 3.1 implementation. It will also make revocations and restatements with modifications to the CBR. Chapter 3 explains how this next stage will be delivered and summarises some of the reforms the PRA proposes to make to the capital framework using rules and policy statements that will replace revoked CRR and CBR provisions.

1.9 The final stage will involve legislation needed for three purposes:

- to restate the CRR equivalence regimes in legislation,
- to restate in legislation some of the key CRR definitions which are needed to ensure that the overall legislative framework for the regulation of banks, building societies and investment firms continues to operate as intended once the CRR is fully revoked,[3] and
- to make any consequential amendments to other parts of the statute book which will be needed once the CRR has been completely revoked.

1.10 Detail for the legislative approach of this final stage is not covered in this document. The government will consult on proposals for this final legislative stage in due course.

1.11 HM Treasury has published three pieces of draft legislation alongside this policy update:

- draft commencement regulations that will give effect to the Basel 3.1 revocations,
- draft regulations that will restate some of the CBR requirements in legislation, and
- draft commencement regulations that will bring into force the revocation of parts of the CRR related to the definition of capital.

1.12 The PRA has also published a number of related documents today:

[3] CRR definitions are outlined in Article 4, 4A, 4B and 5 of the CRR.

- the near-final policy statement and rules for part 2 of its Basel 3.1 package,[4]
- a consultation paper on the simplified capital regime for SDDTs,[5]
- a consultation paper to restate the definition of capital provisions in the PRA Rulebook,[6]
- a consultation paper to streamline the Pillar 2A capital framework and the capital communications process,[7] and
- a consultation paper to replace the UK buffers framework with PRA rules and policy statements.[8]

1.13 This follows the publication of the PRA's near-final policy statement and rules for part 1 of its Basel 3.1 package and a statement of policy on operating the SDDT regime in December last year.[9] [10]

Next steps

1.14 HM Treasury is now ready to revoke relevant parts of the CRR to facilitate the PRA's implementation of its Basel 3.1 package. HM Treasury will commence revocation, as set out in the draft commencement regulations to take effect in time for the PRA to meet its implementation timetable of 1 January 2026.

1.15 The government also plans to complete revocation of the CRR alongside revocation and restatement with modification of the CBR. Completing revocation of the CRR will include revoking provisions which relate to the definition of capital, as set out in the draft commencement regulations on definition of capital published alongside this policy update. While all non-Basel related CRR revocations will likely be covered in one set of commencement regulations, draft commencement regulations covering definition of capital provisions are being published now as they relate to the PRA's proposed new rules for its SDDT regime. In due course, HM Treasury will make other commencement regulations to revoke certain other aspects of the CRR and to revoke the CBR.

1.16 The government would welcome views from stakeholders on whether this next stage of work, and in particular whether the provisions included in draft legislation published alongside this document, will work as intended to deliver the benefits associated with the FSMA model of regulation and provide a smooth transition for the UK's prudential regime to that model.

---

4 PS9/24 - Implementation of the Basel 3.1 standards near-final part 2

5 CP7/24 - The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers (SDDTs)

6 CP8/24 - Definition of Capital - restatement of CRR requirements in PRA rulebook

7 CP9/24 - Streamlining the Pillar 2A setting and capital communications process

8 CP10/24 - Updates to the UK policy framework for capital buffers

9 PS17/23 – Implementation of the Basel 3.1 standards near-final part 1

10 Statement of Policy - Operating the Small Domestic Deposit Takers (SDDT) regime

Chapter 2
Basel 3.1

Background

2.1 Firms are required to hold capital which can be used to absorb losses they may incur.[11]

2.2 The Basel Committee on Banking Supervision (BCBS) sets international standards for the amount of capital firms need to hold against the risks they take. The BCBS has been setting international standards for banks since the 1980s and the UK is represented at the BCBS by the Bank of England and the PRA.

2.3 Following the 2008 global financial crisis, the BCBS was asked by the G20 to develop a series of reforms to strengthen international banking regulation called Basel 3. The first set of these reforms included improvements to the amount and quality of capital held by firms.

2.4 The final part of these reforms was finalised by the BCBS in 2017 and addresses how firms calculate capital requirements for their risks. These reforms, known as Basel 3.1 in the UK, affect how firms calculate the 'riskiness' of their exposures and as a result how much capital firms have to hold against these assets.

2.5 The PRA is responsible for implementing the Basel 3.1 standards in the UK. Implementation is being done through PRA rules in accordance with an accountability framework set by government and Parliament, including Basel 3.1 specific accountability arrangements set out in Part 9D of FSMA 2000.[12]

2.6 Many of the existing prudential requirements which need to be replaced by Basel 3.1 are contained in the CRR. HM Treasury has previously revoked certain CRR provisions to facilitate the implementation of previous Basel standards. HM Treasury is now prioritising the revocation of relevant requirements from the CRR to allow the PRA to complete the implementation of the Basel 3.1 standards through PRA rules from 1 January 2026.[13]

---

[11] This policy update uses '"firms" to cover the banks, building societies, and investment firms in scope of the PRA's prudential requirements for deposit takers.

[12] The Part 9D accountability framework was inserted into FSMA 2000 via the Financial Services Act 2021.

[13] HM Treasury intends to legislate to amend the definition of CRR rules to ensure that the Part 9D accountability framework and subsections 5(3)-(5) of the Financial Services Act 2021 will continue to apply to PRA rules implementing Basel 3.1, including where those rules replace CRR provisions revoked under FSMA 2023.

Policy Considerations

2.7 Under the FSMA model of regulation, the design and implementation of the regulatory standards that should apply to regulated firms and markets is the responsibility of the UK's expert, independent regulators, acting in accordance with a statutory framework set by government and Parliament. That statutory framework requires the regulators to address key public policy considerations.

2.8 The framework for the implementation of Basel 3.1 includes the PRA's primary objective for maintaining the safety and soundness of firms and its secondary objective for facilitating effective competition. It also includes Basel specific policy considerations to which the PRA must have regard when designing the new Basel 3.1 rules, which are in particular:

- the likely effect of the rules on the relative standing of the UK as a place for internationally active credit institutions and investment firms to be based or to carry on activities;
- the likely effect of the rules on the ability of CRR firms to continue to provide finance to businesses and consumers in the UK on a sustainable basis in the medium and long term; and
- the target in section 1 of the Climate Change Act 2008 (carbon target for 2050).

2.9 Under this framework, it is the PRA which has had to make the expert judgement on what package of Basel 3.1 rules is needed to meet its statutory objectives, while having due regard to the Basel 3.1 specific policy considerations referred to above.

2.10 The government believes that the regulatory framework has operated as intended and has enabled the PRA to develop a package of Basel 3.1 rules which will safeguard UK financial stability, underpin stable UK economic growth and support the international competitiveness of the UK as a centre for banking and investment firm business.

2.11 In particular, HM Treasury welcomes features of the PRA package which are consistent with the government's mission to kickstart UK economic growth. These include the PRA's decision to apply a new Pillar 2A 'SME lending adjustment' and 'infrastructure lending adjustment' to firms' capital requirements for SME lending and infrastructure lending. The new lending adjustments will ensure that the withdrawal of the SME and infrastructure support factors does not result in a tightening of overall capital requirements for lending to SMEs or infrastructure projects. The package will therefore support the supply of finance to businesses and consumers needed to fuel sustainable economic growth.

Final Policy

2.12 HM Treasury will amend the CRR to facilitate the effective implementation of the requirements covered in the PRA's near final

policy statements PS17/23 and PS9/24.[14] [15] This includes revoking relevant articles of the CRR so that they can be replaced with the PRA's rules and making savings provisions to ensure coherence and continuity of the prudential regime.

2.13 Assimilated law, including the CRR, contains a number of equivalence regimes, which enable the UK to recognise and rely on the regulatory approach of another jurisdiction for certain purposes. These equivalence regimes will remain the responsibility of the government and will be restated in legislation, where needed, once the relevant part of assimilated law has been revoked. In due course, HM Treasury will set out the government's intended approach to restating the CRR equivalence regimes in legislation.

2.14 However, there is one particular change to CRR equivalence that HM Treasury intends to make as part of the Basel 3.1 CRR revocations. Article 142 of the CRR sets out several definitions that are relevant to firms that use the internal ratings based (IRB) approach and how they should undertake their capital requirement calculations. In particular, this article includes a definition of large financial sector entities (LFSEs) and unregulated financial sector entities, to which a multiplier of 1.25 applies to the coefficient of correlation for the purposes of these firms' IRB approach calculations. Part of the definition of LFSE includes that the firm must be prudentially regulated, either in the UK or in an equivalent jurisdiction. The effect of Article 142 equivalence can result in higher capital requirements for exposures to entities from equivalent jurisdictions compared to non-equivalent jurisdictions.

2.15 The PRA considers that the definition of LFSEs should instead solely rely on the "scale" test of whether a firm holds assets greater than £79bn (more details on this threshold are in the PRA's policy statement).

2.16 The government believes this represents a proportionate approach and the PRA taking on responsibility for this provision fits logically with the overall responsibility that PRA will have for setting requirements in relation to firms' IRB capital calculations. HM Treasury will therefore revoke Article 142 of the CRR in its entirety, thus removing this equivalence provision from the UK's prudential regime.

2.17 The PRA's near-final Basel 3.1 rules include a revised definition of "specialised lending". The revised definition incorporates an additional criterion related to the capacity of the borrowing entity to repay the obligation. Under regulation 3(1) of the Securitisation Regulations 2024, transactions or schemes which meet the definition of specialised lending are excluded from the definition of a "securitisation". HM Treasury intends to update the definition of "securitisation" to align with the updated Basel rules. This change would take effect alongside the implementation of the Basel 3.1 standards through PRA rules from 1 January 2026. Paragraph c of the securitisation definition in the

[14] PS17/23 – Implementation of the Basel 3.1 standards near-final part 1

[15] PS9/24 - Implementation of the Basel 3.1 standards near-final part 2

Securitisation Regulations 2024 will be replaced by the following paragraph:

> *(c) the transaction or scheme does not create exposures which possess all of the following characteristics (regardless of whether the characteristics relate to the legal form or economic substance of the transaction or scheme)—*
>
> *(i) the exposure is to an entity which was created specifically to finance or operate physical assets (or both);*
>
> *(ii) the borrowing entity has few or no other material assets or activities, and therefore little or no independent capacity to repay the obligation (apart from the income that the entity receives from the assets being financed);*
>
> *(iii) the terms of the obligation give the lender a substantial degree of control over the assets and the income that it generates, and*
>
> *(iv) as a result of paragraphs (i) to (iii), the primary source of repayment of the obligation is the income generated by the assets rather than the independent capacity of a broader commercial enterprise.*

2.18 HM Treasury also intends to use a transitional provision to ensure that any existing transaction or scheme entered into before the new definition comes into force which did not constitute a securitisation under the current definition, but which would be captured by virtue of the change being made to the definition, will not be treated as a securitisation under the new provision. This will be achieved by carving out certain "excluded arrangements" and defining this term in regulation 3(1) of the Securitisation Regulations 2024.

2.19 The table below lists the CRR articles that HM Treasury intends to revoke to facilitate the PRA's implementation of the near-final Basel 3.1 rules it published in PS17/23 and PS9/24.

Article or part to be revoked from the CRR	
Area	**Articles to be revoked**
Standardised approach (credit risk)	107 (1)-(2), 110(1)-(3), 111-113, 114(1)-(4), 115(1)-(3) and (5), 116(1)-(4), 117-118, 119(1)-(4), 120-127, 129, 131, 133-135, 137-141, 496, Annex 1
Internal ratings-based approach (credit risk)	142-151, 153-157, 159-191, 500
Credit risk mitigation	108, 192-196, 197(1)-(7), 198-241, 299(2)(c)
Operational risk	312-315, 317-324
Market risk	325(1),(2)&(4), 325b, 326-377
Power to make technical standards	464B(2)(b)-(d)

Article or part to be revoked from the CRR	
Credit valuation adjustment risk	381, 382 (1)-(3), 382(4)(a), (c), (d), 382(5), 383, 384, 386, 482
Minimum requirements	92, 459
Adjustments to own funds requirements	501, 501a

2.20 Some definitions, which are currently set out in the CRR, will need to be updated to ensure that the PRA's Basel 3.1 rules operate as intended. The relevant definitions are listed below, along with an explanation of how those definitions will need to change. As part of work to complete revocation of the CRR, HM Treasury is assessing which definitions from the CRR will need to remain in legislation and which definitions should be revoked to be replaced by PRA rules and is working with the PRA to determine the timetable to complete this work. If the relevant definitions are to remain in legislation after 1 January 2026, HM Treasury will update those definitions to take effect alongside the implementation of the Basel 3.1 standards through PRA rules.

Definition of 'probability of default' in CRR Article 4(1)(54)

2.21 The CRR definition of "probability of default" (PD) will need to be updated to define PD more accurately in the context of dilution risk. A reference to facility will be included in the definition to recognise that PD can be estimated at facility level for retail exposures under the PRA's credit risk framework. The updated definition will be:

> *'probability of default' or 'PD' means—*
>
> *(a) the probability of default of an obligor or, where applicable, facility, over a one-year period, and,*
>
> *(b) in the context of dilution risk, the probability of dilution over that one-year period;*

Definition of 'loss given default' in CRR Article 4(1)(55)

2.22 The CRR definition of "loss given default" (LGD) will need to be updated to clarify that LGD is an expected ratio and updated to define LGD more accurately in the context of dilution risk in line with the updated definition of PD explained above. Similar to the definition of PD, the reference to facility will be introduced as LGD is estimated at facility level. The updated definition will be:

> *'loss given default' or 'LGD' means—*
>
> *(a) the expected ratio of the loss on an exposure related to a single facility due to the default of an obligor or facility, to the amount outstanding at default of that facility, and,*

(b) in the context of dilution risk, the loss given dilution, namely the expected ratio of the loss on an exposure due to dilution, to the amount outstanding according to the pledged or purchased receivable.

Definition of 'conversion factor' in CRR Article 4(1)(56)

2.23 The CRR definition of "conversion factor" will need to be updated to clarify that conversion factor is an expected ratio, in line with the proposed updated definition of "probability of default" explained above, to clarify that conversion factors are measured at facility level, and to remove the concept of "unadvised limits" from the definition. The updated definition will be:

'conversion factor' means the expected ratio of the currently undrawn amount of a commitment from a single facility that could be drawn from a single facility before default and that would therefore be outstanding at default to the currently undrawn amount of the commitment from that facility, the extent of the commitment being determined by the advised limit.

Chapter 3

Revocation of the remaining provisions in the Capital Requirements Regulation

Background

3.1 Beyond implementation of Basel 3.1, HM Treasury is progressing work to revoke the remainder of assimilated law in the CRR and the CBR. The PRA and the Bank of England will then be able to replace the revoked legislation with regulator rules and statements of policy. This work will ensure that the UK's prudential regime for banks, building societies and investment firms operates in line with the UK's established model for financial services regulation, as provided for in FSMA 2000.

3.2 As the PRA and the Bank of England replace CRR and CBR requirements with regulator rules and statements of policy, they intend to introduce a number of reforms to the capital framework. The most substantive of these reforms are summarised below. The government believes that these reforms will improve the UK's prudential regime and that they demonstrate the benefit of the FSMA model of regulation, which enables the regulators to use their rule-making responsibility to ensure that regulation is tailored to the needs of the UK.

Small Domestic Deposit Taker (SDDT) regime

3.3 The PRA has been developing its approach to simplifying prudential requirements for small, domestic-focused, banks and building societies, while maintaining those firms' resilience, since 2021. This is known as the 'Strong and Simple' framework and has resulted in the PRA's proposed SDDT regime.

3.4 The SDDT regime is intended to simplify requirements and reduce compliance costs for small, domestic-focused banks and building societies, making it easier for these firms to operate and compete with larger ones. The regime is an example of how the UK is using its position outside of the EU to ensure the UK prudential banking framework is fit for the future and tailored to the UK's needs. The PRA's Basel 3.1 policy

statement includes an interim capital regime so that firms eligible to become SDDTs do not need to apply Basel 3.1-based rules prior to the introduction of the simplified capital regime for SDDTs.

Definition of Capital

3.5 Applying the FSMA model of regulation to the CRR will mean that the PRA takes on responsibility for setting the quantity of capital that firms need to hold (as set out in the new rules implementing Basel 3.1, for example) but also the quality of capital that firms are required to hold.

3.6 Requirements on the quality of capital are currently set out in articles of the CRR which define capital. The government intends to revoke these CRR articles so that the PRA can set requirements on the quality of capital through PRA rules. New PRA rules on the quality of capital will enable the PRA to implement its proposed SDDT regime.

3.7 HM Treasury has published draft legislation alongside this policy update which sets out the CRR articles on definition of capital that will need to be revoked to facilitate implementation of the new SDDT regime. Revocation of these CRR articles will likely be delivered through legislation which revokes all of the CRR provisions which remain after Basel 3.1.

3.8 Further details on the PRA's proposed approach can be found in the PRA's consultation on restating the definition of capital requirements in its rulebook.

Capital Buffers

3.9 An important element of the capital framework that the PRA will become responsible for once the FSMA model of regulation has been applied to the CBR is the setting of macroprudential capital buffers. This will involve revoking legislation underpinning the UK capital buffers framework so it can be replaced with PRA rules and statements of policy. Whilst this will give the PRA additional flexibility in setting some of the buffers, the proposals published today by the PRA demonstrate its continued commitment to align with international standards set by the BCBS.

3.10 The legislation underpinning the Countercyclical Capital Buffer (CCyB) and the Other Systemically Important Institution (O-SII) buffer will be re-stated with some small policy amendments, given the Financial Policy Committee's role in setting these two buffers.

3.11 Amendments to both the Capital Conservation Buffer (CCoB) and CCyB frameworks would allow the PRA to implement the proposed simpler buffer requirements for SDDTs.

3.12 The Systemic Risk Buffer (SRB) will be removed as a policy tool by revoking its underpinning legislation and not restating it. It is being removed because it is an EU legacy instrument that is not used in the UK. The O-SII buffer replaced the SRB in the UK as a buffer used to address the risk posed by systemically important institutions.

3.13 Further details on the approach can be found in the PRA's consultation on the revised capital buffers legislative and policy framework.

Securitisation

3.14 As the PRA takes on responsibility for setting capital requirements through its rules, it will consider how those requirements apply to securitisation exposures. Securitisation is a process through which the credit risk associated with an exposure, or a pool of exposures is tranched, with some of that risk passed on to investors and other transaction participants.

3.15 The PRA published a Discussion Paper in October 2023, which sought views on issues relating to the capital requirements for PRA-authorised CRR firms' securitisation exposures.[16] This included the interaction with the output floor introduced by Basel 3.1 among other issues.

3.16 The PRA intends to issue a consultation on its proposals on these issues in due course.

Total Loss Absorbing Capacity

3.17 The CRR capital framework in legislation includes provisions dealing with Total Loss Absorbing Capacity (TLAC) for certain banks. The TLAC provisions in the CRR implemented the Financial Stability Board's TLAC standards for Global Systematically Important Banks (G-SIBs), including setting out the financial instruments that can qualify as TLAC and how G-SIBs should treat any investments they have made in other G-SIBs' qualifying instruments. Once these provisions are revoked, the Bank of England, in its capacity as resolution authority, will be able to replace requirements through its Statement of Policy on its approach to setting a Minimum Requirement for Own Funds and Eligible Liabilities (MREL) and to use the flexibility it gains to make further changes to MREL policy as it deems appropriate.

3.18 The Bank of England will consult on a set of proposed updates to its Statement of Policy on its approach to setting MREL to reflect the revocation of the TLAC provisions in the CRR. This includes proposals to replace, to the extent necessary or appropriate: (i) the provisions setting out the eligibility criteria for and exclusions from eligible liabilities; (ii) the deductions regime; (iii) assessment and compliance with the conditions for own funds and eligible liabilities; and (iv) requirements for own funds and eligible liabilities for Global–Systemically Important Institutions.

3.19 The government also intends to revoke the MREL UK Technical Standards. Overall, this will create a more streamlined MREL regime comprised principally of the Banking Act 2009, the Bank Recovery and Resolution (No. 2) Order 2014 and the Bank of England's MREL Statement of Policy.

---

[16] DP3/23 Securitisation: capital requirements

Proposed Revocations

3.20 This stage of work will include revocation of any CRR provisions not covered in the legislation made to implement Basel 3.1 rules. The timing of this legislation will depend on the outcome of the PRA and Bank consultations on the rules and policy that will replace the remainder of the CRR, including those referred to above. Draft commencement regulations, including the articles required to be revoked for the remainder of the CRR, will be published in due course.

3.21 The revocations and restatements with modifications that will be made to the CBR are set out in draft legislation published alongside this document. Subject to Parliamentary time, this will be implemented in time for the proposed changes to the PRA's policy materials to take effect in Q2 2025.

3.22 FSMA 2023 includes a secondary legislation power for HM Treasury to restate in legislation assimilated law provisions which have been revoked. The government intends to use legislation made under FSMA 2023 to:

- restate the CRR equivalence regimes in legislation; and
- restate in legislation some of the key CRR definitions which are needed to ensure that the overall legislative framework for regulation of banks, building societies and investment firms continues to operate as intended once the CRR is fully revoked.

3.23 These restatement provisions will need to take effect at the same time as the CRR is revoked. In due course, the government will set out more detail on the legislative approach it intends to use to revoke the CRR and to making the restatement provisions referred to above.

Chapter 4
Savings Provisions

4.1 A savings provision preserves the effect of revoked legislation for certain purposes. This chapter outlines the savings approach that HM Treasury will use to provide continuity in respect of firm-specific regulatory approvals granted under the CRR.[17]

4.2 The CRR contains several provisions which require a regulated firm to obtain a permission from the PRA. For example, under Article 143(1) of the CRR, a firm may apply an internal ratings-based approach to calculate capital requirements for its credit risk exposures. A firm can only apply an internal ratings-based approach if it obtains permission from the PRA.

4.3 To provide continuity and to avoid disruption for firms, HM Treasury will preserve PRA permissions granted under the CRR after the relevant CRR provision has been revoked. Legislation will be used to continue the effect of these existing permissions as if the permissions had been granted under relevant PRA rules. A firm which currently uses one of these permissions need take no action. A saved permission will be subject to variation or revocation by the PRA in the future if, in line with PRA policy, the permission is no longer appropriate. A firm can also apply to the PRA to have a saved permission varied or revoked.

4.4 HM Treasury intends to make a number of savings provisions to facilitate the implementation of Basel 3.1 and the wider revocation of the CRR.

4.5 The table below sets out the specific CRR articles for which HM Treasury intends to make savings provisions to facilitate the smooth implementation of Basel 3.1 rules. HM Treasury will set out the list of savings provisions that it is intending to make for the remaining elements of the CRR in due course.

Article or part of the CRR that requires a Savings Provision (Basel 3.1)[18]	
Calculation of risk-weighted exposure amounts	Article 113 (6)
Exposures in the form of covered bonds	Article 129 (1)
Permission to use Internal Ratings Based (IRB) Approach	Article 143 (1), 143 (2) and 143 (3)

17 HMT also intends to preserve the PRA's power to amend and revoke Technical Standards made under the CRR, where those Technical Standards will continue to be needed after the CRR's revocation.

18 The draft Financial Services and Markets Act 2023 Commencement, Saving and Transitional Provisions Regulations 2024 (Definition of Capital Statutory Instrument) includes a list of CRR articles which require savings provisions to be made for the interim capital regime.

Article or part of the CRR that requires a Savings Provision (Basel 3.1)[18]	
Conditions for implementing the IRB approach across different exposure classes	Article 148 (1)
Conditions to revert to the use of less sophisticated approaches	Article 149 (1) and 149 (2)
Conditions for permanent partial use of IRB approach	Article 150 (1)
Internal model maturity calculation	Article 162 (2)(h)
Overall requirements for estimation of risk parameters Probability of Default, Loss Given Default, conversion factor and Expected Loss	Article 179 (1)
Additional eligibility for collateral under the IRB approach	Article 199 (6)
Using the internal models approach for master netting agreements	Article 221 (1) and 221 (2)
Calculation of own funds requirement	Article 315 (3) and 317 (4)
Permission for consolidated requirements	Article 325b (2)
Options and warrants on interest rates, debt instruments, equities, equity indices, financial futures, swaps and foreign currencies	Article 329(1)
Interest rate on derivative instruments	Article 331 (1)
Calculation of the overall net foreign exchange position	Article 352 (1) and 352 (2)
Options and warrants on commodities or on commodity derivatives	Article 358 (3)

HM Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk