

Themes considered by the PRA when proposing CP 16/22

The consideration of the Consultation Paper (CP) is to align with Basel III standards and promote safety and soundness of the firms it regulates. It has been highlighted that PRA considered the below aspects, if not more, for this CP, which are referred as “have regards” factors by the PRA

Relative standing of the UK as a place to operate and competitiveness	to support the <i>competitiveness</i> and the <i>relative standing</i> of the UK while ensuring the <i>safety and soundness</i> of firms and <i>strengthening UK financial stability</i>
Relevance to international standards	to ensure adherence to <i>international standards</i> , which in turn supports the <i>relative standing of the UK</i> and positions the UK as one of the largest global financial centres
Proportionality	even if some of the proposals are expected to create cost for the firms in the short term, these costs will not persist over time and the firms are expected to benefit from a clearer clarification of requirements which would justify any increase in costs. Some of the proposed changes will also bring <i>proportionality between IRB aspirant firms and IRB incumbent firms</i> , thus ensuring a <i>level playing field</i> and <i>reducing barriers to entry</i> to using IRB approaches
Sustainable growth	to ensure that firms are <i>appropriately capitalised</i> for the risks that they face, such that they can continue providing finance for the real economy throughout the economic cycle
Efficient and economic use of PRA resources	having more <i>visibility and clearer guidance</i> on systems and processes as well as limiting modelling choices will ensure an efficient use of PRA’s resources in areas that need ongoing monitoring and engagements, such as monitoring firms’ initial implementations and ongoing applications
Climate Change and 2050 net-zero target	although specific climate risk related measures are not in scope of the CP or Basel 3.1 standards, some of the proposals are <i>motivated by net-zero target</i> , such as changes proposed in Specialised Lending exposures can enable firms to model certain Specialised Lending exposures (A-IRB and F-IRB) and in turn encourage them to invest in green finance projects
Different business models	while the proposed changes ensure <i>capital adequacy and risk-sensitivity</i> , the impact of the changes can have varying influences on firms based on their <i>business mix</i> and <i>risk profile</i> and therefore aligning with one of the objectives of Basel 3.1 standards