Chapter 9 Microprudential regulation II – other measures

9.2.2 Net stable funding ratio

Page 417, footnote 26

Replace the text in footnote with:

'Arts 428a, 428b, Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012.'

Delete the sentence 'This is expected to be in line with the Basel Committee's provisions discussed below.' Replace with the following:

'An amendment to the Capital Requirements Regulation was introduced in 2019 and provides for the application of the NSFR to all banks. However, Member State regulators are permitted the freedom to decide to apply simpler forms of NSFR calculations to smaller and non-complex banks.[1]'

9.2.2.1 Available stable funding

Page 417

In the paragraph beginning 'Table 9.4…', insert, at the end of the paragraph the following:

'European legislation has in 2019 prescribed stability factors for banks' sources of available stable funding, expanding upon the Basel Committee's broadly-framed standards set out in the Table.[2]'

9.2.2.2 Required stable funding

Page 420

[1] Art 428ai, Regulation 2019/876, above.
[2] Arts 428k to 428o, Regulation 2019/876.

In the paragraph beginning 'The RSF factors…', insert, at the end of the paragraph the following:

'European legislation has in 2019 prescribed RSF factors in greater detail, drawing upon the Basel Committee's template.[3]'

9.2.3 Implementation in the UK and EU

Page 422

Line from top of page, delete the sentence 'The EU has now… binding.' Replace with:

'With the EBA's support for the full implementation of liquidity ratios, the EU has ultimately implemented the NSFR in its amendment to the Capital Requirements Regulation in 2019.'

Seventh line from end of page, delete the sentences 'The NSFR has not yet been implemented…. Reported quarterly.' Replace with:

'The NSFR is to be reported quarterly,[4] and implementation is expected in the UK.'

Page 423, under Key Bibliography

Insert as the top item:

'Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012.'

9.3.4 Limits on large exposures for G-SIBs

Page 428

Delete the final sentence of the last paragraph: 'As part of the EU's…G-SIBs'. Replace with:

'In response, the EU's Capital Requirements Regulation amendment in 2019 now provides for the lower large exposures limit for G-SIBs.[5]'

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[3] Arts 428r to 428ah, Regulation 2019/876.
[4] Art 447, Regulation 2019/876.
[5] Art 395(1), Regulation 2019/876.

Page 435, footnote 69

Replace text of the footnote with:

'Art 429, Regulation 2019/876.'

9.4.3 Implementation in the EU

Page 435

Delete the sentences beginning with 'The EU Regulation has further prescribed… 100 per cent.' Replace with:

'EU Regulation has further prescribed how exposures should be calculated, such as taking into account credit risk mitigating instruments like collateral and guarantees, and excluding specified credit derivatives.[6] During the Covid-19 pandemic, the UK and EU have also implemented measures to disregard government-backed loans to businesses for the purposes of calculating the leverage ratio, therefore incentivising banks to support the real economy during challenging times.'

Page 436

Paragraph beginning with 'The Regulation has initially….. firmly.' To Delete in full.

9.4.4 Implementation in the UK

Page 437

Paragraph beginning with 'For banks that are…', insert after 'globally systemically important financial institutions', the words 'or ring-fenced banks as discussed in Chapter 10'.

Page 440, under Key Bibliography

Insert as top item:

'Regulation (Eu) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market

[6] Arts 429 to 429g, Regulation 2019/876.

risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012.'

Page 446, footnote 99

Replace text in the footnote with the following:

'EBA, *Guidelines on the Specification and Disclosure of Systemic Importance Indicators* (Nov 2020), https://www.eba.europa.eu/sites/default/documents/files/document_library/Publications/Guidelines/2020/Guidelines%20on%20the%20specification%20and%20disclosure%20of%20systemic%20importance%20indicators/935707/Final%20report%20-%20EBA%20GLs%20on%20disclosure%20of%20G-SIIs%20indicators.pdf.'

Page 453, footnote 114

Change text in footnote to 'Art 92a, Regulation 2019/876.'

9.5.4.5 Piecing together with other micro-prudential measures

Page 456

Insert the following:

9.4.5.6 Flexible Application of Microprudential Regulation During Macro-economic Challenges

Although the microprudential regulatory framework has been reformed radically towards conservative provision in the years after the global financial crisis, the framework arguably provides in-built flexibility for regulators to address macro-economic challenges during times where it is desirable for banks to play a greater role in supporting the real economy.

During the Covid-19 pandemic, the PRA relaxed the application of a number of microprudential measures. The PRA clarified that government-backed loans during the pandemic would not be constrained by the leverage ratio,[7] allowing banks to overcome the regulatory constraints to lend. Banks have also been allowed to fall below the liquidity

[7] BOE, 'Statement on credit risk mitigation eligibility and leverage ratio treatment of loans under the Bounce Back Loan scheme' (4 May 2020), https://www.bankofengland.co.uk/prudential-regulation/publication/2020/pra-statement-on-crm-and-leverage-ratio-loans-under-bbls.

coverage ratio[8] in order to meet the needs of customers drawing down their credit lines and overdrafts in full.

The application of microprudential supervision by the PRA and also by EU member state regulators during the Covid-19 pandemic suggests for us that the post-crisis framework may have 'peaked'. Regulators, armed with a full set of powerful microprudential regulatory tools, are prepared to adjust their calibrations according to broader macro-economic challenges. Hence the framework should not merely be thought of as technical or rigid, but as fully susceptible to technocratic application.[9]'

Page 457 under Key Bibliography

Insert as top item:

'Regulation (Eu) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012.'

[8] PRA, 'Q&A on the usability of liquidity and capital buffers' (20 April 2020), https://www.bankofengland.co.uk/prudential-regulation/publication/2020/buffer-usability-qanda.
[9] See Iris H-Y Chiu, Andreas Kokkinis and Andrea Miglionico, 'Relief and Rescue: Suspensions and Elasticity in Financial Regulation, and Lessons from the UK's Management of the Covid-19 Pandemic Crisis (with Andreas Kokkinis and Andrea Miglionico) (2021) Stanford International Policy Review 24.