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The UK's PRA Publishes Near-Final Basel 3.1 Rules

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On 12 September 2024, the UK's banking regulator, the Prudential Regulation Authority ("PRA") published its second policy statement on implementation of the Basel 3.1 standards in the form of near-final rules (**PS9/24**). This note considers some of the key 'concessions' PS9/24 gives, as well as where the PRA has got to on its considerations of the future prudential treatment of securitisations.

1. Implementation date: Having already extended it by six months, the PRA has elected to move the implementation date for Basel 3.1 standards for another six months to 1 January 2026. The overall transitional period remains the same, so that full implementation remains due by 1 January 2030.
2. Changes to the treatment of SME lending: The PRA's original proposal to remove the SME support factor under Pillar 1 has been adjusted. The PRA has listened to concerns about the effect of access to capital for SMEs and has now included Pillar 2A adjustments to ensure that there should be no increase in overall capital requirements for SME exposures.
3. A more risk-sensitive approach to valuing residential real estate: In order to simplify and render more risk-sensitive, the near-final rules now include a requirement for firms to obtain a new valuation once every five years in order to make sure that products that do not involve 'natural' revaluation events are not disadvantaged. In addition, the requirement for firms to adjust valuations to reflect the value of the property sustainable over the lifetime of the loan has been removed.
4. The 'output floor': The PRA has considered responses and has introduced an adjustment in its near-final rules to reflect total expected loss amounts ("EL") and accounting provisions, which should lead to a more accurate capital ration when compared to that which would have applied if all exposures had been assessed on the standardised basis.

Securitisations

In its first Basel 3.1 implementation proposal, the PRA discussed the application of the output floor to securitisation exposures and proposed that it would apply the output floor to firms using internal models in the same way as those using standard approaches. The PRA received a number of consultation responses concerned about the effect of this strategy on the economic competitiveness of UK securitisations, and in In DP 3/23 (for our note on this, please see **here**), proposed a number of alternative options. These remain the subject of industry feedback and will be the subject of a future consultation.

Next steps

The PRA does not anticipate any further changes to the rules as set out in PS9/24 and notes that they are said to be 'near-final' as their implementation depends on the Government first revoking existing legislation, to be replaced with PRA firm-facing rules.