UK Finance

afme/

Response to HMT's Overseas Prudential Requirements Regime (OPRR) draft SI & PRA's CP 3/26 on rule changes to accommodate HMT's OPRR

2 April 2026

Introduction

1. UK Finance[1] and AFME[2] are pleased to respond to HMT's OPRR draft regulations (the **draft OPRR SI**) and PRA's CP 3/26 on OPRR.
2. In this response we also refer to our prior response to HMT's applying FSMA 2000 model of regulation to the UK CRR – Overseas Recognition Regime of 30 September 2025 (the **UK Finance/AFME response of 30 September 2025**)[3] and to our prior to response to the PRA's CP19/25 – CRR Definitions: restatement in PRA Rulebook of 30 October 2025 (the **UK Finance/AFME response of 30 October 2025**).[4]
3. We have been supported by A&O Shearman[5] on this response, especially given the legal considerations.

Key messages

4. We commend both HM Treasury and the PRA on the work that they have done to ensure continuity for the markets with respect to recognition of jurisdictions currently deemed equivalent for credit risk and large exposures purposes. The importance of this certainty and the avoidance of otherwise significant cliff edge implications cannot be overstated.
5. That said, industry would welcome moves by HM Treasury to further underline the openness of the UK markets by progressing as soon as possible the work needed to expand the existing overseas recognition, going beyond assimilated law on equivalence decisions. More generally, to support clarity, we encourage HM Treasury to supplement the already published Overseas Recognition Regime Guidance Document with a strategy for Overseas Recognition Regimes. This could set out, for example, priority regimes and jurisdictions for assessment.
6. We also note that certain existing equivalence decisions are partial only which causes constraints and complexities for firms. We would welcome a general review and consideration as to whether those jurisdictions subject to partial equivalence currently could be expanded.
7. Furthermore, while we fully support the introduction of the framework for recognition of overseas eligible covered bonds, we lament the fact that, as we understand it, there are currently no plans or proposals to commence work on designation of any priority jurisdiction identified in the UK Finance/AFME response of 30 September 2025. In our view, the progress on designation of relevant overseas jurisdictions for the purposes of the OPRR is not a "nice to have" but rather a "must have" development needed to meet the relevant secondary objectives of post-Brexit UK reforms that facilitate international competitiveness and growth of the UK economy.
8. We are concerned that there is not a clear timeline in place to designate sophisticated jurisdictions under the OPRR for the purposes of UK banks' capital and liquidity treatment of covered bonds. We request that HMT prioritise the designation ahead of the Basel 3.1 go-live on1 January 2027, particularly for those jurisdictions that were listed in HMT's consultation response.

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[1] **UK Finance** is the collective voice for the banking and finance industry. Representing over 300 firms, we're a centre of trust, expertise and collaboration at the heart of financial services, championing a thriving sector and building a better society.

[2] **The Association for Financial Markets in Europe (AFME)** is the voice of the leading banks in Europe's financial markets. Our purpose is to advocate for deep and competitive, integrated capital markets globally, which support companies and investors, facilitating economic growth.

[3] See UK Finance/AFME response of 30 September 2025.

[4] See UK Finance/AFME response of 30 October 2025

[5] **A&O Shearman** is an international legal practice with nearly 4,000 lawyers, including some 800 partners, working in 28 countries worldwide. Providing a truly global offering with unmatched reach and depth, tailor-made for complex, cross-border work, their team is created to achieve unparalleled outcomes for complex, multijurisdictional matters across an ever-changing world and regulatory landscape.

9. The lack of clarity on this issue has impeded the profile of the UK as an open market for trading of and investing in covered bonds, which could have otherwise seen a significant growth opportunity for the UK. If firms were incentivised to increase their corporate treasury and reserve manager activity in UK debt markets, as a result of the UK's openness to a large HQLA investable fixed income universe, then this would contribute positively to UK competitiveness as well as supporting the liquidity of UK markets.

10. We also note that UK banks that are subsidiaries of foreign-headquartered institutions remain bound by home state regulations. By way of example, for US headquartered banks this includes regulations set by the Federal Reserve that limit the amount of a particular form of credit any non-US entity within a US banking group can hold without breaching home-regulator expectations on concentration risk. Specifically, this limits the UK debt that UK subsidiaries of US banking groups can hold. As a result, if banks were unable to diversify their debt holdings sufficiently, then it would act as a material constraint on the banks' ability to grow their presence in the UK – as well act as a drag on the UK as a place for foreign banks to do business.

Comments: Overseas covered bonds

Comments to HMT on the draft OPRR SI

11. We welcome the next steps from HMT (and the PRA) in progressing the introduction of the OPRR and would **urge HMT to commence preparatory work necessary for designation of overseas eligible covered bonds as soon as possible bearing in mind the list of priority jurisdictions that we identified in the UK Finance/AFME response of 30 September 2025 and were listed in the HMT's response to its consultation**[6]. This will greatly facilitate the market certainty and forward investment planning by UK CRR firms. It will send the positive signal to the wider market that the UK is open for business and is creating a blueprint for sensible regulation of the financial services sector. It will also be of great assistance to the industry discussions in the EU on the reciprocal treatment of the UK covered bonds in the context of the EU initiative on the equivalence of third country covered bonds, which we also discussed in our prior response mentioned above. We stand ready to assist HMT and the PRA with gathering market data and any other information that may be needed to advance the required assessment in expedient manner.

12. We urge HMT to publish, in advance of the implementation of the Basel 3.1 rules on 1 January 2027, the designated list of jurisdictions whose covered bonds will be treated as eligible overseas covered bonds for the purposes of UK banks' capital requirements. At a minimum, and pending any further assessment, HMT should base this designation exercise on the jurisdictions already identified in its policy response and in the UK Finance/AFME response dated 30 September 2025, i.e. it should include the European Union, European Economic Area states, Canada, Australia, Switzerland, Singapore, South Korea, and New Zealand.

13. As stated in the Key Messages section above, we encourage HMT to supplement the already published Overseas Recognition Regime Guidance Document with a strategy for Overseas Recognition Regimes. This could set out, for example, priority regimes and jurisdictions for assessment.

14. The industry would welcome further detail from HMT on the process by which banks and other institutions may request the inclusion of additional jurisdictions within the OPRR, including in respect of exposures to credit institutions, investment firms, subsidiary undertakings of CRR firms that are intermediate financial holding companies, central governments, central banks, regional governments, local authorities and public sector entities, as well as overseas eligible covered bonds.

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[6] Applying_the_FSMA_2000_model_of_regulation_to_the_CRR_2025_-_Policy_Update_Response.pdf Paragraph 3.9

15. We welcome the confirmation in the draft OPRR SI that preferential regulatory capital treatment is intended to apply to overseas eligible covered bonds. **We have concerns, however, that it remains unclear how such designation can benefit (if at all) in the context of other prudential and non-prudential requirements**. When responding to earlier consultations, the industry was under the impression that designation of overseas covered bonds under the OPRR will encompass broader preferential treatment and will not be limited to the capital rules only. Please also note below our further comments to the PRA in relation to the LCR rules.

16. We also want to reiterate in this regard what we stated in the UK Finance/AFME response of 30 September 2025, i.e. that it will be essential to holistically review other regulatory frameworks that refer to covered bonds to ensure that appropriate recognition is given in other frameworks and rules to the designation of relevant overseas covered bonds under the OPRR. For example, this will be relevant to address in the context of prudential treatment of covered bonds by UK Solvency II firms. It is also relevant to consider for the purposes of non-prudential treatment of covered bonds under the UK EMIR provisions relating to covered bond exemption from clearing and a partial exemption from collateral posting (which exemptions, among other things, refer to compliance with UK CRR Article 129 requirements). We would therefore welcome further engagement with HMT and UK regulators on these points. We would also welcome engagement with the Bank of England's market operations team in relation to the possible review of its eligible collateral framework that might provide for better treatment of overseas eligible covered bonds.

17. In relation to the draft OPRR SI, we noted that regulation 5 on the effects of designation of overseas eligible covered bonds provides in regulation 5(3) that the designation of overseas jurisdiction under regulation 3(1) may specify one or more conditions that must be satisfied by an overseas eligible covered bond to benefit from preferential regulatory capital treatment. The industry will welcome further detail from HMT on the type of condition(s) that may be relevant in this context and what will be expected from the relevant overseas jurisdiction (or an overseas covered bond issuer) to demonstrate that any such condition is met, because it will be important to ensure that the satisfaction of any such condition can be easily verified by the UK CRR firms for the purposes of applying relevant prudential treatment when investing in such overseas eligible covered bonds.

Comments on PRA CP3/26

18. We welcome the PRA's amendments to its capital rules (namely, Article 129 and corresponding changes in the applicable definitions) that ensure they interface and operate effectively with the draft OPRR SI in the event of future designation of overseas eligible covered bonds and which result in alignment of treatment of overseas eligible covered bonds in two further preferential prudential treatments in Article 161(1)(d) and Article 207(2). These changes are welcome and are in line with our feedback to the earlier consultation.

19. We remain concerned, however, about uncertainty as to whether a designation of an overseas eligible covered bond under the OPRR will impact the LCR rules. We note in this regard that that the PRA states that it has completed a review of the current liquidity treatment of non-UK covered bonds, and that it intends to consult on changes to the PRA rules "*to confirm firms' role in assessing the equivalence of non-UK covered bonds included in Level 2A HQLA*". Whilst we are waiting for further PRA consultation on this, we would urge the PRA to ensure that appropriate recognition is given for the purposes of HQLA assessment to third country covered bonds. While we emphasise the importance of HMT progressing with designations as overseas eligible covered bonds under the OPRR and that HMT and the PRA progress as soon as possible the required assessment work for priority third country jurisdictions as noted above, we also believe that the PRA needs to urgently clarify how non-UK covered bonds would continue to be recognised in the absence of a designation under the OPRR. That is, for the purposes of HQLA assessment, there will need to be an accommodation of third country covered bonds that are not designated under the OPRR. Whilst the industry received

some comfort from the PRA statement of 15 July 2025[7] that "*any future designation under the OPRR would not create cliff edges in treatment for overseas covered bonds issued prior to the designation*", the current uncertainty on the next steps from the PRA and HMT, is having a negative impact on the overall market activities of the UK CRR firms that need certainty for their planning on future funding, liquidity and other needs of the business. See also our comments below in the section entitled "Liquidity concerns".

20. We note that in paragraph 2.24, in the context of broader implications, the PRA acknowledges (emphasis added) that: "*any future HMT designation of a jurisdiction for the purposes of covered bonds would impact the allocation of exposures to exposure classes in a way that could impact the calculation of the CCyB rate for individual firms, as well as individual firms' eligibility for the SDDT regime. This is because an effect of the designation would be to bring these bonds into scope of the definition of 'relevant credit exposures'. The* ***PRA considers that, in aggregate, the effect would likely be small as eligible covered bonds from a designated jurisdiction would be only one of a number of types of relevant credit exposures for the purposes of the calculation****. The PRA therefore does not propose to make rule changes relating to these effects.*"

21. Whilst we agree that we have not identified a material adverse impact regarding CyCB calculation, which is always "a point in time" calculation, we disagree with the PRA's assessment of the SDDT regime.

22. In relation to the SDDT, relevant credit exposures criterion, there are 2 parts to this. First, a point in time requirement for at least 75% of relevant credit exposures to be UK exposures. Second, an average over the last 3 years where at least 85% of relevant credit exposures are UK exposures. Therefore, it is important for the PRA to clarify whether a change in a non-UK exposure from being to an institution (therefore excluded) to a (eligible) covered bond exposure (not excluded) would impact only the point in time calculation **or** would it also impact the 3-year average i.e. would the calculation for the last 12 quarters need to be re-calculated based on the new determination of the exposure being an eligible covered bond and, therefore, no longer excluded? If the PRA requires recalculation of the last 12 quarters, it is likely to lead in some cases to a failure to meet the criterion as not only is the 3 year average percentage threshold higher **but** a firm would not be in a position to adjust its holdings retrospectively, such that significantly lower historical percentages (as per the adjusted calculation) would continue to bring down the 3-year average until replaced by new future data points. **Therefore, as a preferred (and more efficient) solution, we request that the PRA clarifies that historical calculations should be performed based on the determination of the exposure at that time** (ie a non-UK covered bond would historically still be treated as an exposure to an institution and therefore excluded from the calculation for the last 3 years). If such clarification is not possible, alternatively, we invite the PRA to consider a temporary modification, i.e. a modification by consent or by application for a temporary lower threshold, recognising that the historical percentage might temporarily drop below the 85% threshold, but giving the firm time, for example, to adjust its holdings to achieve a historical average above 85%. We note that, in relation to the Retail Deposit Ratio, a firm has at least 4 quarters from no longer meeting this to being required to start re-calculating the NSFR.

Comments: Large exposures (LE)

Comments on PRA CP3/26 – LE & covered bonds

23. As noted in our response to the PRA's consultation paper 14/24[8] the BCBS's LEX Guidelines allows for exposure measurement of covered bonds to be a lower exposure value (but no less

[7] PRA statement on prudential treatment of non-UK Covered Bonds | Bank of England
[8] https://www.ukfinance.org.uk/system/files/2025-03/UK%20Finance%20response%20to%20large%20exposures%20CP%2014%20-24%20.pdf

than 20% of nominal bond holding) if the bonds satisfy certain conditions. We reiterate our request for a review by the PRA into this approach.

Comments: Regional governments

Comments on PRA CP3/26 – Exposures to regional governments or local authorities

24. Regulation 6(3)(ii) of the draft OPRR Regulations prescribes two conditions for an exposure to a regional government or local authority to satisfy the criteria that such exposure does not pose a higher risk than the exposure to the central government.
25. We assume from the PRA's proposed amendment to the Credit Risk: Standardised Approach (CRR Part) Article 115 that those two conditions are sufficient in and of themselves for firms to conclude that the regional government or local authority exposure does not pose a higher risk than the central government exposure and that no further due diligence is required. We would welcome confirmation from the PRA, however.

Comments to HMT on treatment of exposures to public sector entities

26. We urge reconsideration of the treatment of public sector entities. In particular, where a jurisdiction is recognised as equivalent, that should apply consistently to the local risk weighting. There would seem to be no policy rationale to recognise local risk weights where the applicable risk weight is 20% or more but not where the risk weight applied is 0%. This would seem to be supported by the PRA's willingness to accept 0% risk weighting with respect to certain such entities.
27. We would reiterate our request that the PRA and HMT review the definition of Public Sector Entity (PSE), in line with our prior to response to the PRA's CP19/25 – CRR Definitions: restatement in PRA Rulebook of 30 October 2025[9]. In particular, that self-administered bodies governed by law and under public supervision are a separate category of PSE and therefore should not require explicit guarantee arrangements and can include entities that are "commercial" in nature. The rationale is that governments inject capital into these investment development entities and they are, ultimately, a vehicle to use government capital for specific strategic investment projects.

Further matters relating to the OPRR

Comments on PRA CP3/26 – Exposures to institutions definition

28. We note that the PRA intend to create a definition for the italicised term "exposures to institutions" which would have a different scope from both the non-italicised term "exposures to institutions" and the defined term "institutions", both of which the PRA intends to keep using in the Rulebook.
29. We understand the need to distinguish the scope of references to 'institutions' in different contexts throughout the Rulebook but, given the material impact of the distinction, we are concerned about the subtlety of the proposed distinction on the readability and accessibility of the Rulebook. and would request that the PRA re-consider this approach.

[9] Covered in paragraph 22 of the response

30. Concerns include that a mere formatting error now or during a future Rulebook update would substantially change the scope of institutions covered[10]. For example, we query whether the draft proposals have correctly italicised all appropriate references e.g. references to 'exposures to institutions' in the IRB rules. These should be reviewed to ensure that they are appropriately aligned with the policy intent (e.g. for the exposure class allocation).

31. The objective would be better achieved and our concerns avoided if a different defined term were used when the wider population of institutions is intended e.g. "Article 119(A1) exposures".

32. We would also suggest that consistent terminology is used across the legislative text and the PRA Rulebook to support clarity and reduce interpretive risk and would request that the PRA liaise with HMT on this (currently the draft SI uses the term 'exposure to an institution')

33. Additionally, defining the same term to mean different things in different Parts of the Rulebook also impairs readability and adds complexity. Wherever possible, the meanings of defined terms should be consistent throughout the Rulebook. In this instance, the PRA propose a different definition of "exposures to institutions" in the Large Exposures (CRR) Part. Given that the PRA only intends to use "exposures to institutions" twice in the Large Exposures (CRR) Part, the complexity could be avoided by expressly carving out exposures to exchanges in the relevant LE rules themselves.

34. In paragraph 2.14 of CP 3/26, the PRA states that it has not proposed to amend its rules that prohibit the use of credit assessments which incorporate assumptions of implicit government support when assigning risk weights to institutions under the standardised approach (Article 138(1)(g)). However, in our view, the policy intent is most coherent if the restriction on the use of a credit assessments that incorporate assumptions of implicit government support applies to exposures risk-weighted under Articles 119–121, given that other counterparties would typically fall within the corporate exposure class and be subject to higher risk weights.

35. We would also be grateful for clarification by the PRA whether exposures to UK exchanges can be classified as exposures to institutions.

36. Finally, as a general comment, we would flag that text in italics is generally more difficult to read for people with dyslexia and may not be accessible for people who use screen readers.

Comments on PRA CP3/26 – impact of use of exposures to institutions definition on other rules

37. Using the new defined term "exposures to institutions" would appear to affect the meaning of some rules. For example, CP3/26 proposes to use the italicised definition of exposures to institutions in Article 120 of the Credit Risk: Standardised Approach (CRR) Part. This may indicate an interpretation that it is the exposure, rather than the institution, which needs to be rated (contrary to the title of the article – "exposures to rated institutions" and the EBA Q&A 2013_652[11]. We would be grateful for clarification from the PRA of its intention.

Liquidity concerns

38. We note the PRA's open consultation (CP5/26) on modernising the liquidity policy framework. Although this is said to focus on targeted changes to Pillar 2 through the Internal Liquidity Adequacy Assessment (ILAA) rules and supervisory expectations, the proposals around the

[10] There has been at least one example of this happening in the past, when the term customer was inadvertently de-italicised in the FCA Handbook, causing much concern amongst the market as to the consequences, until it was confirmed that it had been unintentional.

[11] "The availability of a "credit assessment by a nominated ECAI" referenced in Article 120 (1) of Regulation (EU) No 575/2013 (CRR) shall be read as referring to the "exposures" (i.e. to both issuer and issue) referenced in this paragraph."

composition of liquidity resources and monetisation risk and the scope of the overall liquidity adequacy rule (OLAR) would have consequences for firm's broader liquidity risk management and overall composition of HQLA.

39. As flagged in paragraph 19 above, we remain concerned about uncertainty as to whether a designation of an overseas eligible covered bond under the OPRR can bring any benefit at all in the context of the LCR rules.

40. We are of the view that if firms are incentivised to increase their corporate treasury and reserve manager activity in UK debt markets, as a result of the UK's openness to a large HQLA investable fixed income universe, then this would contribute positively to UK competitiveness as well as supporting the liquidity of UK markets. To this end, we look forward to engaging with the PRA in relation to the upcoming consultation on changes to the PRA rules "to confirm firms' role in assessing the equivalence of non-UK covered bonds included in Level 2A HQLA".

41. Finally, it is also important to remember that there is an interplay between what is considered liquid from the prudential regulation perspective and what is eligible for liquidity operations (in normal and stressed market conditions) under the Bank of England's eligible collateral framework. In our view, more coherence is needed between these two frameworks so that Bank of England's policies on central bank eligibility are more closely aligned with the liquidity status of financial instruments under the liquidity (including LCR) rules and policy of the PRA. We would therefore welcome in this regard further engagement with the Bank of England's market operations team in relation to the possible review of its eligible collateral framework in the light of the ongoing PRA prudential reforms, including, but not limited to, the treatment of third country covered bonds designated under the OPRR as overseas eligible covered bonds.

Engagement

42. We would be pleased to facilitate any further discussion.

43. UK Finance and AFME are content with the HMT and the PRA publishing this consultation response on its website.

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