

## Press release

### AFME welcomes the UK Prudential Regulation Authority's near-final policy statement for the implementation of the Basel 3.1 standard

12 September 2024

The Association for Financial Markets in Europe ("AFME") welcomes the publication of the near-final policy statement on the remaining elements of consultation paper (CP) 16/22 - Implementation of the Basel 3.1 standards, which includes credit risk, the output floor, and reporting and disclosure requirements.

**Caroline Liesegang, Head of Capital and Risk Management at AFME**, commented: *"AFME remains a committed and strong supporter of effective and sustainable financial markets internationally, which includes ensuring that banks develop and maintain stable capital and funding structures. This is essential to facilitate client financing, investing and hedging for the underlying economic activities that are critical for securing and supporting long-term economic growth and prosperity. The impact of the UK's overall implementation of the Basel 3.1 package is expected to result in an increase in Tier 1 capital contained at 1%, which is important in allowing banks to continue funding the UK economy while remaining appropriately and robustly capitalised. The UK is one of the most globally connected financial centres in the world and the publication of the near-final policy statement on the implementation of the remaining elements of the Basel 3.1 package represents an important step towards achieving, and in support, of these objectives"*.

Overall, these near final policies strike a reasonable balance between international alignment and taking into account the impact of these policies on the UK's competitive standing internationally. We welcome, and are encouraged by, the efforts of the Prudential Regulation Authority (PRA) to consult with the industry on its proposals and the feedback incorporated to facilitate the development of globally acceptable and leading practices.

In the interest of global consistency and alignment with other major banking jurisdictions, we welcome the PRA's decision to delay the application of the overall UK rules to 1 January 2026. We recommended that the PRA adopt this approach in order to avoid regulatory fragmentation and unnecessary costs to the industry.

We strongly welcome the PRA's approach to a more risk-sensitive set of **conversion factors** (CF), particularly noting the reduction of CF for transaction-related and trade finance contingent items to 20%, which will enhance the ability of AFME members to support UK trade objectives. We also support the application of the **output floor** at the highest level of consolidation on a consistent basis for all groups, and its application to minimum capital requirements set through Pillar 1 and internationally agreed capital buffers.

We welcome the adjustments to **SME and infrastructure lending** and support the decision to allow firm-specific adjustment to Pillar 2A to mitigate overall capital impact, as well as the adjustments applied to the definition of SME and risk weights towards commercial real estate collateral and project finance. This will ensure that UK Banks remain competitive internationally and help support economic growth and infrastructure spending across the country.

The PRA's revision to the calculation of the output floor will allow for more comparability across the industry, which we welcome on grounds of transparency for shareholders and investors.

Finally, we note the increased clarity around reporting and disclosure requirements, and adjustments to reflect the underlying policy standards.

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**Notes:**

1. AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: [www.afme.eu](http://www.afme.eu)
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