



**UK Finance and AFME
response to the PRA's
CP19/25 – CRR
Definitions:
restatement in PRA
Rulebook**

30 October 2025

Introduction

1. UK Finance¹ and AFME² are pleased to respond to the PRA's [CP19/25 – CRR³ Definitions: restatement in PRA Rulebook](#)⁴ (the **CP**).
2. We have been supported by A&O Shearman⁵ on this response, especially given the significant legal considerations.

Key messages

3. As a general view, we consider the best approach is to simplify definitions where possible and avoid duplication in the legislation and PRA Rulebook. (We have responded separately to HMT regarding updates to legislation pursuant to its separate consultation.) As these wholesale changes are an opportunity to improve the UK framework, the approach should not seek to retain EU legislative structures unnecessarily.
4. We suggest below revisions to the PRA's general approach to make the PRA Rulebook easier to use. Given the substantial body of legislation and regulation to which banks are subject in the UK, part of reducing the compliance burden is achieved by drafting clear, simple rules which are capable of being read with ease.
5. Two points in particular are important in that context:
 - a. Terms which are defined in legislation should, where used in the PRA Rulebook, should be defined in the PRA Rulebook by way of cross-reference to the relevant legislation and as well as restating the legislative definition.
 - b. Defined terms should appear in the PRA Rulebook in a consistent format (i.e. in bold, italicised, underlined text). No distinction should be made in this regard for terms that were once defined in the CRR. The absence of defined glossary terms being clearly marked in the handbook, makes the PRA Handbook extremely difficult to use and navigate.
6. We also use this response as an opportunity to raise some comments and observations on the definition of overseas covered bonds eligible for better prudential (and non-prudential) treatment as relevant covered bonds designated under the forthcoming Overseas Prudential Requirements Regime (**OPRR**).

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 Regulation (EU) 575/2013 as it forms part of the laws of the UK.

⁴ The Credit Institutions and Investment Firms (Miscellaneous Definitions) (Amendment) Regulations 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.

7. Please also see our [response to the PRA's CP21/25](#) where we request that that FINREP reporting is removed entirely. We reiterate that request here. If doing so is not possible, we would strongly encourage the PRA to consider expanding the scope of this CRR definitions exercise to include FINREP in order to align the use of terms across CRR rules and FINREP. Terms such as SME are currently defined differently in FINREP to COREP and CRR creating challenges in reconciliation.
8. We request that the PRA establish a policy of reviewing all its Rulebook periodically to amend financial thresholds to protect against the effects of 'prudential drag' in future. Some examples of areas on which this could be beneficial include: operational risk loss thresholds, reporting and disclosure thresholds, retail scope, revaluation of immovable property.
9. We also suggest specific changes to various of the PRA's proposed amendments to its rulebook pursuant to the CP, as set out below.

Response

General approach

10. We support the PRA's general approach set out in the CP. Definitions are the building blocks of legislation and regulation and so the clear, simple and consistent use of definitions is critical to establishing good regulation. The PRA's approach goes towards achieving that result in many instances, and in particular through the proposal to adopt terms that are consistent with existing defined terms where possible / appropriate.
11. However, definitions should, to the extent possible, have a single source. Banks do not operate using the PRA Rulebook on its own – it applies in the context of the broader legislative framework. Accordingly, rules and legislation must work seamlessly together to reduce regulatory burden. To achieve this, terms which are defined in legislation (e.g. the Financial Service and Markets Act 2000 (**FSMA**)) should, when used in the PRA Rulebook, be defined in the Glossary to the PRA Rulebook (the **Glossary**). All Glossary definitions should both cross-reference the specific provision of any relevant legislation and, immediately below that cross-reference, should restate the legislative definition in full. This ensures full alignment with the relevant legislation whilst also enabling ease of use of the Glossary. (We also note there are several securitisation related definitions that now refer to The Securitisation Regulations 2024 (SI 2024/102) where the definitions were previously in the Glossary – this seems at odds with the overall intention of the consultation; at the least, the text of the SI definition should be restated in the Glossary, per the previously described approach).
12. We do not support the PRA's proposal to amend the Interpretation Part of the PRA Rulebook to treat terms that were previously defined in the CRR differently from other terms defined in the PRA Rulebook and to create a corresponding list of "CRR terms". The CRR will be revoked in its entirety pursuant to HMT's intention to apply the FSMA model to the CRR. The distinction between terms which were once defined in the CRR and other terms defined in the Glossary is an unnecessary carryover of the historic position. It should not be maintained. Instead, all terms that are defined in the PRA Rulebook should be

included in the Glossary (or, where essential, the relevant Part, though members share the PRA's preference for using the Glossary) and should be formatted in the same way as all other Glossary terms – i.e. in bold, italicised, underlined text – wherever they appear in the PRA Rulebook. The current proposal make the PRA Rulebook materially more difficult to use and would create a lasting compliance burden for firms (and, we expect, the PRA itself).

Specific definitions: the Glossary (Annex B to Appendix 1 to the CP)

13. Ancillary Services Undertakings

- a. We ask the PRA amend limb (3) to specify relevant locations for its use, which we expect is only the Financial Conglomerates Part (and potentially the Non-SII Firms Parts, though limb (2) would appear more appropriate in that latter context and would also need to be amended accordingly).
- b. The term ancillary services undertaking is also used in two supervisory statements (SS15/13 Groups and SS16/13 Large Exposures). We consider that this definition should be read in those supervisory statements using limb (1) of the new Glossary definition given the relevant context in those statements relates to CRR Rules, though this interpretive approach is not directed by any PRA rules or guidance. The lack of clarity here means that limb (3) of the proposed Glossary definition could be considered apply. We request the PRA to amend the preface to the rulebook and/or the PRA's webpage on Policy⁶ to confirm how Glossary definitions should be applied to guidance documents (in this context, we note that both of these supervisory statements currently exist in both the new format appearing as part of the PRA Rulebook and in standalone PDF format).
- c. We also seek clarity on the below items and ask the PRA to consider embedding such clarifications directly into the definition:
 - i. In the case of an undertaking that performs multiple activities, what is the measure of determining which activity is considered its primary activity? We ask that the PRA provides a similar explanation for the term 'principal activity' as is provided for the definition of a 'financial holding company' regarding the use there of 'mainly'.
 - ii. We ask the PRA to provide additional explanations for what is considered a 'similar activity'.
 - iii. How should entities that provide operational leasing activities be considered. Are these similar to other ancillary services or are they expected to be within the scope of a financial institution?

⁶ Available here: <https://www.bankofengland.co.uk/prudential-regulation/policy>.

14. Annex 1 activities

- a. The inclusion of Annex 1 activities directly into the PRA glossary is a positive step but we believe that the proposed draft could be improved to deliver greater clarity to the industry which has experienced long standing uncertainty when applying the definition. The current draft continues to present interpretative challenges, particularly in the following areas:

- i. *Participation in securities issues and provision of services related to such issues.*

The scope of this activity is unclear. It is not evident whether it is limited to entities directly involved in the initial offering of securities to the public (e.g. as issuer, promoter or underwriter) or whether it also includes firms that act in supporting roles such as trustees or collective investment managers. We seek clarity on what is considered 'participation in securities issues' as well as what other services are considered in scope.

- ii. *Safekeeping and administration of securities vs Safe custody services.*

Safe custody services have historically been explicitly outside the scope of a financial institution, while safekeeping is included. The boundary between these activities is unclear especially as it is observed that, in practice, firms often use the terms safekeeping and custody interchangeably leading to inconsistent classification.

- iii. *Annex 1 / RAO / FS Register mapping*

To promote consistency between the prudential and conduct frameworks it would be helpful for the PRA and FCA to jointly provide a mapping between Annex 1 activities and the corresponding regulated activities listed in The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 and the FS register (where applicable). This will enable firms to align entity classification across both regimes and reduce interpretative duplication (and this should align with the FCA's PERG 2 Annex 2).

15. Conversion factor

We support removal of reference to unadvised limits in the proposed definition of a conversion factor.

16. Exposure

The definition of an exposure should include reference to a commitment to issue off balance sheet items to maintain consistency with CRR Article 111 paragraph 1(c). This amendment, together with the proposed amendment to remove reference to unadvised limits from the definition of a conversion factor, helps to

ensure consistency with the definition of commitment and the recognition of exposures.

17. Financial institution

- a. Funds should be explicitly excluded from the definition of a financial institution to ensure consistent treatment across firms as to whether funds carry out any of the Annex 1 activities and should be classified as financial institutions or not. In PS9/24, the PRA sets out that it “considers that it is appropriate to treat these obligors as financial corporates where they meet the definition of financial sector entities” however this does not clearly and definitively set out whether funds should be regarded as financial institutions and by extension as financial sector entities.
- b. We also refer to our response to HMT’s parallel consultation on CRR definitions⁷ regarding this definition and in particular on the meaning of a ‘pure industrial holding company’ on which we would appreciate the PRA’s support in providing clarity for the industry on the scope of this term.

18. Institution

For the purposes of the treatment of exposures, the definition of an institution should be expanded to include UK exchanges and investment firms. This would align with the position in respect of exposures to overseas exchanges and investment firms per Article 107(3) and (4) CRR. We note in particular that UK investment firms are regulated by the FCA under the Investment Firm Prudential Regime and, whilst these are not PRA requirements, this regime applies to any UK investment firm (other than designated investment firms). It would be an inconsistent outcome if exposures to these UK investment firms were not treated as being exposures to institutions whilst exposures to non-UK investment firms in jurisdictions deemed to be equivalent to the UK are treated being as exposures to institutions. Similarly, and again in alignment with the deemed treatment of third country investment exchanges in equivalent jurisdictions, recognised investment exchanges are subject to statutory requirements in the UK and subject to the oversight of the FCA and so exposures to recognised investment exchanges also should be treated as being exposures to institutions.

19. Nominated ECAI

We note the inclusion in this definition of distinct references to the Credit Risk: Standardised Approach (CRR) Part and Securitisation (CRR) Part of the PRA Rulebook rather than the PRA Rulebook as a whole. We read this to indicate an intention to allow separate lists of nominated ECAIs for credit risk exposures vs

⁷ Available at: [UK Finance's response to HMT's Applying FSMA 2000 model of regulation to the UK CRR – Key UK CRR definitions.pdf](#).

securitisation exposures, in line with the PRA response to CP13/24 as set out in PS 19/25.

20. Parent undertaking and subsidiary undertaking

- a. The definition of a parent undertaking is proposed to be defined in the Glossary by cross-reference to section 1162 of the Companies Act 2006. The definition of a subsidiary is proposed to be defined in the Glossary by cross-reference to section 420 FSMA. Section 420 FSMA amends the section 1162 of the Companies Act 2006 definition of a subsidiary.
- b. We consider that the Glossary definitions of parent and subsidiary undertakings should be aligned to work together as a pair. Accordingly, they should be defined by reference to the same source legislation. That source should be section 1162 of the Companies Act 2006 for consistency with the current CRR definition.

21. Participation

- a. We note that the definition of a participation has been aligned with HMT's proposed definition in FSMA and so ceases to refer to the concept of a "durable link". We understand that the PRA's policy intent is unchanged and appreciate that the wording of the proposed definition seems to generally permit the same result as the current definition.
- b. We would request that the PRA maintains its existing guidance on the meaning of a "durable link" and revises that guidance as necessary to apply to this new context to maintain the current level of this policy understanding going forwards.

22. Public Sector Entities

- a. We acknowledge that the proposed definition of a "public sector entity" (**PSE**) is a direct transposition of UK CRR article (4)(1)(8). While this provides continuity, the current drafting has long been viewed as ambiguous and difficult to interpret in practice.
- b. We ask the PRA to take the opportunity to tidy up this definition and make clear the unique types of PSE and clarify whether all, or some, of these distinctive types of undertaking are required to have explicit guarantee arrangements.
- c. One reading of the current and proposed definition suggests the identification of five types of PSE:
 - i. A non-commercial administrative body responsible to central governments, regional governments or local authorities;
 - ii. A non-commercial administrative body responsible to authorities that exercise the same responsibilities as regional governments and local authorities;
 - iii. A non-commercial undertaking that is owned by central governments, regional governments or local authorities, and that has explicit guarantee arrangements; or

- iv. A non-commercial undertaking that is set up and sponsored by central governments, regional governments or local authorities, and that has explicit guarantee arrangements; or
 - v. Non-commercial self-administered bodies governed by law that are under public supervision.
- d. In line with our response to the HMT consultation on “Applying FSMA 2000 model of regulation to the UK CRR – Overseas Recognition Regime” of 30 September 2025⁸, we request that amends the definition of a PSE to expressly include those EU PSEs exposures to which are deemed by EU national competent authorities to be exposures to central governments, regional governments or local authorities and government-sponsored entities.
- i. Primary examples of government-sponsored entities are the Federal National Mortgage Association (FNMA or “Fannie Mae”) and the Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac.”) in the US. Fannie Mae and Freddie Mac are U.S. government-sponsored enterprises that perform leading roles in the US housing finance system by providing liquidity, stability and affordability to the US mortgage market, including by way of securitisation. Their securities are generally assumed by the market to benefit from an implicit guarantee from the U.S. government. They are separately also currently under the conservatorship of the U.S government. Currently the US bank capital rules classify both entities in a separate ‘government sponsored enterprise’ category and assign them a risk-weight of 20%.
 - ii. Despite this status, and their unique position in both US law and the US market, it is not clear that they qualify as ‘public sector entities’ due to being profit-generating and the absence of an unconditional or explicit guarantee from the US government.
- e. Similarly, various sovereign wealth funds also operate with explicit or implicit government support. Where this support is explicit, is often not in a form that is sufficient to meet the requirements for the credit risk mitigation regime but nonetheless changes the risk of exposures to the entity. Such entities should also be included within the definition of a PSE.
- f. In both cases, this could be dealt with by including within the definition of a PSE ‘government-sponsored entities’, being ‘entities which would be public sector entities but for their commercial nature, where such entities benefit from a conditional or implicit guarantee of a central government, regional government or local government’.

⁸ [UK Finance and AFME's response to HMT's Applying FSMA 2000 model of regulation to the UK CRR – Overseas Recognition Regime | Policy and Guidance](#)

23. Recognised exchange

- a. For clarity, we suggest that the opening text of limb (3) the definition of a recognised exchange is amended to align with the scope of limb (1), as well as the current text which aligns with limb (2), as follows (new text underlined):

(3) an investment exchange (other than a UK regulated market or a recognised overseas investment exchange) where: ...

- b. We support the use of the 'market structure condition' in that limb (3) the definition of a recognised exchange. However, we do not support the requirement to meet the 'asset liquidity condition' as currently drafted. This is because it would bifurcate this limb (3) such that the assessment of whether an investment exchange is a recognised exchange will need to be performed at the 'security level' rather than at the level of the exchange itself.
- i. It is unclear whether this is intended to permit relevant investment exchanges to be treated as recognised exchanges where some, but not all, securities meet the asset liquidity condition.
 - ii. Where some but not all securities meet the asset liquidity condition, it is further unclear whether the investment exchange can be treated as a recognised exchange in respect of solely those securities – if so, this is a particularly burdensome approach, requiring constant monitoring of the liquidity of each security on all non-UK exchanges that are not recognised overseas investment exchanges (of which there are many). That monitoring itself is an undesirable outcome – the risk that specific positions could fall in and out of being treated as traded on a recognised exchange based on variances in their liquidity would be highly detrimental and this approach should not be implemented.
 - iii. We note that the need for liquidity in exchange-traded instruments is already adequately addressed in relevant parts of the rules, for instance under the credit risk mitigation framework for collateral.
- c. Accordingly, we request that the PRA remove the asset liquidity condition. (In this context, please also refer to AFME's response to the PRA in respect of CP3/25, which also addresses this issue).

24. Reinsurance Undertaking

The definition has two limbs, one for when the term is used without italics in CRR rules and one for use anywhere else in the PRA Rulebook. Both definitions are the same and as a result we consider this to be unnecessary. We recommend that the PRA simplify the drafting having only one definition for all uses.

25. Resolution Entity

- a. The proposed definition of resolution entity directs readers to the Banking Act 2009 which in turn cross refers to the Bank Recovery and Resolution (No 2) Order

2014. While the intention appears to be simplification, in practice this creates a multi-layered look-through process that requires users to navigate multiple regulations making the Glossary harder to read, which we understand to be the opposite of the PRA's intention. We request that the PRA instead either cross refer to the Order definition or, if it is critical to maintain the reference to the Banking Act, to cross-refer to the definition in the Banking Act as itself defined in the Order.

- b. We also reiterate our request above in respect of restating cross-referenced definitions in full as well as providing a cross-reference.

26. Securities or commodities lending or borrowing transactions

- a. A definition of 'securities or commodities borrowing or lending transaction' should be provided. (This request aligns with the industry's responses to CP16/22 via the [UK Finance](#) and [AFME/ISDA](#)).
- b. Unlike other types of SFT transactions, the CRR does not contain a definition of 'securities or commodities borrowing or lending transaction'. We consider that the PRA should add a definition of this term to the Glossary of the PRA Rulebook.
- c. To do so, the PRA could align with the FCA Glossary definition of 'securities or commodities lending or borrowing transaction' by drafting this as follows (in line with our request above to restate definitions incorporated by cross-reference):

'securities or commodities lending or borrowing transaction' has the meaning set out in the definition of 'securities or commodities lending' or 'securities or commodities borrowing' at Article 3(7) of the UK version of the Securities Financing Transactions Regulation (SFTR) (Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012):

'securities or commodities lending' or 'securities or commodities borrowing' means a transaction by which a counterparty transfers securities or commodities subject to a commitment that the borrower will return equivalent securities or commodities on a future date or when requested to do so by the transferor, that transaction being considered as securities or commodities lending for the counterparty transferring the securities or commodities and being considered as securities or commodities borrowing for the counterparty to which they are transferred.

27. SME

- a. We note the PRA's use of the existing Glossary definition of an SME rather than the current CRR definition and that this aligns with the PRA's Basel 3.1 near final part 2 proposals.

- b. We request the PRA to increase the annual turnover threshold from £44m to £65m to adjust for the effects of inflation and currency fluctuations since the introduction in 2003 of the original €50m threshold.⁹
- c. We request the PRA to inflation index the annual turnover threshold to protect against the effects of 'prudential drag' in future.

28. Trading book

We would request the PRA to change the term 'non-trading book' to instead refer to the 'banking book'. Whilst not all firms subject to these PRA rules will be 'banks', this is the term that is used consistently in the market and by the Basel Committee and so this would aid with general market understanding and establishing simplicity.

Specific definitions: Credit Risk Mitigation (CRR) Part (Annex I to Appendix 1 to the CP)

29. The deletion of Article 229(4) leaves a lacuna in the regime:

- a. The context of the existing Article 229(4) CRR defines market value for physical collateral that is not immovable property, which is required per Article 229(3) to be valued "*at, or less than, its market value*".
- b. The term 'market value' appears unitalicised in the proposed Article 229(3), which is a CRR rule, and so falls within the new limb (1) of the amended Glossary definition of 'market value'. However, that new definition is limited in scope to apply "*for the purposes of immovable property*" and so cannot be used for physical collateral that is not immovable property.
- c. The second limb of the proposed Glossary definition cannot be applied to Article 229(3) in order to address the limitations of the first limb as it does not apply to CRR rules.
- d. Accordingly, there is simply no definition of market value that applies to physical collateral that is not immovable property.

30. We request that the PRA establishes a second limb of the CRR rules definition of market value that, for consistency, applies the current definition from Article 229(4) CRR to physical collateral other than immovable property, as follows (new text underlined):

(1) (when used without italics in CRR rules and rules made under section 192XA of FSMA):

(a) for the purposes of immovable property, the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing

⁹ Please refer to Article 2 here: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32003H0361>

wherein the parties had each acted knowledgeably, prudently and without compulsion; or

(b) for the purposes of physical collateral other than immovable property, the estimated amount for which the property would exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction; or

(2) (anywhere else in the PRA Rulebook) the market value as determined in accordance with generally accepted accounting practice.

Specific definitions: Depositor Protection Part (Annex L to Appendix 1 to the CP)

31. We request that the definition in the Depositor Protection Part of “low-risk assets” is updated to refer to the correct new source document per PS9/24 Basel 3.1 near final part 2 Appendix 2 – CRR Firms: (CRR) Instrument [2024], as follows:

means items falling into the first or second category of Table 1 of Article 336 of the Market Risk: Simplified Standardised Approach (CRR) Part

Specific definitions: Financial Conglomerates Part (Annex N to Appendix 1 to the CP)

32. We request that the definition of a recognised third country investment firm is amended to follow UK Finance and AFME’s proposed approach to the FSMA definitions of overseas investment firms as set out in our response to the HMT consultation on “Applying FSMA 2000 model of regulation to the UK CRR – Overseas Recognition Regime” of 30 September 2025.¹⁰

Currency conversions

33. We note that the PRA has made various conversions from Euro thresholds to GBP thresholds over the years since 2021. We request that the PRA establishes a policy for how future changes in exchange rates across the Rulebook will be made to provide certainty and to permit engagement with industry.

Overseas covered bonds

34. General comments and observations

- a. We refer to our response to the HMT consultation on “Applying FSMA 2000 model of regulation to the UK CRR – Overseas Recognition Regime” of 30 September 2025¹¹ and note that UK Finance and AFME support the development of the OPRR that facilitates the designation of overseas covered bonds for preferential

¹⁰ [UK Finance and AFME's response to HMT's Applying FSMA 2000 model of regulation to the UK CRR – Overseas Recognition Regime | Policy and Guidance](#)

¹¹ [UK Finance and AFME's response to HMT's Applying FSMA 2000 model of regulation to the UK CRR – Overseas Recognition Regime | Policy and Guidance](#)

capital and liquidity/LCR treatment in the UK. As noted in that response, UK Finance and AFME welcome HMT comments that it would ensure that any such designation does not create cliff edges in treatment for overseas covered bonds issued prior to that designation and want to stress in this regard that it will be important to holistically review all relevant regulatory frameworks in the UK that contain references to covered bonds (going beyond prudential regulation of banks), to ensure that prudential and non-prudential treatment of overseas covered bonds designated under the OPRR is fully addressed.

- b. Therefore, this PRA consultation presents the first opportunity for UK Finance and AFME to bring to the attention of the PRA certain specific issues that arise in relation to the designation of overseas covered bonds under the OPRR. While some of our comments go beyond definitions-related discussion, we trust that the PRA will find such additional comments helpful and we would welcome further engagement with the PRA (and the Bank of England) on this topic.

35. New “overseas covered bonds” definition and its interplay with the existing “eligible covered bonds” definition

- a. In addition to the existing definition of “CRR covered bonds” which is restricted to the relevant UK legislative covered bonds only,¹² the introduction of the overseas covered bonds designated under the OPRR would require a new definition. As per the HMT Response we propose, by analogy with the concept of an “overseas STS securitisation”, to introduce a separate definition along the following lines which can then be used to track through adjusted application of the relevant CRR provisions:

overseas covered bonds means covered bonds of a description in relation to which a country or territory outside the United Kingdom is designated by regulations made under [refer to the relevant OPRR SI]

- b. We separately note a related definition of “eligible covered bonds”¹³ which turns on compliance with CRR Article 129. This definition will not require changes provided Article 129 provisions are adjusted to incorporate (in addition to the “CRR covered bonds”) the new concept of “overseas covered bonds”. Immediately

¹² CRR covered bonds means bonds issued by a credit institution which:

(1) has its registered office in the UK; and

(2) is subject by law to special public supervision designed to protect bondholders and in particular protection under which:

(a) sums deriving from the issue of the bond must be invested in conformity with the law in assets;

(b) during the whole period of validity of the bond, those sums are capable of covering claims attaching to the bond; and

(c) in the event of failure of the issuer, those sums would be used on a priority basis for the reimbursement of the principal and payment of the accrued interest.

¹³ “eligible covered bonds has the meaning in paragraph 1 and 6 of Credit Risk: Standardised Approach (CRR) Part Article 129.”

below we provide illustrative examples of how some of the relevant Article 129 provisions may need to be adjusted.

36. Adjusted application of Article 129 (*Exposures in the form of eligible covered bonds*) to overseas covered bonds

- a. In Article 129(1), it will be necessary to add the concept of overseas covered bonds designated under the OPRR so that “eligible covered bonds” encompass both the “CRR covered bonds” (as currently defined) as well as the new definition of “overseas covered bonds”. We set out below an illustrative mark-up:

“1. Subject to paragraph 6, eligible covered bonds are CRR covered bonds or overseas covered bonds which meet the requirements in paragraphs 3 and 7, as applicable, and are collateralised by any of the following eligible assets:[...]”

- b. Article 129(3) requirements for immovable property collateralising eligible covered bonds will also need to be adjusted for overseas covered bonds because the PRA Credit Risk Mitigation (CRR) rules will not be directly applicable to the overseas covered bond issuers.

- c. In Article 129(7), the requirements to provide periodically certain information on the cover pool and relevant covered bonds needs to incorporate the concept of “overseas covered bonds”. We set out below an illustrative mark-up:

“7. CRR covered bonds or overseas covered bonds are only eligible covered bonds where the institution investing in the CRR covered bonds or overseas covered bonds: (a) receives portfolio information at least on: (i) the value of the cover pool and outstanding CRR covered bonds or overseas covered bonds; (ii) the geographical distribution and type of cover assets, loan size, interest rate and currency risks;(iii) the maturity structure of cover assets and CRR covered bonds or overseas covered bonds; and (iv) the percentage of loans more than 90 days past due; and [...]”

37. Application of “eligible covered bonds” concept in CRR Article 161(1)(d) and Article 207(2):

- a. As already noted above, “eligible covered bonds” definition will not require changes provided Article 129 requirements are adjusted to incorporate (in addition to the “CRR covered bonds”) the new concept of “overseas covered bonds” as discussed above. Therefore, the overseas covered bonds will be accommodated for better treatment in the CRR rules more generally where such better treatment is applied to “eligible covered bonds”. This will be relevant, for example, in the cases set out below.
- b. Article 161(1)(d) which concerns provisions on LGD values for institutions using the Foundation IRB Approach and whereby “*eligible covered bonds may be assigned an LGD value of 11.25%*”.
- c. Article 207(2) which concerns requirements for Financial Collateral Simple Method, the Financial collateral Comprehensive Method, the Foundation

Collateral Method and the SFT VaR Method and whereby “...the institution may use the obligor’s own issues of eligible covered bonds as eligible collateral when they are posted as collateral for a repurchase transaction” provided certain conditions are met.

38. Overseas covered bond eligibility for liquidity (incl. NSFR) treatment and as L2A HQLA in the Liquidity Coverage Ratio (CRR) Part of the PRA Rulebook (including possibility of extending overseas covered bond eligibility to L1 HQLA)

- a. The PRA rules would need to incorporate the new definition of “overseas covered bonds” designated under the OPRR and to amend HQLA eligibility criteria accordingly. We also refer in this regard to the PRA statement on prudential treatment of non-UK covered bonds of 15 July 2025¹⁴ and the importance of smooth transition to any future PRA liquidity treatment of non-UK covered bonds.
- b. As noted in the HMT Response, UK banks already treat some of their investments in non-UK covered bonds as L2A HQLA, so the introduction of the OPRR with a positive regulatory treatment for overseas covered bonds will ensure that UK CRR firms can source HQLA in covered bond markets across multiple jurisdictions and multiple currencies leading to diversification away from UK mortgages, and the ability to hold liquid assets that are potentially less correlated to the sterling market.
- c. **We also want to raise certain specific comments on the L2A HQLA requirements for third country covered bonds to have a certain minimum issue size and a minimum asset coverage level (these comments were also raised in our HMT Response):**
 - i. The minimum issue size post-Brexit changed in Article 11(1)(d)(vii) to £440m (from EUR500m). The conversion of EUR500m benchmark from the EU LCR into the £440m limit was arbitrary and calculated using the foreign exchange rate applicable at the time of the transfer of the “onshored” LCR Regulation into the PRA Rulebook at the start of 2022. As a result, this sterling benchmark was set at a level higher than what would have applied if a different post-Brexit foreign exchange rate was used for calculation. This leads to an odd outcome in practice whereby covered bonds that meet their domestic benchmark (e.g. EUR500m under the EU LCR regime (which is equivalent to £434m currently)) fail eligibility under the UK LCR rules because of the arbitrary £440m limit which has fluctuating foreign exchange calculations. We would therefore **recommend that: (i) the £440m issue limit is changed to £400m** (or its equivalent in foreign currency) **and used as a fallback where the domestic overseas covered bond framework does not otherwise prescribe a benchmark; and (ii) it is further clarified** (in line with the

¹⁴ [PRA statement on prudential treatment of non-UK Covered Bonds | Bank of England](#)

EBA guidance that applied pre-Brexit)¹⁵ that **if covered bonds are issued in non-sterling currency, the exchange rates at the time of latest issuance are to be used for the calculation of the issue size.**

- ii. The L2A criteria also prescribe a minimum “*asset coverage requirement*”. This term is defined in the LCR rules with an acknowledgment of the relevant limit being determined either by the law applicable in the UK or third country. That is, the definition reads as follows (emphasis added):¹⁶ “*asset coverage requirement means the ratio of assets to liabilities as determined for credit enhancement purposes in relation to covered bonds by national law of the United Kingdom or a third country*”. This minimum asset coverage requirement in L2A differs for third country covered bonds depending on the issue size. For third country covered bonds with the issue size of £440m or higher, the minimum asset coverage requirement is 2%. However, where the £440m benchmark is not met, an asset coverage requirement of at least 7% applies instead. The latter raises issues in practice because the asset coverage requirement (also known as overcollateralisation) prescribed under third country frameworks is often lower than 7%. For example, an EEA covered bond issue that uses “European Covered Bond (Premium)” label that complies with the EU Covered Bond Directive and the EU CRR Article 129 eligibility criteria will be subject to a 5% asset coverage requirement (with optionality for Member States to set a lower level provided certain conditions are met and provided that in any case the minimum level of overcollateralization is not lower than 2%). Such premium-labelled EEA covered bond issued with a minimum issue size of EUR500m will currently fail the UK LCR £440m minimum issue size as noted in paragraph (A) above and, therefore, will attract the asset coverage requirement of at least 7%, which may not be met either because it is not a requirement under the applicable EEA framework. Therefore, L2A criterion in this regard is at odds with how “asset coverage requirement” is defined in the LCR rules as it fails to consider the applicability of the overcollateralisation requirements of the third country framework. Therefore, we **recommend that the L2A asset coverage requirement for overseas covered bonds designated under the OPRR is revised to better reflect different overcollateralisation requirements that exist in domestic frameworks**, and we would welcome further engagement on this issue with the PRA.

- d. Furthermore, and as noted in the HMT Response, we also invite the PRA to open the eligibility of overseas covered bonds designated under the OPRR for Level 1

¹⁵ See EBA Q&A 2015_1976 of 18 March 2016: https://www.eba.europa.eu/single-rule-book-ga/qna/view/publicId/2015_1976.

¹⁶ <https://www.prarulebook.co.uk/prarules/liquidity-coverage-ratio-crr/16-09-2025#glossary-term-8a7412f4ba764e2793f07759714b5b66>

HQLA. This can further reinforce the UK's case for equivalence and influence the development of the EU equivalence regime, paving the way for reciprocal treatment of UK covered bonds in the EEA (note that we discuss recent EU initiative on third country covered bond equivalence in a bit more detail in our HMT Response).

39. Considerations arising in relation to the treatment of overseas covered bonds in other contexts

As noted in our HMT Response, holistic review of all relevant UK frameworks is needed to fully address prudential and non-prudential treatment of overseas covered bonds designated under the OPRR. Set out below are a few such examples:

- a. Interplay of UK Solvency II and UK EMIR with overseas covered bonds designated under the OPRR:** The treatment of overseas covered bonds would need to be addressed in the UK Solvency II rules. The review of the UK EMIR provisions relating to covered bond exemption from clearing and a partial exemption from collateral posting will also be needed as such exemptions, among other things, refer to compliance with UK CRR Article 129 requirements. We would therefore welcome further engagement with HMT, the PRA and the FCA on these points.
- b. Bank of England (BoE) liquidity operations and eligible collateral framework for non-UK covered bonds:** UK banks can use non-UK covered bonds (notably EEA covered bonds) in liquidity operations with the BoE as Level B or Level C collateral provided certain eligibility criteria are met. The jurisdictional requirements for Level B collateral are further limited to certain French and German covered bonds only and in all cases additional transparency requirements apply including loan-by-loan data reporting using the BoE template. We appreciate that this topic is outside the scope of this PRA consultation, but wanted to note this as a general point as it is relevant to the activities of the UK banks involving investments in non-UK covered bonds, which could be facilitated by incorporating the concept of OPRR-designated overseas covered bonds as eligible collateral that is subject to better treatment (e.g. lower haircuts, uplift to Level B) in the BoE eligible collateral framework. We provide more comments on this topic in our HMT Response and would welcome a further dialogue with the BoE monetary policy team on the relevant issues.
- c. Considerations for UK subsidiaries and branches of the US-headquartered global systemically important banks (G-SIBs):** As an additional point, we also wanted to note that US-headquartered G-SIBs face strict expectations under the Federal Reserve Regulations H and K that limit UK subsidiaries' and branches' portfolio exposures to any single form of credit. This means that UK entities within a banking group headquartered in the US are limited in their gilt (and other UK asset) holdings, regardless of the rules on HQLA classification. As such, access to overseas covered bonds issued in sophisticated and well-regulated jurisdictions such as those mentioned in this section are crucial for banks in meeting their HQLA requirements without breaching concentration risk limits and expectations.

If such institutions were limited in their ability to trade and hold non-UK assets from their UK entities, it could inadvertently shift corporate treasury and reserve manager activity out of the UK into other jurisdictions in order to avoid breaching global limits.

Engagement

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

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

Responsible Executive



nala.worsfold@ukfinance.org.uk



+44 (0) 7384 212633



Jeanie.watson@afme.eu



+44 (0) 7386 658 526