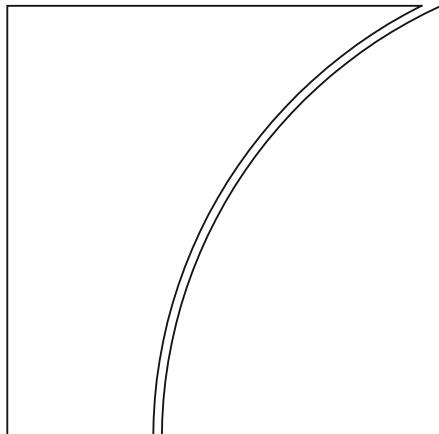


Basel Committee on Banking Supervision



Regulatory Consistency
Assessment Programme
(RCAP)

Assessment of Basel
NSFR regulations –
United Kingdom

December 2025



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Glossary

ASF	Available stable funding
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
C	Compliant (grade)
CIU	Collective investment undertaking
CRR	Capital Requirements Regulation
D-SIB	Domestic systemically important bank
FAQ	Frequently asked questions
GBP	British pound
G-SIB	Global systemically important bank
HQLA	High-quality liquid assets
IAL	Interdependent assets and liabilities
LC	Largely compliant (grade)
LCR	Liquidity Coverage Ratio
MDB	Multilateral development bank
PNC	Partially non-compliant (grade)
PRB	Peer Review Board
NC	Non-compliant (grade)
NDB	National development bank
NSFR	Net Stable Funding Ratio
PRA	Prudential Regulation Authority
PSE	Public sector entity
QCCP	Qualifying central counterparty
RCAP	Regulatory Consistency Assessment Programme
RSF	Required stable funding
SDDT	Small domestic deposit taker
SFT	Securities financing transaction
SoP	Statement of Policy
SS	Supervisory Statement
UK	United Kingdom

Preface

The Basel Committee on Banking Supervision (Basel Committee) places a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if these are implemented in a full, timely and consistent manner by all member jurisdictions. The Basel Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel III framework.¹

This report presents the findings of an RCAP Assessment Team (Assessment Team) on the status of adoption of the Basel Net Stable Funding Ratio (NSFR) standard in the United Kingdom (UK) as of 31 July 2025. The assessment focused on the completeness and consistency of the UK NSFR regulations with the Basel NSFR standard and relied on information provided by UK authorities. The main counterpart for the assessment was the Prudential Regulation Authority (PRA).

The Assessment Team was led by Mr Kentaro Tamura, Deputy Director-General, Bank of Japan (BoJ), and comprised technical experts from the South African Reserve Bank (SARB), the Hong Kong Monetary Authority (HKMA), the Monetary Authority of Singapore (MAS) and Sveriges Riksbank (see Annex 1). The work was coordinated by the Basel Committee Secretariat with support from BoJ staff.

The assessment began in May 2024 and comprised: (i) a self-assessment by the PRA (May to November 2024); (ii) an assessment phase (November 2024 to July 2025); and (iii) a review phase (August to September 2025) including a technical review of the Assessment Team's findings by a separate RCAP Review Team, the Peer Review Board (PRB)² and the Basel Committee. The report was adjusted by the Assessment Team to take account of comments from the Review Team and by the Basel Committee to take account of recommendations made by the PRB. The assessment report ultimately reflects the view of the Basel Committee.

The Assessment Team acknowledges the cooperation received from the PRA throughout the assessment process.

¹ See www.bis.org/bcbs/implementation.htm.

² See the Handbook for Jurisdictional Assessments, September 2022, at www.bis.org/bcbs/publ/d540.htm, for the roles of the Assessment Team, Review Team and the PRB.

Executive summary

The Basel NSFR standard is implemented in the UK through the *Liquidity (CRR) Part of the PRA Rulebook*, supplemented with the guidance provided in Supervisory Statements. These rules and guidance are applicable to all banks, building societies and PRA-designated investment firms, as well as PRA-approved parent holding companies in the UK. The NSFR standard is applied in the UK on a consolidated, individual and, for ring-fenced entities and domestic liquidity subgroups, sub-consolidated basis. Select small domestic banks and building societies have been exempted from the NSFR on proportionality grounds.

As this has been the first standalone RCAP assessment of the UK, the Assessment Team also examined the binding nature of various prudential documents issued by the PRA. The Assessment Team concluded that these prudential documents fulfilled the criteria set out in the *RCAP Handbook for jurisdictional assessments*.

Overall, as of 31 July 2025, the NSFR regulations in the UK are assessed to be largely compliant (LC) with the Basel NSFR standard. This is one notch below the highest overall grade. Individually, three of the four components of the Basel NSFR standard (scope, minimum requirements and application issues; available stable funding (ASF); and disclosure requirements) are assessed to be compliant. The remaining component, required stable funding (RSF), is assessed to be partially non-compliant. This component grade is driven by the cumulative impact of five material, one potentially material and eight not material findings. Most of the material findings relate to UK rules that permit banks to use lower RSF factors compared with those prescribed by the Basel NSFR standard.

Finally, the Assessment Team notes the broader scope of application of NSFR rules in the UK (see Annex 6). In accordance with the methodology and guidance provided in the RCAP Handbook, this super-equivalence has also not been taken into account as a mitigant for the overall or component-level assessment of compliance.

Response from the UK authorities

The UK authorities thank the RCAP Assessment Team, led by Mr Ken Tamura, for its diligent work and constructive engagement throughout the review of the United Kingdom's implementation of the Net Stable Funding Ratio (NSFR). We also extend our appreciation to the Basel Committee Secretariat for its collaborative approach. We fully support the RCAP process in ensuring the implementation of a globally consistent NSFR standard. We welcome the opportunity to respond to the report's findings on the implementation of the Basel NSFR framework.

The PRA shares the overall assessment of "largely compliant" in the UK RCAP-NSFR assessment report. As part of the assessment, three of the NSFR components, concerning: scope and application; available stable funding (ASF); and disclosure requirements were graded as compliant with Basel standards.

The Required Stable Funding (RSF) component has been graded partially non-compliant, and the assessment highlights areas in which the UK implementation of the RSF component deviates from the Basel standard. The most material differences in the RSF component relate to: the treatment of Level 1 high-quality liquid assets (HQLA); monies due from short-term securities financing transactions (SFTs); and the valuation of derivatives. These differences reflect choices in the UK's implementation of the NSFR standard that advance PRA statutory objectives, reflect the results of public consultation, and align with the implementation of other jurisdictions in these key areas. They support firms' safety, soundness and the functioning and liquidity of core funding markets and help maintain an international level playing field with those jurisdictions with common approaches.

In conclusion, we would like to reiterate our commitment to the RCAP process. The assessment of the implementation of international standards across jurisdictions is important for sound, stable and well-functioning financial systems.

1 Assessment context

1.1 Regulatory system

UK government legislation sets the framework within which the PRA exercises its responsibilities.³ The PRA is then empowered to set technical rules through its regulatory rulebook.

The PRA Rulebook is a legislative instrument and has the force of law. The rules in the PRA Rulebook are legally binding requirements made and enforced by the PRA. They are supplemented by Statements of Policy (SoP), which detail the PRA's approach to the exercise of its statutory functions, and Supervisory Statements (SS), which set guidance for firms on certain prudential matters. Non-adherence to the guidance set out in the Supervisory Statements is not a formal breach of the PRA Rulebook. Nevertheless, depending on the nature and extent of non-adherence, supervisors may respond through an increase in a bank's regulatory capital requirement or by revoking its approval to use a particular methodology.

While the UK was part of the EU, Basel standards were directly applied to UK banks and certain investment firms through the EU Capital Requirements Regulation (EU CRR).⁴ When the UK left the EU, a large body of EU law was transferred into UK legislation, including the elements which apply to the financial services sector. In particular, the prevailing version of the EU CRR and related instruments were transferred into UK law. This is referred to as the "assimilated CRR".⁵

Since then, parts of the assimilated CRR have been revoked from UK law by His Majesty's Treasury and replaced with corresponding rules in the PRA Rulebook. This has been the case for assimilated CRR provisions related to NSFR requirements. Other assimilated CRR provisions remain applicable to UK firms.

Hierarchy of UK laws and regulatory instruments		Table 1
Laws that empower the PRA as banking supervisor and prudential rule-maker	Financial Services and Markets Act 2000	
UK laws that assimilate requirements originally issued by the EU	Assimilated EU law, including the assimilated CRR Assimilated EU regulatory technical standards	
Regulatory instruments issued by the PRA	The PRA Rulebook	
Guidance issued by the PRA	Supervisory Statements (SS) Statements of Policy (SoP)	

The term "UK rules" in this report refers to assimilated EU law, including the assimilated CRR, and the PRA Rulebook. More information on the UK regulatory framework and the assessment of its bindingness is provided in the next section and in Annexes 2 and 3.

³ See Financial Services and Markets Act 2000.

⁴ Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

⁵ Assimilated Regulation (EU) No 575/2013 of the European Parliament and of the Council.

1.2 Enforceability and binding nature of prudential regulations

As a general principle, RCAP assessments only take into consideration “binding” regulatory documents that implement the Basel III framework. This is to ensure that the Basel requirements are set out in a robust manner and that a formal basis exists for supervisors and third parties to ensure compliance with the minimum requirements.

The Assessment Team examined the binding nature of various prudential documents issued by the PRA using the criteria being applied in RCAP assessments (see Annex 3). Based on the assessment of these seven criteria, the Assessment Team concluded that the assimilated EU law mentioned in the previous section, which is legally binding, as well as the PRA Rulebook, which gives further clarification, meet the criteria and hence are eligible for the RCAP assessment. During meetings between the Assessment Team and UK banks, it was evident that the PRA Rulebook is considered by all market participants to be as fully applicable as prudential standards. On that basis, the Assessment Team concluded that the PRA Rulebook can be considered within the context of the RCAP assessment.

More information is provided in Annexes 2 and 3.

1.3 Status of NSFR implementation

The Basel NSFR standard is implemented in the UK through the PRA Rulebook, in particular the Liquidity (CRR) Part of the PRA Rulebook, with guidance provided in Supervisory Statements, all published in English.

These rules and guidance are applicable to all banks, building societies and PRA-designated investment firms, as well as PRA-approved parent holding companies in the UK.

The NSFR standard is applied in the UK on a consolidated, individual and, for ring-fenced entities and domestic liquidity subgroups, sub-consolidated basis. There is an exemption from the NSFR on proportionality grounds for certain small, domestic CRR firms that are banks and building societies (small domestic deposit takers (SDDTs)).

1.4 Scope of the assessment

The Assessment Team reviewed the implementation of the NSFR requirements in the UK. Annex 2 lists the Basel standards used as the basis for the assessment. The Assessment Team considered all binding documents that effectively implement the NSFR requirements in the UK as of 31 July 2025. The assessment did not evaluate the resilience of the UK banking system or the supervisory effectiveness of UK authorities. The assessment had two dimensions:

- a comparison of the UK rules with the Basel NSFR standard to ascertain that all the required provisions have been adopted (*completeness* of the regulations); and
- whether there are any differences in substance between the UK rules and the Basel NSFR standard and, if so, their significance (*consistency* of the regulations).

The Assessment Team evaluated the materiality and potential materiality of identified deviations between the Basel NSFR standard and the UK rules. The evaluation was made using a sample of six internationally active UK banks.⁶ Together, these banks comprise about 66% of total bank assets in the UK. In addition, the Assessment Team reviewed the non-quantifiable impact of identified deviations and

⁶ Consistent with prior RCAP reports, the term “banks” is used in this report to describe the entities subject to the application of the Basel Framework in the UK and therefore includes banks, building societies and PRA-designated investment firms, as well as PRA-approved parent holding companies.

applied expert judgment to assess whether the UK rules meet the Basel NSFR standard in letter and in spirit. The materiality assessment is summarised in Annex 5, which also lists the sample of banks.

The Assessment Team noted that, in one area, the UK rules go beyond the minimum Basel standards. Although this element (see Annex 6) provides for a more rigorous implementation of the Basel Framework, it has not been taken into account for the assessment of compliance.

The outcome of the assessment is summarised using a four-grade scale, both at the level of each of the four key components of the Basel NSFR standard and at the level of the overall assessment of compliance. The four grades are compliant (C), largely compliant (LC), partially non-compliant (PNC) and non-compliant (NC).

2 Assessment findings

2.1 Assessment grades and summary of findings

Overall, the Assessment Team finds the implementation of the NSFR in the UK to be largely compliant with the Basel standard. This grade is based on the materiality assessment as summarised in Annex 5.

Assessment grades

Table 2

Component of the Basel NSFR standard	Grade
Overall grade	LC
Scope, minimum requirements and application issues	C
Available stable funding (numerator)	C
Required stable funding (denominator)	PNC
NSFR disclosure requirements	C

Assessment scale: C (compliant), LC (largely compliant), PNC (partially non-compliant) and NC (non-compliant).

2.1.1 Scope, minimum requirements and application issues

This component is assessed to be compliant with the Basel standard. No findings were identified.

The Assessment Team, however, observed that the NSFR rules were implemented in the UK from January 2022, ie with a delay of almost four years. Further, the Assessment Team noted that the definition of financial customers in the UK rules does not include "beneficiaries". As frequently asked questions (FAQ) have not been cited as a sole source of a deviation in previous RCAPs, for consistency, the Assessment Team included this as an observation in the report.

2.1.2 Available stable funding

This component is assessed to be compliant with the Basel standard. Two not material findings were identified.

The first finding relates to the wider definition of operational deposits in the UK rules. The UK rules allow banks to classify deposits that are maintained by the depositor in the context of an established operational relationship as "operational deposits" for the purpose of NSFR. Due to this broader definition, liabilities from financial institutions that should be assigned a 0% ASF as non-operational deposits as per the Basel standard could be assigned a higher ASF (50%) by UK banks. The second finding relates to the assignment of a higher (50% instead of 0%) ASF factor to deposits from credit unions, personal investment companies and clients that are deposit brokers, with a residual maturity of less than six months.

2.1.3 Required stable funding

This component is assessed to be partially non-compliant with the Basel standard. The Assessment Team identified 14 findings.

The grade of this component was driven by five material and one potentially material finding. These findings relate to deviation of the UK rules from the Basel standard in permitting: (i) all Level 1 high quality liquid assets (HQLA), except covered bonds, received as variation margin to offset derivative assets; (ii) a 0% RSF factor for all unencumbered Level 1 assets (except extremely high-quality covered bonds); (iii) a 0% RSF factor for monies due from securities financing transactions (SFTs) with financial customers which have a residual maturity of less than six months and are collateralised by Level 1 assets; (iv) a 5% RSF factor for those collateralised by non-Level 1 assets; (v) a 30% RSF factor for on-balance sheet trade finance-related products with non-financial customers which have a residual maturity of less than six months; and (vi) exemption of client clearing derivative transactions from the NSFR calculation even if the clearing member banks guarantee client performance.

The Assessment Team also observed the lack of explicit guidance on the treatment of partially secured loans in the UK rules and noted that under the UK rules banks can include non-maturity reverse repurchase agreements under the residual time bucket of less than six months. This treatment allows banks to apply a lower RSF to non-maturity repurchase agreements (0% or 15%) rather than the 100% stipulated in Basel NSFR FAQ 7.

2.1.4 Disclosure requirements

This component is assessed to be compliant with the Basel standard. Two findings were identified.

These findings relate to the requirement that UK banks disclose average NSFR values instead of quarter-end values required under the Basel standard and the lack of explicit rules for disclosing "securities that are not in default and do not qualify as HQLA, including exchange-traded equities" as a separate item.

2.2 Detailed assessment findings

2.2.1 Scope, minimum requirements and application issues

This component is assessed to be compliant with the Basel standard. No findings were identified.

2.2.2 Available stable funding

Section grade	Compliant
Basel paragraph number	24(b): Operational deposits (as defined in LCR paragraphs 93–104)
Reference in the domestic regulation	Article 428l(a) of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>The Basel NSFR standard applies a 50% ASF factor to banks' "operational deposits", defined in paragraphs 93–104 of the Basel Liquidity Coverage Ratio (LCR) standard. According to paragraph 94 of the LCR standard, operational deposits are those deposits generated by clearing, custody and cash management activities that meet specific criteria.</p> <p>The UK NSFR rules take the definition of operational deposits from the UK LCR rules (ie deposits generated by clearing, custody and cash management activities). The UK LCR rules, however, provide a wider scope of definitions for operational deposits than the Basel LCR standard does. The UK rules include deposits that are maintained by the depositor: (a) in order to obtain clearing, custody, cash management or other comparable services; or (b) in the context of an established operational relationship other than that mentioned in (a). Due to this broader definition in the UK LCR rules, liabilities from financial institutions that should be assigned a 0% ASF as non-operational deposits under the Basel NSFR standard (paragraph 25) could be assigned a higher ASF (50%) under the UK NSFR rules.</p>

	The PRA does not collect specific data on how banks classify operational deposits, making it challenging to quantify the proportion of UK banks' operational deposits that might differ from the Basel standard. However, based on discussions with a sample of UK banks, the Assessment Team understands that the operational deposits of these banks predominantly stem from clearing, custody and cash management activities. The amount of operational deposits arising from other activities, if any, should constitute a negligible portion of their balance sheets. As such, this finding is assessed to be not material.
Materiality	Not material
Basel paragraph number	25(a): Liabilities receiving a 0% ASF factor
Reference in the domestic regulation	Article 428l(b)(vi) of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>The Basel NSFR standard requires that a 0% ASF factor be assigned to liabilities from central banks and financial institutions with a residual maturity of less than six months. Under the UK rules, deposits from credit unions, personal investment companies and clients that are deposit brokers with a residual maturity of less than one year, including those maturing within six months, are assigned a 50% ASF factor. Credit unions are financial institutions, and the PRA has explained that personal investment companies and deposit brokers are also financial institutions to the extent that they perform one of the activities defined as "financial" according to Annex 1 of the EU Capital Requirements Directive (2013/36/EU), which is part of the assimilated EU law defined in Section 1. As such, deposits from those entities with a residual maturity of less than six months should be assigned a 0% ASF under the Basel NSFR standard, instead of a 50% ASF. The PRA justifies the 50% ASF factor as proportionate to the risk profile of these entities.</p> <p>The average impact of this finding on the NSFR across the sample banks is 0.2%, with a maximum impact of 0.7% on the NSFR for the most affected bank. Moreover, it is assessed to be unlikely that these deposits will grow materially over the next five years, given flat trends over the past three years. As such, the Assessment Team assesses this finding to be not material.</p>
Materiality	Not material

2.2.3 Required stable funding

Section grade	Partially non-compliant
Basel paragraph number	35: NSFR derivative asset calculation
Reference in the domestic regulation	Article 428ah(2) of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>The Basel NSFR standard only allows variation margin to offset derivative assets if it is provided in the form of cash.</p> <p>The UK rules allow all Level 1 HQLA, except extremely high-quality covered bonds, received as variation margin to offset derivative assets. The PRA considers this approach to be prudentially appropriate given the high liquidity of Level 1 HQLA. The PRA also points out the significant competitive disadvantage for derivative transactions that would arise for UK banks if the Basel standard had been implemented, as this is a highly globalised business line and other major jurisdictions have allowed recognition of non-cash variation margins.</p> <p>The Assessment Team believes that, by allowing the recognition of non-cash variation margins, UK banks may gain a level playing field advantage relative to banks in the jurisdictions that have implemented the NSFR in line with the Basel standard.</p>

	<p>The Assessment Team also acknowledges the PRA's view on the high level of liquidity of Level 1 HQLA. Notwithstanding this, in defining and calibrating the NSFR standard, the Basel Committee decided on a policy that does not permit the recognition of non-cash variation margin in the calculation of NSFR derivative assets. The UK rules could therefore result in UK banks being permitted to report and maintain liquidity ratios that are lower than those required under the Basel NSFR standard. On average, the impact of this finding on the NSFR across the sample banks is 1.1 percentage point, and the impacts for the two most affected banks are 4.2 and 0.9 percentage points, respectively. This points to a material impact.</p>
Materiality	Material
Basel paragraph number	37: Assets assigned a 5% RSF factor
Reference in the domestic regulation	Article 428r(1)(a) of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>Paragraph 37 of the Basel NSFR standard assigns a 5% RSF factor to unencumbered Level 1 assets other than those specified in paragraph 36. This is to ensure that these unencumbered Level 1 assets are funded by a certain amount of stable funding. The UK rules allow a 0% RSF factor for all unencumbered Level 1 assets (excluding extremely high-quality covered bonds). The PRA considers this approach to be prudent and proportionate given the risk profile of these Level 1 assets, namely securities from sovereigns, central banks and public sector entities (PSEs). It argues that the liquidity characteristics of these Level 1 assets under stress is on par with those of coins and banknotes, central bank reserves and claims on central banks. It also aligns the UK framework with other major jurisdictions, ensuring a level playing field.</p> <p>The Assessment Team believes that by allowing a 0% RSF factor for these Level 1 assets, UK banks may gain a level playing field advantage relative to banks in the jurisdictions that have implemented the NSFR in line with the Basel standard. The Assessment Team also acknowledges the PRA's view on the high level of liquidity of Level 1 HQLA. Notwithstanding this, in defining and calibrating the NSFR standard, the Basel Committee decided on a policy that applies a 5% RSF to unencumbered Level 1 assets other than those specified in paragraph 36. The UK rules could therefore result in UK banks being permitted to report and maintain liquidity ratios that are lower than those required under the Basel NSFR standard. On average, the impact of this finding on the NSFR across the sample banks is 1.2 percentage points, with a maximum impact of 1.8 percentage points on the NSFR for the most affected bank, pointing to a material impact.</p>
Materiality	Material
Basel paragraph number	38: Assets assigned a 10% RSF factor
Reference in the domestic regulation	Article 428r(1)(g) of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>Paragraph 38 of the Basel NSFR standard assigns a 10% RSF factor to monies due from SFTs with financial customers which have a residual maturity of less than six months and are collateralised by Level 1 assets. This is to ensure that these SFTs are supported by an appropriate amount of stable funding. The UK NSFR rules, however, apply a 0% RSF factor to monies due from SFTs with financial customers which have a residual maturity of less than six months and are collateralised by Level 1 assets (except extremely high-quality covered bonds). The PRA cites three main justifications for this treatment. First, it is concerned that applying asymmetrical treatment for SFTs as provided for in the Basel standard could affect the market liquidity of repo markets, which the PRA deems essential for facilitating market liquidity at large. Second, it regards the 0% RSF factor as appropriately reflecting the stable funding risk of monies from these short-term SFTs. Third, it argues that the competitiveness of UK banks would be affected as other significant jurisdictions have applied similar deviations.</p> <p>The Assessment Team believes that by allowing a 0% RSF factor for these transactions, UK banks may gain a level playing field advantage relative to banks in the jurisdictions that have implemented the NSFR in line with the Basel standard. The Assessment Team also acknowledges the PRA's view on the high level of liquidity of Level 1 HQLA. Notwithstanding this, in defining and calibrating the NSFR standard, the Basel Committee decided on a policy in paragraph 38 of the standard that applies a 10% RSF</p>

	to unencumbered loans to financial institutions with residual maturities of less than six months when secured by Level 1 assets. The UK rules could therefore result in UK banks being permitted to report and maintain liquidity ratios that are lower than those required under the Basel NSFR standard. The average impact of this finding on the NSFR across the sample banks is 2.0 percentage points, with impacts of 7.4 and 1.3 percentage points, respectively, for the two most affected banks, pointing to a material finding.
Materiality	Material
Basel paragraph number	40, 42, 43: Assets assigned a 50%, 85% or 100% RSF factor
Reference in the domestic regulation	Articles 428r(1)(b), 428s(1)(a), 428w, 428y, 428aa(b), 428ab(b), 428ac and 428ae of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>Under the Basel NSFR standard (paragraphs 40, 42 and 43), shares or units in collective investment undertakings (CIUs) should be subject to a 50% RSF factor if their residual maturities are less than one year and an 85% RSF factor if their residual maturities are one year or more. For those that are not exchange-traded, the applicable RSF factor is 100%. The UK rules apply a range of RSF factors (0%, 5%, 12%, 20%, 30%, 35%, 40%, 55%) to unencumbered shares or units in CIUs, depending not on their residual maturity but on the haircuts applicable to them under the UK LCR framework. Based on current data, there is no impact of this finding on the NSFR across the sample banks.</p>
Materiality	Not material
Basel paragraph number	39: Assets assigned a 15% RSF factor
Reference in the domestic regulation	Article 428s(1)(b) of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>Under paragraph 39 of the Basel NSFR standard, unencumbered loans to financial institutions with residual maturities of less than six months not included in paragraph 38 should be subject to a 15% RSF factor. However, the UK NSFR rules allow a 5% RSF factor for monies due from SFTs with financial customers which have a residual maturity of less than six months and are collateralised by non-Level 1 assets. Under paragraph 39 of the Basel NSFR standard, however, these loans should be subject to a 15% RSF factor.</p> <p>This approach, governed by Article 428s(1)(b) of the Liquidity (CRR) Part of the PRA Rulebook, aligns with the PRA's assessment of the liquidity and risk profile of SFTs collateralised by non-Level 1 assets. The PRA believes that the 5% RSF factor for these SFTs appropriately reflects their stable funding risk and their role in facilitating market liquidity.</p> <p>The Assessment Team believes that by allowing a 5% RSF factor for these transactions, UK banks may gain a level playing field advantage relative to banks in the jurisdictions that have implemented the NSFR in line with the Basel standard. The Assessment Team also acknowledges the PRA's views on the liquidity and risk profile of SFTs collateralised by non-Level 1 assets. Notwithstanding this, in defining and calibrating the NSFR standard, the Basel Committee decided on a 15% RSF for such exposures. The UK rules could therefore result in UK banks being permitted to report and maintain liquidity ratios that are lower than those required under the Basel NSFR standard.</p> <p>The average impact of this finding on the NSFR across the sample banks is 2.7 percentage points, with impacts of 10.4, 3.4 and 1.4 percentage points, respectively, for the three most affected banks, pointing to a material finding.</p>
Materiality	Material
Basel paragraph number	39: Assets assigned a 15% RSF factor
Reference in the domestic regulation	Article 428v of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>Under paragraph 39 of the Basel NSFR standard, unencumbered loans to financial institutions with residual maturities of less than six months not included in paragraph 38 should be subject to a 15% RSF factor.</p> <p>The UK NSFR rules permit a 10% RSF factor for monies due from transactions (which are not SFTs) with financial customers which have a residual maturity of less than</p>

	<p>six months. Under paragraph 39 of the Basel NSFR standard, however, these loans should be subject to a 15% RSF factor.</p> <p>The average impact of this finding on the NSFR across the sample banks is 0.2 percentage points, with a maximum impact of 0.5 percentage points on the NSFR for the most affected bank, pointing to an impact that is not material.</p>
Materiality	Not material
Basel paragraph number	39: Assets assigned a 15% RSF factor
Reference in the domestic regulation	Article 428t of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>Paragraph 39 of the Basel NSFR standard assigns a 15% RSF factor to unencumbered Level 2A assets (including covered bonds) and all other unencumbered loans to financial institutions with a residual maturity of less than six months.</p> <p>The UK rules permit a 7% RSF factor for unencumbered assets that are eligible as Level 1 extremely high-quality covered bonds under the UK LCR requirements, instead of the 15% RSF factor prescribed under paragraph 39.</p> <p>The average impact of this finding on the NSFR across the sample banks is 0.0 percentage points, with a maximum impact of 0.1 percentage points on the NSFR for the most affected bank, pointing to an impact that is not material.</p>
Materiality	Not material
Basel paragraph number	40, 42: Assets assigned a 50% or 85% RSF factor
Reference in the domestic regulation	Articles 428z and 428ab(a) of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>Paragraph 40 of the Basel NSFR standard applies a 50% RSF factor to unencumbered Level 2B assets, including residential mortgage-backed securities rated AA or above, corporate debt securities rated between A+ and BBB-, and exchange-traded common equity shares not issued by financial institutions or their affiliates.</p> <p>The UK NSFR rules permit RSF factors between 25% and 35% for Level 2B securitisations. Under paragraphs 40 and 42 of the Basel NSFR standard, however, non-HQLA securities should be subject to a 50% or 85% RSF factor, depending on their residual maturity.</p> <p>The average impact of this deviation on the NSFR across the sample banks is 0.1 percentage points, with a maximum impact of 0.1 percentage points on the NSFR for the most affected bank. Therefore, the impact of this deviation is deemed to be not material.</p>
Materiality	Not material
Basel paragraph number	40, 42: Assets assigned a 50% or 85% RSF factor
Reference in the domestic regulation	Article 428aa(a) of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>Paragraph 40 of the Basel NSFR standard requires that non-Level 1 HQLA, which includes unencumbered covered bonds that qualify as Level 2B assets, be subject to a 50% RSF factor. For those assets that do not qualify as HQLA, the applicable RSF factors should be 50% or 85%, depending on their residual maturity.</p> <p>The UK rules permit an RSF factor of 30% for all high-quality covered bonds defined as Level 2 assets under the UK NSFR rules.</p> <p>The average impact of this deviation on the NSFR across the sample banks is 0.0 percentage points, with a maximum impact of 0.05 percentage points on the NSFR for the most affected bank. Therefore, the impact of this deviation is deemed to be not material.</p>
Materiality	Not material

Basel paragraph number	40: Assets assigned a 50% RSF factor
Reference in the domestic regulation	Article 428aa(c) of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>Paragraph 40 of the Basel NSFR standard applies a 50% RSF factor to unencumbered loans to non-financial clients which have a residual maturity of less than one year. The UK rules, however, permit a 30% RSF factor for on-balance sheet trade finance related products with non-financial customers that have a residual maturity of less than six months, which reflects the PRA's view of the nature and risk characteristics of such exposures.</p> <p>The Assessment Team deems that by allowing a 30% RSF factor for these transactions, UK banks may gain a level playing field advantage relative to the banks in the jurisdictions that have implemented the NSFR in line with the Basel standard. The Assessment Team acknowledges the PRA views on the nature and risk characteristics of the exposures. Notwithstanding this, in defining and calibrating the NSFR standard, the Basel Committee decided on a 50% RSF factor. The UK rules could therefore result in UK banks being permitted to report and maintain liquidity ratios that are lower than those required under the Basel NSFR standard.</p> <p>The average impact of this finding on the NSFR across the sample banks is 0.5 percentage points, with impacts of 2.2 and 0.9 percentage points, respectively, for the two most affected banks, pointing to a material impact.</p>
Materiality	Material
Basel paragraph number	42: Assets assigned an 85% RSF factor
Reference in the domestic regulation	Article 428af(2) of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>Under paragraph 42 of the Basel NSFR standard, assets assigned an 85% RSF factor comprise unencumbered securities with a remaining maturity of one year or more. Paragraph 41 of the Basel NSFR standard applies a 65% RSF factor to unencumbered residential mortgages with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under the Basel II standardised approach for credit risk. The UK NSFR rules permit a 65% RSF factor for banks' own unencumbered securitisations with a residual maturity of one year or more, whereas, as securitisations that do not meet the requirements set out in paragraph 41, they should be subject to an 85% RSF factor under paragraph 42.</p> <p>Based on current data, there is no impact of this deviation on the NSFR across the sample banks.</p>
Materiality	Not material
Basel paragraph number	43: Assets assigned a 100% RSF factor
Reference in the domestic regulation	Article 428ag(h) of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>Under paragraph 43 of the Basel NSFR standards, assets that are encumbered for a period of one year or more should be subject to a 100% RSF factor. Paragraph 42 of the Basel NSFR standard applies an 85% RSF factor to: (1) cash, securities or other assets posted as initial margin for derivative contracts or provided to contribute to the default fund of a central counterparty; (2) unencumbered performing loans to non-financial customers which have a residual maturity of one year or more and do not qualify for the 35% risk weight or lower under the Basel II standardised approach to credit risk; (3) non-HQLA unencumbered securities with a remaining maturity of one year or more and exchange-traded equities; and (4) physical traded commodities.</p> <p>The UK rules permit an 85% RSF factor for "assets encumbered for a residual maturity of one year or more in a cover pool funded by covered bonds".</p> <p>The average impact of this deviation on the NSFR across the sample banks is 0.1 percentage points, with a maximum impact of 0.6 percentage points on the NSFR for the most affected bank.</p>
Materiality	Not material

Basel paragraph number	45: Interdependent assets and liabilities – eligibility of precious metal transactions
Reference in the domestic regulation	Article 428f(2) of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>The Basel NSFR standard permits national supervisors to exercise discretion in limited circumstances to determine whether certain asset and liability items are "interdependent assets and liabilities" (IAL) subject to meeting specific criteria set out in the paragraph. The criteria include: (i) the asset and liability items on the basis of contractual arrangements are interdependent such that the liability cannot fall due while the asset remains on the balance sheet; (ii) the principal payment flows from the asset cannot be used for something other than repaying the liability; (iii) the liability cannot be used to fund other assets; (iv) the individual IAL items must be clearly identifiable; (v) the maturity and principal amount of both the liability and its interdependent asset should be the same; (vi) the bank is acting solely as a pass-through unit to channel the funding received (the interdependent liability) into the corresponding interdependent asset; and (vii) the counterparties for each pair of interdependent liabilities and assets should not be the same.</p> <p>The UK rules allow banks to apply to the PRA to treat physical stock of precious metals and customer deposit accounts in precious metals as IAL without meeting the criteria set out in paragraph 45 of the Basel NSFR standards. According to Article 428f(2) of the Liquidity (CRR) Part of the PRA Rulebook, a bank's unencumbered physical stock of precious metals and customer deposit accounts in precious metals can be treated as IAL if (a) the unencumbered physical stock of each precious metal is used to cover customer deposit accounts in the same precious metal; (b) the bank is not exposed to liquidity or market risk resulting from either the sale of precious metals by the customer or the physical settlement of customer transactions in precious metals; and (c) the precious metals assets and liabilities are on the bank's balance sheet. These criteria appear to differ from those set out in paragraph 45 of the Basel NSFR standard. For example, the PRA criteria do not require a contractual agreement to ensure that a bank's customer precious metal deposits cannot fall due if the physical stock of precious metals remains on the bank's balance sheet. Furthermore, the criteria do not require that the principle payment flow from these precious metals (eg sale proceeds) be exclusively used for repaying the previous metal deposit accounts.</p> <p>The average impact of this deviation on the NSFR across the sample banks is 0.2 percentage points, with an impact of 0.7 percentage points for the most affected bank. It is therefore assessed to be not material.</p>
Materiality	Not material
Basel paragraph number	45: Interdependent assets and liabilities – eligibility of client clearing activities
Reference in the domestic regulation	Article 428da of the Liquidity (CRR) Part of the PRA Rulebook
Finding	<p>The Basel NSFR standard permits national supervisors to exercise discretion in limited circumstances to determine whether certain asset and liability items are IAL, subject to meeting specific criteria set out in the paragraph (see finding above).</p> <p>The UK NSFR rules allow a bank, acting as a clearing member of a qualifying central counterparty (QCCP), to exclude initial margin, variation margin and derivatives assets and liabilities that are directly linked to client clearing derivative activities with that QCCP from the calculation of RSF and ASF, respectively. Article 428da of the Liquidity (CRR) Part of the PRA Rulebook does not classify this treatment as IAL treatment, nor does it require compliance with the criteria set out in paragraph 45 of the Basel NSFR standard. While the PRA has explained the requirements in Article 428da, it has not clearly demonstrated how all relevant criteria in paragraph 45 of the Basel NSFR standard are strictly met. In particular, the Basel criteria for IAL require that the bank act solely as a pass-through unit, channelling funding received (the interdependent liability) into the corresponding interdependent asset. However, the PRA does not explain how the bank avoids incurring funding risk if a client fails to meet its obligations to the QCCP, eg by failing to provide additional collateral during margin calls from the QCCP. In fact, during interviews with sample banks, some of them confirmed that they fully guarantee performance of clients to the QCCP in client clearing derivative transactions and are liable for obligations arising from these transactions if clients fail to perform.</p>

	<p>The PRA highlights that the definition of "solely as a pass-through unit" is not defined within the Basel NSFR standard. From its perspective, the criterion of "solely as a pass-through unit" does not preclude clearing member banks guaranteeing client performance to the QCCP, given that such risk can be managed through margining. Furthermore, the PRA explains that UK banks often operate under a "principal model", in which client transactions are recorded on the balance sheet. The PRA argues that it would be inequitable not to permit IAL treatment for these client clearing derivative transactions, especially when contrasted with the "agent model", in which such transactions are not recognised as on-balance sheet items.</p> <p>The Assessment Team disagrees with the PRA's broad interpretation of the "solely as a pass-through unit" criterion. The application of IAL treatment should be restricted to limited circumstances in which the relevant criteria set out in paragraph 45 of the Basel NSFR standard are strictly adhered to. The perceived fairness issue stemming from different accounting treatments falls outside the scope of this RCAP exercise and is therefore not considered in the assessment of this deviation's materiality.</p> <p>No quantitative data are provided by the PRA regarding this finding. However, considering the potential scale of client clearing derivative transactions in the market, the Assessment Team judges the impact of this finding to be potentially material.</p>
Materiality	Potentially material

2.2.4 Disclosure requirements

Section grade	Compliant
Basel paragraph number	12: Data must be presented as quarter-end observations
Reference in the domestic regulation	Article 451a(3) of the Disclosure (CRR) Part of the PRA Rulebook
Finding	<p>The Basel NSFR disclosure standards require that the data for disclosure be presented as quarter-end observations. For banks reporting on a semiannual basis, the NSFR must be reported for each of the two preceding quarters. For banks reporting on an annual basis, the NSFR must be reported for the preceding four quarters.</p> <p>The UK rules require banks to disclose only average figures of items in the NSFR disclosure template (UK LIQ2). For example, an annual disclosure firm is required to disclose one set of figures (which are calculated as the simple average of four data sets covering the latest and three previous quarters), rather than four sets of quarter-end figures for the preceding four quarters. According to the PRA, focusing on average rather than on end-quarter spot figures is preferable in order to avoid window-dressing issues and misinterpretation around spot numbers.</p> <p>In view of these explanations, the Assessment Team deems the deviation to be not material as it is unlikely to raise material level playing field or financial stability concerns.</p>
Materiality	Not material
Basel paragraph number	14: NSFR common disclosure template
Reference in the domestic regulation	Article 8 Disclosure of Liquidity Requirements of the Disclosure (CRR) Part of the PRA Rulebook
Finding	<p>The Basel NSFR disclosure standard stipulates that the NSFR common disclosure template requires "securities that are not in default and do not qualify as HQLA, including exchange-traded equities" (ie item 24) to be separately disclosed as a single item.</p> <p>However, under the UK disclosure template LIQ2 and ANNEX XIV – <i>Instructions for the liquidity requirements templates</i>, item 24 encompasses both other loans (ie trade finance) and other securities: "other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products".</p> <p>The Assessment Team deems the deviation to be not material as it is unlikely to raise material level playing field or financial stability concerns.</p>
Materiality	Not material

2.3 Observations

The following observations highlight certain special features of the regulatory implementation of the Basel NSFR standard in the UK. These are presented to provide additional context and information. Observations are considered compliant with the Basel standards and do not have a bearing on the assessment outcome.

2.3.1 Scope, minimum requirements and application issues

Basel paragraph number	8: The final implementation date for the NSFR of 1 January 2018
Reference in the domestic regulation	Article 413 of the Liquidity (CRR) Part of the PRA Rulebook
Observation	The PRA implemented the NSFR standard together with the related disclosure requirements in January 2022, four years after the Basel NSFR standard implementation date of no later than 1 January 2018.
Basel paragraph number	16: Classification of certain entities as financial institutions, NSFR FAQ 2
Reference in the domestic regulation	Article 411(1) of the Liquidity (CRR) Part of the PRA Rulebook
Observation	<p>Basel NSFR FAQ 2 provides clarification regarding the definition of "financial institutions" in accordance with paragraphs 131(d) and (e) of the Basel LCR standard and paragraph 16 of the Basel NSFR standard. This definition encompasses banks, securities firms, insurance companies, fiduciaries (defined as legal entities authorised to manage assets on behalf of third parties, including asset management entities such as pension funds and other collective investment vehicles) and beneficiaries (defined as legal entities that receive or may become eligible to receive benefits under a will, insurance policy, retirement plan, annuity, trust or other contract).</p> <p>However, the definition of "financial customer" under Article 411(1) of the Liquidity (CRR) Part of the PRA Rulebook does not include "beneficiaries" as defined in Basel NSFR FAQ 2. According to the PRA's explanation, while the UK NSFR rules do not include an explicit treatment of beneficiaries, a beneficiary as defined in Basel FAQ 2 would be treated as a financial institution under UK rules if it qualified as a financial institution by performing one or more of the activities listed in Annex 1 of the EU Capital Requirements Directive (2013/36/EU), which is part of the assimilated EU law defined in Section 1. Due to discrepancies between the definition of "beneficiaries" in FAQ 2 and the scope of activities set out in Annex 1, it is clear that not all beneficiaries that meet the Basel FAQ 2 definition would be treated as "financial institutions" under the UK NSFR rules. This finding is reported as an observation since, according to the RCAP Handbook and consistent with the assessment of NSFR regulations in other jurisdictions, an FAQ cannot be cited as the sole source of a deviation.</p>
Basel paragraph number	20: Calculation of derivative liability amounts, NSFR FAQ 1
Reference in the domestic regulation	Articles 428k(4) and 428p(8) of the Liquidity (CRR) Part of the PRA Rulebook
Observation	<p>Paragraph 20 of the Basel NSFR standard requires that variation margin posted in connection with derivative contracts be deducted from the negative replacement cost amount. An FAQ 1 published in 2023 clarifies that "while national discretion exists on this matter, the amount of variation margin in connection with a derivative or bilateral netting contract that is in excess of the replacement cost of that derivative or bilateral netting contract must be adequately captured". The PRA applies this national discretion, as UK rules clarify that variation margin received or posted must be deducted from the fair value of a netting set "up to the extent that it results in the netting set having zero fair value". The Assessment Team notes that the conditions set up in FAQ 1 are verified, as the UK rules require that the excluded amounts be duly taken into account in the calculation of the NSFR via the application of an appropriate RSF or ASF factor.</p>

2.3.2 Required stable funding

Basel paragraph number	FAQ 6: The treatment of partially secured loans, clarifying how to assign RSF factors to the secured and unsecured portions of such loans.
Reference in the domestic regulation	Not explicitly referenced
Observation	<p>Regarding partially secured loans, Basel NSFR FAQ 6 establishes that the secured and unsecured portions should be evaluated separately, with each portion assigned its corresponding RSF factor based on its distinct characteristics. In circumstances in which it proves impracticable to differentiate between the secured and unsecured portions, the guidance mandates that the higher RSF factor should be applied to the entire loan amount.</p> <p>The UK PRA, however, has not issued explicit guidance concerning the regulatory treatment of partially secured loans.</p>
Basel paragraph number	Paragraph 29 and FAQ 7: treatment of non-maturity reverse repo
Reference in the domestic regulation	Article 428ah of the Liquidity (CRR) Part of the PRA rulebook
Observation	<p>Basel NSFR FAQ 7 stipulates that non-maturity repurchase agreements, akin to assets with options exercisable at the bank's discretion described in paragraph 29 of the Basel NSFR standard, should be assigned a 100% RSF factor, unless banks can demonstrate otherwise to supervisors.</p> <p>The PRA's "Instructions for Reporting on Stable Funding" directs institutions to report assets without stated maturity, which would include non-maturity reverse repurchase agreements, under the residual time bucket of less than six months. The implied RSF for such assets in the reporting instructions is 0% when collateralised with a Level 1 HQLA and 15% for other collateral quality. There is therefore a risk that banks will apply a lower RSF to non-maturity repurchase agreements (implied by the disclosure) rather than the 100% RSF stipulated in Basel NSFR FAQ7. This finding is reported as an observation since, according to the RCAP Handbook and consistent with the assessment of NSFR regulations in other jurisdictions, an FAQ cannot be cited as the sole source of a deviation.</p>

Annexes

Annex 1: RCAP Assessment Team and Review Team

Assessment Team Leader

Mr Kentaro Tamura Bank of Japan

Assessment Team members

Mr Pierre Mananga	South African Reserve Bank
Mr Eric Ng	Hong Kong Monetary Authority
Mr Ivan Tan	Monetary Authority of Singapore
Mr Anders Rydén	Sveriges Riksbank

Supporting members

Mr Shintaro Nakamura	Bank of Japan
Ms Mako Hayashi	Bank of Japan
Ms Rena Hirao	Bank of Japan (until 16 June 2025)
Ms Asuka Watanabe	Bank of Japan (from 16 June 2025)
Mr Carsten Folkertsma	Basel Committee Secretariat
Mr Pradeep Kumar	Basel Committee Secretariat
Ms Mathilde Lalaude-Labayle	Basel Committee Secretariat
Mr Noel Reynolds	Basel Committee Secretariat

Review Team members

Mr Christian Capuano	Swiss Financial Market Supervisory Authority
Mr Brian Cox	Federal Deposit Insurance Corporation
Mr Jungil Kim	Korean Financial Supervisory Service
Mr Toshio Tsuiki	Basel Committee Secretariat

Annex 2: List of Basel standards and implementing regulations issued by the UK authorities

The following Basel standards were used as the basis of this RCAP assessment:

- *Basel III: the Net Stable Funding Ratio*, October 2014
- *Basel III – The Net Stable Funding Ratio: frequently asked questions*, February 2017
- *Pillar 3 disclosure requirements – consolidated and enhanced framework*, March 2017
- *Implementation of net stable funding ratio and treatment of derivative liabilities*, October 2017
- *Basel III: Treatment of extraordinary monetary policy operations in the Net Stable Funding Ratio*, June 2018

Table A.1 lists the regulations issued by UK authorities to implement the NSFR in the UK.

Overview of relevant liquidity regulations in the UK

Table A.1

Domestic regulations	Type, version and date
Liquidity (CRR) Part of the PRA Rulebook covering rules on the NSFR	PRA Rulebook (CRR) instrument 2021, PRA 2021/13, issued on 5 October 2021, which came into force on 1 January 2022. Amended by: PRA instrument 2021/20, issued on 2 November 2021, which came into force on 1 January 2022; and Annex D of PRA instrument 2023/13, issued on 28 November 2023, which came into force on 1 July 2024.
Liquidity Coverage Ratio (CRR) Part of the PRA Rulebook covering rules on the LCR	PRA Rulebook (CRR) instrument 2021, PRA 2021/13, issued on 5 October 2021, which came into force on 1 January 2022. Amended by Annex 3 of PRA instrument 2024/3, issued on 23 April 2024, which came into force on 1 November 2024.
Reporting (CRR) Part of the PRA Rulebook covering rules on reporting	Annex J of PRA Rulebook (CRR) instrument 2021, PRA 2021/13, issued on 5 October 2021 which came into force on 1 January 2022. Amended by: Annex G of PRA instrument 2021/14, issued on 5 October 2021, which came into force on 1 January 2022; Annex C of PRA instrument 2022/8, issued on 1 August 2022, which came into force on 1 September 2022; PRA instrument 2023/4, issued on 25 April 2023, which came into force on 1 January 2024; Annex D of PRA instrument 2023/11, issued on 7 November 2023, which came into force on 14 November 2023; Annex E of PRA instrument 2023/13, issued on 28 November 2023, which came into force on 1 July 2024; Annex D of PRA instrument 2024/6, issued on 16 July 2024, which came into force on 5 August 2024; Annex A of PRA instrument 2024/7, issued on 15 October 2024, which came into force on 4 November 2024; Annexes C and D of PRA instrument 2024/8, issued on 15 October 2024, which came into force on 4 November 2024; and Annex D of PRA instrument 2025/1, issued on 28 January 2025, which came into force on 31 March 2025.

Disclosure (CRR) Part of the PRA Rulebook covering rules on disclosure	<p>Annex K of PRA Rulebook (CRR) instrument 2021, PRA 2021/13, issued on 5 October 2021, which came into force on 1 January 2022.</p> <p>Amended by:</p> <p>Annex F of PRA instrument 2021/14, issued on 5 October 2021, which came into force on 1 January 2022;</p> <p>Annex B of PRA instrument 2022/8, issued on 1 August 2022, which came into force on 1 September 2022;</p> <p>Annex B of PRA instrument 2023/10, issued on 5 September 2023, which came into force on 31 October 2023;</p> <p>Annex B of PRA instrument 2023/11, issued on 7 November 2023, which came into force on 14 November 2023;</p> <p>Annex C of PRA instrument 2023/13, issued on 28 November 2023, which came into force on 1 January 2024;</p> <p>Annex C of PRA instrument 2024/6, issued on 16 July 2024, which came into force on 5 August 2024;</p> <p>Annex B of PRA instrument 2024/7, issued on 15 October 2024, which came into force on 4 November 2024; and</p> <p>Annex C of PRA instrument 2025/1, issued on 28 January 2025, which came into force on 31 March 2025.</p>
Assimilated Regulation (EU) No 575/2013 of the European Parliament and of the Council (assimilated version of the EU CRR in UK legislation)	<p>Generally, applies from 1 January 2014.</p> <p>Part 6 (Liquidity) was revoked by The Capital Requirements Regulation (Amendment) Regulations 2021, SI 2021/1078, which were issued on 22 September 2021 and came into force on 1 January 2022.</p>
Financial Services and Markets Act 2000	Given royal assent on 14 June 2000. Various commencement dates, as stated in SI 2001/3538.
PRA fundamental rules	<p>The PRA Rulebook: Fundamental Rules Instrument 2014, PRA instrument 2014/17, issued on 13 June 2014, which came into force on 19 June 2014.</p> <p>Amended by:</p> <p>Annex F to PRA instrument 2015/51, issued on 4 June 2015, which came into force on 1 October 2015;</p> <p>Annex C to PRA instrument 2020/29, issued on 28 December 2020, which came into force on 31 December 2020; and</p> <p>Annex C to PRA instrument 2022/6, issued on 1 August 2022, which came into force on 12 August 2022.</p>
PRA Supervisory Statement 24/15 – The PRA's approach to supervising liquidity and funding risks	<p>First published on 8 June 2015, effective from that date.</p> <p>Current version published on 5 December 2023, effective from 1 July 2024</p>
PRA Policy Statement PS17/21: Implementation of Basel standards	Published on 22 July 2021, effective from 1 January 2022.

Source: PRA.

Annex 3: Assessment of bindingness of regulatory documents

Assessment of eligibility of UK regulatory documents

Table A.2

Criterion	Assessment
(1) The instruments used are part of a well defined, clear and transparent hierarchy of a legal and regulatory framework.	<p>Fully legally binding PRA rules and technical standards form part of a comprehensive framework of UK financial services laws and regulations. At the heart of the relationship between primary legislation, secondary legislation enacted by the HM's Government and the rules and technical standards made by the PRA is a well defined, clear and transparent hierarchy. Although these elements form a hierarchy, all are equally and fully legally binding.</p> <p>(1) Primary legislation refers to laws passed by the UK Parliament. This is the highest form of legislation in the UK, and it overrides both secondary legislation created by HM Government and PRA rules and technical standards. Acts of Parliament may be amended or repealed by another Act of Parliament.</p> <p>(2) Secondary legislation is subordinate to primary legislation and is made by a body or individual, such as a Minister of HM's Government, under powers granted by a UK Act of Parliament. Examples include statutory instruments, regulations and orders. Secondary legislation is subject to judicial oversight and must conform to the enabling primary legislation from which it derives its authority.</p> <p>Assimilated regulation is a unique form of predominantly secondary legislation. Following the UK's withdrawal from the EU, EU financial services regulations that were directly applicable in the UK or implemented via UK statutory instruments were incorporated into UK law as retained EU law under the European Union (Withdrawal) Act 2018. "Assimilated regulation" refers to retained EU law that has been updated or amended in order to assimilate it into the UK legal system. It can be amended, revoked or replaced through statutory instruments under enabling powers granted to HM's Government.</p> <p>(3) PRA rules and technical standards are legally binding requirements made by the PRA under statutory powers granted by the Financial Services and Markets Act 2000 (FSMA), as amended from time to time. PRA rules and technical standards must conform to – they cannot override – UK primary and secondary legislation.</p> <p>Retained EU technical standards (originally known as binding technical standards or BTS) became part of UK law upon the UK's withdrawal from the EU. These standards specified detailed requirements under EU regulations such as the Capital Requirements Regulation. The PRA was granted powers to amend these technical standards to ensure they function outside the EU framework. As part of the UK's assimilation of EU-derived laws, the PRA's powers have since been broadened. The PRA has statutory powers under FSMA to amend, replace or revoke what are now referred to as PRA technical standards.</p> <p>The PRA imposes requirements through rules and technical standards in connection with the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. In addition to PRA-authorised firms, the PRA applies rules to certain individuals as well as to approved or designated UK financial holding companies. Generally, Basel standards are applied in the UK through PRA rules and technical standards and UK legislation such as assimilated</p>

	<p>regulation. The legal effect of PRA rules and technical standards on PRA-regulated entities is the same as the legal effect of secondary and primary legislation insofar as they impose legally mandatory requirements that can be enforced in case of non-compliance.</p> <p>To complement the legally binding framework of primary and secondary legislation, rules and technical standards, the PRA also issues guidance. While not legally binding, this aims to clarify the PRA's regulatory, supervisory and best practice expectations. Guidance is typically communicated through:</p> <ul style="list-style-type: none"> • Supervisory Statements, which set out the PRA's expectations; • Statements of Policy, in which the PRA details its policy on a particular matter, often with reference to the PRA's approach to exercising powers conferred by the FSMA; and • Dear CEO letters, which are open (and published) letters from the PRA to the Chief Executive Officers of PRA-authorised firms, setting out the PRA's views and expectations on a particular issue. <p>These guidance documents are used to communicate the PRA's expectations to industry in order to promote transparency and understanding. They are an important complement to the legally binding framework.</p>
<p>(2) They are public and easily accessible.</p>	<p>The PRA publishes all its prudential standards, ie rules and technical standards, which are legally binding, as well as Supervisory Statements and Statements of Policy and Dear CEO letters, on the Bank of England website and/or the PRA Rulebook website (www.prarulebook.co.uk/).</p> <p>All currently applicable prudential policies relating to the PRA's prudential regulation of financial services firms can also be found in the Prudential and Resolution Policy Index.</p> <p>Relevant primary and secondary legislation, such as the FSMA and assimilated regulations,⁷ are also available publicly in English on the UK National Archives website (www.legislation.gov.uk/).</p>
<p>(3) They are properly communicated and viewed as binding by banks as well as by the supervisors.</p>	<p>The PRA clearly communicates its policy, including PRA rules and technical standards, to natural and legal persons to which these apply, in most cases through Supervisory Statements, Statements of Policy and Dear CEO Letters.</p> <p>As part of the policy discussion and consultation process, as well as the supervisory process, the PRA engages with industry, including banks, and stakeholders to address concerns and consider questions related to industry's understanding of its regulatory framework.</p> <p>PRA rules and technical standards are legally binding on the firms to which they apply. They are understood to be binding by banks and relevant individuals, as well as by supervisors.⁸</p> <p>Where a Supervisory Statement is used to clarify the meaning of legally binding requirements set out in PRA rules or technical standards, failure to meet the PRA's expectations in the Supervisory Statement may indicate a failure to meet those legally binding PRA rules or technical standards.</p>

⁷ See assimilated regulations here: Retained EU Law (Revocation and Reform) Act 2023 (www.legislation.gov.uk/ukpga/2023/28/contents). The full catalogue can be found at the Retained EU law and assimilated law dashboard (www.gov.uk/government/publications/retained-eu-law-dashboard).

⁸ The homepage of the PRA Rulebook website makes clear that "PRA Rules apply to all PRA-authorised persons and certain unauthorised persons and contain the applicable prudential requirements for PRA-regulated firms".

<p>(4) They would generally be expected to be legally upheld if challenged and are supported by precedent.</p>	<p>The validity of PRA rules has not been legally challenged so far. If such a challenge were to arise in future, the PRA expects its rules to be legally upheld, given they are made in accordance with a rigorous process pursuant to broad statutory powers delegated to the PRA by the UK Parliament.</p>
<p>(5) Consequences of failure to comply are properly understood and carry the same practical effect as for primary laws or regulations.</p>	<p>The PRA has been conferred investigatory and enforcement powers against firms and individuals in case of breach of PRA rules or legislation for which the PRA is the responsible supervisor. Such enforcement actions could, for example, take the form of a financial penalty, public censure or prohibition. The PRA has demonstrated these powers in the past. If that sanction is not complied with (eg a financial penalty is not then paid), the PRA is empowered to apply to the Court to compel compliance.</p> <p>The PRA also has the power to prosecute certain criminal offences, eg where an individual knowingly attempts to impede a PRA enforcement investigation.</p> <p>The PRA adopts a judgment-led and risk-based approach to the enforcement of breaches. The PRA generally relies on expert judgment rather than rigid rules to assess breaches and determine the appropriate course of action. Any PRA enforcement action will depend on the seriousness of the breach, the potential impact on PRA statutory objectives and the specific circumstances of the case.</p> <p>The PRA ensures that relevant individuals and PRA-authorised firms understand that the consequences of failure to comply are determined based on the aforementioned approach. This allows the PRA enforcement team to work with supervisors and policy colleagues to apply qualitative and quantitative judgment when determining the appropriate action. The PRA is required to publish details of the enforcement actions in order to communicate the consequences of failures by firms and individuals to comply with regulatory rules for wider dissemination.</p>
<p>(6) The regulatory provisions are expressed in clear language that complies with the Basel provisions in both substance and spirit.</p>	<p>PRA instruments and related regulatory publications are written in simple English in order to avoid ambiguity, minimise the risk of misunderstanding and ensure clarity. All PRA rules are accompanied by guidance, in the form of Statements of Policy and/or Supervisory Statements to aid understanding, as needed.</p>
<p>(7) The substance of the instrument is expected to remain in force for the foreseeable future.</p>	<p>The rules in the PRA Rulebook are expected to remain in force for the foreseeable future.</p> <p>UK primary and secondary legislation enacted since the UK's withdrawal from the European Union have since expanded the PRA's powers and modified its responsibilities accordingly. These changes were introduced to ensure that the UK system of financial regulation operates effectively outside the EU framework.</p> <p>As is the case with legislation, PRA rules and technical standards are subject to review over time. A review may or may not result in changes, which would be effected in accordance with statutory procedures that include public consultation.</p>

Annex 4: Key liquidity indicators of the UK banking system

Overview of UK banking sector liquidity as of June 2024

Table A.3

Size of banking sector (GBP, millions)		
Total leverage ratio exposures of all banks operating in the UK (including off-balance sheet exposures)		10,146,556
Total leverage ratio exposures of all locally incorporated internationally active banks		4,532,059
Total leverage ratio exposures of locally incorporated banks to which liquidity standards under the Basel Framework are applied		10,146,556
Number of banks		
Number of banks operating in the UK (excluding local representative offices)		173
Number of G-SIBs		3
Number of D-SIBs		15
Number of banks which are internationally active ⁹		–
Number of banks required to implement Basel III liquidity standards		173
Number of banks required to implement domestic liquidity standards		173
Breakdown of NSFR for 6 RCAP sample banks (GBP, millions)		
	Unweighted	Weighted
Capital	474,608	474,608
Stable deposits from retail and small business customers	852,755	810,362
Less stable deposits from retail and small business customers	852,556	767,758
Unsecured funding from non-financial corporates	1,091,623	549,543
Unsecured funding from central banks, sovereigns, PSEs, MDBs and NDBs	212,287	105,654
Unsecured funding from financials (other legal entities)	1,147,870	225,224
Secured funding (all counterparties)		
Other liabilities	1,047,916	342,112
Total ASF	5,679,615	3,275,261
Cash and central bank reserves	890,620	301
Loans to financial institutions	1,072,546	245,639
Securities eligible as Level 1 HQLA	639,663	22,116
Securities eligible as Level 2A HQLA	103,967	16,163
Securities eligible as Level 2B HQLA	138,432	68,688
All residential mortgages	1,004,672	658,753
Loans, <1 year	29,975	15,794
Other loans, >1 year, risk weight <=35%	86,254	59,629
Loans, risk weight >35%	830,386	573,567
Derivatives	338,501	116,124
All other assets	691,213	473,856
Off-balance sheet	1,470,847	59,412
Total RSF	7,297,076	2,310,042
NSFR		141.8%

Source: PRA

⁹ The PRA does not define internationally active firms.

Annex 5: Materiality assessment

The outcome of the RCAP assessment is based on the materiality of the findings described in Section 2.2 and summarised in Table A.4. The Assessment Team evaluates the materiality of findings quantitatively where possible or using expert judgment when the impact cannot be quantified.

The materiality assessment for quantifiable gaps is based on the cumulative impact of the identified deviations on the reported NSFRs of banks in the RCAP sample. These banks are listed in Table A.5.

Number of deviations by component

Table A.4

Component	Not material	Potentially material	Material
Scope, minimum requirements and application issues	0	0	0
Available stable funding (numerator)	2	0	0
Required stable funding (denominator)	8	1	5
NSFR disclosure requirements	2	0	0

RCAP sample banks

Table A.5

Banking group	Share of banks' assets in the total assets of internationally active banks in the UK banking system (in per cent)
HSBC	22.6
Barclays	14.6
Standard Chartered	7.5
Lloyds	7.2
Goldman Sachs UK	7.2
NatWest	6.7
Total	65.8

For this purpose, banking assets are based on the measure of total exposures used in the leverage ratio, which includes both on- and off-balance sheet exposures.

Source: PRA.

Annex 6: Areas where the UK rules are stricter than the Basel standards

In one area, the UK authorities have adopted a stricter approach than the minimum standards prescribed by the Basel Committee. The UK rules on the NSFR are applied to a wider scope of banks than that required by the Basel NSFR framework, which is applicable to internationally active banks. In the UK, the NSFR standard is applied on a standalone and consolidated basis to both internationally and non-internationally active banking groups, building societies and designated investment banks.

Annex 7: Elements of the NSFR subject to national discretion

Implementation of national discretion by UK authorities

Table A.6

Basel paragraph	Description	National implementation
25(a)	Treatment of deposits between banks within the same cooperative network	No treatment provided.
31	Treatment of excess collateral in a covered bond collateral pool allowing for multiple issuance	The PRA NSFR exercised this national discretion (FAQ 34), which permits a jurisdiction to treat excess collateral as unencumbered provided it can be withdrawn at the issuer's discretion without any impediment and used to issue more covered bonds or mobilise such collateral in any other way. Article 428p(6)(c) of the Liquidity (CRR) Part of the PRA Rulebook allows firms to treat assets attached as non-mandatory overcollateralisation to a covered bond issuance as unencumbered. Non-mandatory overcollateralisation is defined in the PRA Handbook Glossary as any amount of assets which the institution is not obliged to attach to a covered bond issuance by virtue of legal or regulatory requirements, contractual commitments or for reasons of market discipline, including in particular where the assets are provided in excess of the minimum legal, statutory or regulatory overcollateralisation requirement applicable to the covered bonds under the national law of the United Kingdom or a third country.
31, 36	Treatment of central bank operations	The PRA has not exercised the national dispositions in these paragraphs.
43	RSF factor for derivative liabilities	The PRA implements the jurisdictional discretion in NSF 30.32(5) to apply a 5% RSF factor to 100% of derivative liabilities. This applies to the absolute fair value of those netting sets of derivative contracts, gross of collateral posted, where those netting sets have a negative fair value.
45	Treatment of IAL	The PRA NSFR implements this national discretion in three places: <ul style="list-style-type: none"> (i) Precious metals – unencumbered physical stocks of precious metals and customer deposit accounts in precious metals may be treated as IAL when certain conditions are met and PRA permission is granted (Article 428f(2) and (1) of the Liquidity (CRR) Part of the PRA Rulebook). (ii) Derivatives client clearing – a clearing member's derivatives client clearing activity with a QCCP may be treated as IAL when certain conditions are met (Article 428da of the Liquidity (CRR) Part of the PRA Rulebook). (iii) General IAL treatment – other assets and liabilities may receive the IAL treatment when the relevant conditions are met and PRA permission is granted (428f(1) of the Liquidity (CRR) Part of the PRA Rulebook).
47	RSF factors for other contingent funding obligations	Articles 428s and 428ra of the Liquidity (CRR) Part of the PRA Rulebook apply a 5% RSF factor to trade finance off-balance sheet-related products with a residual maturity of one year or more and a 2.5% RSF factor to trade finance off-balance sheet-related products with a residual maturity of less than one year. Liquidity (CRR) Article 428p(10) implements the discretion by requiring firms to apply appropriate stable funding factors to off-balance sheet items that are not otherwise covered by the NSFR rules in order to ensure that an appropriate amount of ASF is required for the portion of those exposures that are expected to require funding over the NSFR's one-year horizon. In determining the appropriate factors, they are required to consider the

		material reputational damage to them that could result from not providing that funding.
50	Scope of application of NSFR and scope of consolidation of entities within a banking group	<p>The NSFR standard is applied in the UK on a consolidated, individual and, for ring-fenced entities, sub-consolidated basis. Liquidity (CRR) Rules 2.1 and 2.4 apply the PRA NSFR on a consolidated basis.</p> <p>Liquidity (CRR) Rule 2.7 applies liquidity requirements to ring-fenced bodies (RFBs) on a sub-consolidated basis.</p> <p>Liquidity (CRR) Rule 2.2 applies the PRA NSFR on a consolidated basis or a sub-consolidated basis to an institution or some of its subsidiaries, or to the institution and other subsidiaries of the same qualifying parent undertaking as a single liquidity subgroup.</p>

Source: PRA.