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PRA110 – Alarmingly new or comfortably old?

PRA110 Cash Flow Mismatch is one of the latest in the PRA's (Prudential Regulation Authority) suite of new-style regulatory reporting requirements. Like other PRA data items added from 2018 – including Capital+ and forecast financial information – the report is closely modelled on regulatory reporting functional and technical specifications under the EBA's (European Banking Authority) Implementing Technical Standards (ITS) framework. This article highlights the similarities and differences between PRA110 and the current UK-specific liquidity reporting regime of FSA047 and FSA048 on the one hand, and the ITS framework on the other.

PRA110, with its focus on Pillar 2, largely mirrors the COREP (Common Reporting) liquidity reporting requirement in C66.00 Additional Liquidity Monitoring. PRA110 therefore complements the existing COREP data and taxonomy for Pillar 1 information, giving the UK regulator a richer insight into liquidity risk. Implementing PRA110 – as the intended replacement for FSA047 and FSA048 – is proving to be a challenge, not only to financial institutions but also to the regulator. The original go-live date was delayed by 6 months from January 2019. More recently, the regulator has started publishing FAQs, expanding on the reporting instructions. In addition, the PRA has confirmed a temporary parallel run with FSA047 and FSA048 instead of retiring them as planned.

PRA110 - an overview

In February 2018, the PRA published their Statement of Policy for their new Pillar 2 liquidity monitoring template 'PRA110 Cashflow mismatch report'. This new reporting requirement, which will now come into effect from July 2019, requires large banks[1] to report their individual and consolidated liquidity data on a weekly basis with a 1-day remittance period.

The new template is built to close currently existing gaps in the reporting of liquidity data, whilst re-using as many data requirements as possible from EBA liquidity reporting and the currently existing Pillar 2 liquidity reports FSA047 and FSA048, such as the EBA's approach of the reporting of significant currencies.

This close alignment to EBA reporting is also reflected in the general structure of PRA110, which is very similar to the structure of Additional liquidity monitoring metrics (ALMM) Maturity ladder report C66.00.

PRA110 is split into 7 sections, 5 of which are also covered by ALMM: outflows, inflows, counterbalancing

[1] A bank is defined as a large bank, if it has total assets greater than or equal to €30 billion; smaller firms need to report on a monthly basis with a 15-day remittance period PRA CP13/17, 'Pillar 2 liquidity', July 2017, paragraph 3.8-3.9; https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2017/cp1317

capacity, contingencies, and memorandum items. However, the PRA has then added two new sections into their cashflow mismatch report: monetisation actions and cumulated liquidity resources post firm actions.

The time horizons of the reports also share similarities: Like ALMM, PRA110 asks for data covering time buckets of up to "Greater than 5 years". But while the EBA is content with receiving consolidated data for the different time frames, the PRA asks for a detailed split down of (potential) cashflows for the first 92 days. This extends the Liquidity Coverage Ratio's (LCR) 30-day horizon to enhance "the visibility over cliff risks under a severe yet plausible stress"[2]. This is a method that has already previously been used by the PRA in the breakdown of future cashflows in FSA047. In PRA110, the PRA therefore successfully unites the different time frames of the current international and national reporting requirements and demonstrates that it expects banks to have very granular data available on all their expected future cashflows.

In the following sections, we have a closer look at the different sections of PRA110 and the connected challenges arising for banks.

Outflows

To evaluate a possible cashflow mismatch, the PRA expects banks to provide a detailed forecast of all future cash outflows arising from their banking activities. Even though most data points are closely aligned to ALMM reporting, the PRA extended those data requirements with several points from the LCR Delegated Act reporting requirements (for example if a deposit is covered by a Deposit Guarantee Scheme). The challenge here is to have the information available not only for a 30-day horizon, but indefinitely.

Inflows

By collecting data on all expected cash inflows, the PRA seeks to be able to identify possible negative net cashflows for any specific day. Even though the original structure has again been taken from the C66.00 maturity ladder on inflows, the PRA has enhanced the data requirements in several areas. For example, banks are being asked to specify those monies due from secured lending and capital market driven transactions, where the reverse repo is covering a short position. Furthermore, the PRA is also interested in detailed information around inflows that are not part of principal repayments. The same applies to inflows that are classified by the counterparty as operational deposits. Whereas similar information is also asked for in the LCR Delegated Act, the PRA slightly differs in their approach by asking for information split per counterparty type.

Counterbalancing Capacity

The Counterbalancing section of PRA110 is the section of the report that stands out as most aligned to the C66.00 report of ALMM. The requested information is enhanced by 3 data points also used in LCR reporting on Inflows and liquid assets.

Contingencies

In contrast to the Counterbalancing Capacity section, the Contingencies section is a part of PRA110, where the requirements of the PRA significantly differ from those of the EBA in ALMM. Only approximately 10% of the information requested by the PRA can also be found in C66.00, with the majority of the remaining data points being aligned to C73.00 Outflows report of the LCR

[2] PRA Statement of Policy 02/18, 'Pillar 2 liquidity', February 2018, paragraph 3.13; https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/statement-of-policy/2018/pillar-2-liquidity-sop.pdf

according to Delegated Act. However, the PRA is also asking for a breakdown of outflows due to downgrade triggers, which has already been used in FSA048.

Memorandum items

The Memorandum items section takes data requirements from most of the already existing liquidity reports, combines them in a new way, and enhances them by related but new data points – such as a detailed split into derivatives deals and their respective margins given and received.

Monetisation Actions

Monetisation Actions represent a completely new aspect of liquidity reporting. Here, the PRA wants banks to consider possible limitations they might have in liquidating their high-quality liquid assets (HQLA) under LCR stress. Firms therefore need to forecast in which way and how quickly they can liquidate their assets, which will then be reported according to three categories: HQLA Securities monetised via outright sale, via new secured financing transactions, and cashflows from HQLA monetisation actions.

Cumulated Liquidity Resources Post Firm Actions

In the final part of PRA110, the PRA requires reporting of the HQLA holdings at the end of the day. Even though the logical split into Level1, 2a, and 2b assets is taken from LCR reporting, this requirement represents a completely new reporting obligation. This is because the HQLA must be reported after taking into account any monetisation actions forecasted under the Monetisation Actions[3].

[3] PRA INSTRUCTIONS FOR COMPLETING PRA110, February 2018, page 41; https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/pra110-instructions.pdf?la=en&hash=45D1E675F8BD302C854B229164CFDDDEAFE96958

What's next?

As outlined in this paper, the PRA has re-used and extended many of the reporting requirements already in use for EBA reporting as well as in FSA047 and FSA048. However, the required extensions should not be underestimated, as they do not only ask for completely new datapoints, which might be hard for banks to source (such as the methods of monetisation actions), but in addition, the PRA now forces banks to perform very detailed forecasting and stress testing to be able to comply with the reporting of daily cashflows over a 92-day period. Therefore, the last sections of PRA110 could be especially challenging for many institutions.

It is also important to note that PRA110 targets not only contractual payment obligations but also banks' actual behaviours in practice which might differ from the terms of a contract, such as possible arising franchise viability risks. This is "the risk that arises when a firm takes actions, despite having no obligations to do so, in order to preserve its reputation, and where these actions cause unforeseen liquidity outflows"[4]. Furthermore, with PRA110, the PRA also wants banks to investigate any intraday liquidity risks, such as risks due to timing mismatches. Requiring data on contractual and real-life liquidity management reinforces the PRA's overall approach to supervision under Pillar 2: that is, expecting firms to judge and manage risks appropriately for themselves, rather than rigidly following methodologies and instructions issued by the PRA.

In designing PRA110 and other recent regulatory reports, the PRA is expanding its requirement for XBRL reporting in UK-specific regulation. This trend – also being followed in the Bank of England's newest statistical reports[5] – indicates the PRA's intention not only to standardise their data collections around a common format but to enable it to enhance its data analysis capabilities and reinforce its strategy of forward-looking, judgement-based supervision. An increased regulatory focus on data quality can therefore be expected. With this, the implementation challenges of PRA110 call for an integrated, automated solution capable of efficiently bringing together treasury, liquidity and risk management functions in banks.

[4] PRA Statement of Policy 02/18, 'Pillar 2 liquidity', February 2018, paragraph 4.2; https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/statement-of-policy/2018/pillar-2-liquidity-sop.pdf

[5] For more information, please see https://www.bankofengland.co.uk/statistics/data-collection/new-and-upcoming-forms

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