

## Cabinet News and Views

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### The UK's Chief Banking Regulator Talks About Lessons Learnt About Managing Bank Failures



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In a [speech](#) published on 16 October, Sam Woods the Deputy Governor for Prudential Regulation and CEO of the Prudential Regulation Authority (“PRA”) discussed this year’s banking failures, the lessons learnt and priorities going forward in the work that needs to be done to “*improve and refine the regulatory regime for banks*”. While dismissing the idea of a zero-failure regime, the speech does examine the efficacy of tools to accommodate the PRA’s “*zero appetite for systemic financial crises*”:

- **Measuring risk correctly:** Woods points to variability of risk-weights across firms and jurisdictions as being a drain on confidence in the banking system that upcoming Basel 3.1 refinements are intended to address. Interestingly, Woods does not believe that there will be a meaningful increase in aggregate capital levels for UK banks as a result of Basel 3.1 roll-out;
- **Liquidity requirements:** The speech points out that the current framework for liquidity regulation is focused on wholesale funding volatility but that recent events have shown that there is a need also to look at depositor sentiment and access to central bank liquidity;
- **The importance of credibility and profitability to depositor and investor sentiment:** Again in light of recent events, the importance of non-financial regulation and supervision of issues that can impact credibility and profitability like risk culture and governance needs to be reasserted, and supervisors should be asking whether business models are viable and sustainable;
- **Depositor continuity:** The PRA and the UK’s Treasury are exploring options to ensure continuity of access to deposits for smaller banks in resolution which do not have the option of bailing in long-term debt;

- **Branches:** The PRA is going to be thinking about their approach to branching (as opposed to subsidiarisation) with a view to targeted improvements rather than fundamental reforms in order to achieve greater degrees of assurance over resolution arrangements.
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