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The UK's Banking Regulator Reports on Its Review of the Ring-Fencing Regime



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The UK's Prudential Regulation Authority ("PRA") has reported on the conclusions of a [review of its ring-fencing rules](#) conducted during the course of 2023. While the report concludes that most rules are 'performing satisfactorily' and remain an important support for the statutory regime (which is not the remit of the PRA), there are areas where improvements are indicated.

Background

Ring-fencing was one of the measures brought in post the financial crisis of 2008-2009 and which requires banks performing the 'core activities' involved in accepting deposits to place those activities into ring-fenced banks ("RFBs") in order to protect them from contagion from non-ring-fenced activities and from the wider financial system. RFBs are required to be legally separate from activities performed in one or more non-RFBs within the same consolidation group, and to be isolated in a way such that the actions or insolvency of those non-RFBs cannot affect the continuity of the RFB's core activities. In addition, certain activities and customers are prohibited for RFBs.

Potential Areas for Improvement

1. *Governance arrangements*: RFB rules on governance are intended to ensure that RFBs can, as far as reasonably practicable, function within a consolidation group while maintaining appropriate independence. While the PRA considers that the rules in this regard on board membership, remuneration policy, HR policy and risk policies function well, the outcome of this review is that the PRA is considering a more flexible approach to granting waivers or modifications over longer time periods and applying some rules at sub-group level rather than to each individual subsidiary.
2. *Continuity of provision of services*: PRA rules in this area are designed to ensure that the RFB can continue to rely on important, business-critical

services in the event of a failure or other adverse development in group non-RFBs. While the PRA is required to ensure that RFBs do not depend on services that would no longer be available if another member of its group became insolvent, it does consider that there are options to modify the way its rule that requires RFBs to receive services from group entities that are 'permitted suppliers' (ring-fenced affiliates or entities whose only business is to provide services or facilities) functions in order to achieve greater flexibility.

3. *The arm's-length rules and intragroup arrangements:* The arm's-length rule requires RFBs to treat transactions with and exposures to non-RFBs in the same group in the same way as dealings with a third party and put in place governance, monitoring, reporting and dispute resolution processes. Intragroup arrangements rules cover a diverse range of topics, including own funds requirements, distributions to group entities, dependencies for income, netting arrangements and shared collateral. The PRA's review concludes that these are functioning as intended in their current form, but will consult on the frequency of the required review of arm's-length policies (currently annual).
 4. *Use of financial market infrastructure and exceptions policies:* In certain circumstances, RFBs are permitted to gain some exposure to non-retail financial products, such as derivatives to hedge their own risk. Rules intended to ensure that RFBs remain protected from the riskier aspects of the financial system when doing so include rules on the use of central counterparties and securities depositories, internal policies to ensure differentiation of permitted transactions from prohibited transactions, and on the process RFBs can use to apply for indirect use of Inter-Bank Payment Systems. Again, the PRA concludes that the rules are fit for purpose and remain appropriate.
 5. *Data reports and notifications:* The PRA requires specific reporting on ring-fencing in order to supervise compliance and conduct its reviews. While the PRA's review concludes that these reports remain necessary, it will consider certain adjustments to templates.
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