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The PRA and the Treatment of Overseas Branches

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By Alix Prentice
Partner | Financial Regulation

The UK's banking regulator, the Prudential Regulation Authority ("PRA") has issued a **consultation on its approach to the treatment of branches of international banks operating in the UK** (CP11/24). Among the proposals is a rethink of what the PRA calls its 'branch risk appetite', which is founded on the expectation that '*where an international bank is undertaking significant retail activity, this should take place through a subsidiary rather than a branch'.* This rethink has been driven, at least in part, by the UK resolution of Silicon Valley Bank ("SVB"); while the majority of SVB's deposits were not retail in nature, the UK entity had been required to convert from a branch to a subsidiary in 2022, a fact which was credited at least in part with effecting the successful resolution of SVB in the UK.

In light of this, the PRA is proposing to increase the threshold for the level of deposits that a branch may hold before it considers requiring subsidiarisation and including within that threshold small company demand deposits (with small companies being defined as those with up to £10.2 million of turnover). Again looking to the SVB UK experience, the FCA is also proposing that the assessment of whether it is appropriate for an international bank to operate as a branch should include a review of wholesale demand deposits from larger corporates that depend on the branch for banking services.

CP11/24 also sets out the PRA's expectations of firms' booking arrangements in light of prudent risk management when dealing with changes to international booking models that run the risk of fragmentation of that management across entities and jurisdictions. In particular, the PRA has observed international firms operating split desks whereby trading in the same entity takes place from more than one location and management of the product is similarly split. In light of the higher operational risks associated with such splitting, CP11/24 is setting out proposals for characteristics of acceptable split desk models, including:

- single business heads accountable for consolidated management of split desks;
- market risk limits which are allocated per legal entity;
- a proportional numerical and seniority split of traders;
- a single and consolidated independent risk management oversight; and
- the ability to pool collateral between entities.