



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

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Bank of England announces further proposals to strengthen the financial system through structural reform

The Bank of England has today published two consultation papers: one on ring-fencing and one on operational continuity. These proposals will ensure that ring-fenced banks are protected from shocks originating in other parts of their groups, as well as the broader financial system, and can be easily separated from their groups in the event of failure.

Well-capitalised, resilient firms mean that when problems occur, critical economic functions, including retail banking, can be maintained and economic growth can be supported through ongoing banking activity.

Today's proposals seek to ensure that ring-fenced banks have sufficient capital resources on a standalone basis, sheltering them from risks originating in other parts of their groups. The proposed rules also mean that a ring-fenced bank can be more easily detached from the wider group by ensuring intragroup arrangements operate on an arm's length basis – helping ensure important services remain available in the event of a failure of other parts of the group.

The publication of these two consultation papers means firms will be able to put in place detailed plans to ensure that they are prepared to ring-fence their core retail activities from 1 January 2019. These consultation papers also provide greater clarity on the operational continuity rules affecting other firms providing functions that are critical to the economy.

Andrew Bailey, Deputy Governor of the Bank of England and Chief Executive of the Prudential Regulation Authority (PRA) said:

“Making our firms more resilient has been at the forefront of our post-crisis reform agenda. Today represents an important step forward in achieving this aim. We have provided clarity for affected banks on how we will implement ring-fencing and this will enable firms to take substantial steps forward in their preparations for structural reform.”

Proposals for ring-fenced banks

The PRA is required under the Financial Services and Markets Act 2000, as amended by the Financial Services (Banking Reform) Act 2013, to make policy to implement the ring-fencing of core UK financial services and activities.

From 1 January 2019, banks with core deposits greater than £25 billion (broadly those from individuals and small businesses) will be required to ring-fence their core retail activities. To prepare for this, the PRA published near final rules on 27 May 2015 on governance, legal structure, and operational continuity and consulted on the approach to ring-fencing transfer schemes on 18 September 2015.

The proposals in today's consultation papers look to ensure:

- a ring-fenced bank has sufficient financial resources and liquidity;
- intragroup exposures and arrangements between the ring-fenced bank and the rest of the group are managed in a prudent manner, at arm's length;
- the ring-fenced bank is clear on the PRA's expectations on the use of financial market infrastructures; and
- the ring-fenced bank can demonstrate the ability to continue to provide critical economic functions during resolution.

This consultation closes on 15 January 2016.

Operational continuity proposals

The PRA is also consulting on rules to ensure a broader range of banks, building societies and PRA-authorised investment firms structure their operations in a way that allows critical shared services to continue even in times of stress or failure.

Ensuring operational continuity is a necessary condition to make certain that firms can be resolved in an orderly fashion to support financial stability.

The PRA invites feedback on the proposals set out in this consultation paper, but respondents may wish to wait for the publication of the addendum, which will set a closing date for the consultation period.

ENDS

Notes to Editors

[CP 19/14: The implementation of ring-fencing: consultation on legal structure, governance and the continuity of service and facilities](#)

[PS 10/15: The implementation of ring-fencing: legal structure, governance and continuity of services and facilities](#)

[DP 1/14: Ensuring operational continuity in resolution](#)

[CP 33/15: The implementation of ring-fencing: the PRA's approach to ring-fencing transfer schemes](#)

[Financial Services \(Bank Reform\) Act 2013](#)

[Ring-fenced Bodies and Core Activities Order 2014](#)

[Structural reform hub page](#)