Dear Andrew,

At my recent appearance before the Treasury Select Committee on the 22 October I was asked how the PRA was taking forward the Parliamentary Committee on Banking Standard’s (PCBS’s) recommendation to ‘electrify’ the ring-fence. In my response I stated that the electrification of the ring-fence will be covered in our future publication. Given the level of interest, I thought it would be useful to clarify the issue by explaining the interaction between PRA rulemaking and the ‘group restructuring powers’ set out under the Financial Services (Banking Reform) Act 2013 (the ‘Act’).

As you are aware, the PRA is required under the Act to make rules implementing ring-fencing. In addition, the Act takes forward the PCBS’s recommendation to electrify the ring-fence and provides the PRA with ‘group restructuring powers’. These powers enable the PRA to initiate the breaking up of a banking group subject to ring-fencing with HM Treasury’s consent.

The initiation of the group restructuring process by the PRA is not dependent on a firm being in breach of any specific rule. Instead the Act sets out a number of conditions which, if any of them are met, enables the PRA to initiate the breaking up of a banking group if appropriate. The Act also sets out a clear process which must be followed.

The group restructuring power is intended to discourage any firm that may otherwise seek to put pressure on the ring-fence or circumvent any ring-fencing rules the PRA has put in place. As I stated in my appearance before the Committee, I see the group restructuring power as an integral part of the ring-fencing regime as it creates the right incentives for firms to implement ring-fencing in the appropriate manner.

Given that the Act sets out both the conditions and process under which the group restructuring power can be exercised, the PRA is not intending to set out any further rules or statements on the power itself in its future consultations on ring-fencing.

However, next year we will be consulting on the rest of the rules needed to implement ring-fencing and this will include any requirements placed on firms to inform our monitoring and reporting on the ring-fence.
It is through this monitoring of the ring-fence that the PRA may identify that the conditions for using the group restructuring power have been met and initiate proceedings or take other enforcement measures as appropriate. This helps ensure that the use of the power is a credible deterrent.

Yours sincerely,

Andrew Bailey