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Dear *Andrew*

Re: RBS IT Systems Failure

Thank you for your letter of 19 June 2015 about the IT systems failure at RBS which occurred on 16 June. I have set out below answers to each of the questions in your letter.

Since discovery of the failure, the FCA and PRA have been in contact with RBS on a regular basis. Once RBS had made certain that they had stabilised their system, the FCA's priority has been to ensure that the impact on customers was fully understood and remediated. Since then, we have been in focused communication with RBS regarding the outage and their subsequent analysis of the cause of the outage.

1. Is this problem related to the one in 2012?

We will not know whether there is any relationship between this incident and the failure in 2012 until RBS has completed the root cause analysis work which is now underway. This will aim to understand the cause of this incident and any linkage to previous incidents.

2. What action does FCA intend to take to deal with what appear to be recurring problems with the IT at RBS?

The FCA is closely monitoring the progress of RBS' IT remediation activity to improve its system resilience. We are looking at the bank's systems resilience improvement activities both in isolation and within the context of the RBS Transformation Programme, a key objective of which is the creation of a simpler bank with a less complex and more resilient suite of computer systems. With regard to the recent incident, as set out above, we have been in close liaison with RBS since the outage.

3. What assessment has the FCA made as to whether this failure at RBS may be symptomatic of a wider problem with IT infrastructure in UK banks, or whether RBS is particularly vulnerable?

As you are aware, delivery of banking services is complex and dependent on many inter-connected computer applications and firms. A failure in any one process can quickly affect a range of services within a firm and has the potential to impact other organisations and their customers. The risk to the UK financial system of significant technology failures has been highlighted by the FCA and the Bank of England and is recognised as a risk in the 2015 edition of the National Risk Register of Civil Emergencies published by the Cabinet Office.

In addition to this, we have provided a description of the technology risks affecting our objectives in our Business Plan 2015/2016 (pages 30-33) and continue to monitor the development of these risks and their management by banks.

Following the 2012 RBS outage, the FCA and PRA undertook a high-level joint review of critical infrastructure and technology resilience across a number of major UK banks. A second and more detailed joint review was initiated in October 2014 and is expected to conclude later this summer. The FCA and PRA will provide feedback to the individual firms and will work with them on any required follow-up actions designed to improve and enhance core system resilience.

4. Was the FCA approached by RBS in the days running up to 17 June to warn you of a potential IT system failure and, if so, what action did you take and what advice did you give?

We were not approached prior to the incident but we were in close contact with RBS after the event on 16 June and thereafter.

5. Does the FCA consider that recovery three days later is acceptable for a failure in transactions that should be part of a bank's ordinary service to customers?

Our rules require banks to take reasonable steps to ensure continuity and regularity in the performance of their regulated activities and that they must employ appropriate and proportionate systems, resources and procedures (SYSC 4.1.6). Further, we expect that these arrangements are regularly updated and tested to ensure their effectiveness (SYSC 3.2.19).

However, despite these preparations, unexpected incidents can and do arise. In these circumstances, our expectation is that a bank should act as quickly as possible to contain the issue and stabilise the situation, recover the service and assess and remediate the customer impact. In so doing, we would also expect the bank to take into consideration the inter-dependence of its various business operations and systems. The time taken to achieve this will be dependent on the scale and complexity of the issue. In this case RBS took a decision to delay the delivery of the technical solution for one day so it was as certain as possible that implementing that solution would not cause further problems. We will assess the appropriateness of that action, and RBS' preparedness and response overall including the speed of recovery once we have obtained all the relevant information, including the results of the root cause analysis now underway.

6. Are you working with the PRA on this problem and on bank IT problems more generally, and if so what steps are being taken?

We are working closely alongside PRA on this issue and, as mentioned above, on IT issues more generally.

Please let me know if we can be of further assistance on any of the points you have raised.

Yours sincerely

A handwritten signature in black ink, appearing to be 'M. Wheatley', written in a cursive style.

Martin Wheatley
Chief Executive