FINAL NOTICE

To: Standard Chartered Bank (Firm Reference Number: 114276)

Date: 17 December 2021

1. ACTION

1.1. For the reasons set out in this Notice, the PRA imposes a financial penalty on Standard Chartered Bank ("SCB") of £46,550,000 for breaching:

a) PRA Fundamental Rule 6; and

b) PRA Fundamental Rule 7

between 25 October 2017 and 3 June 2019 (the "Relevant Period").

1.2. SCB agreed to settle during the Discount Stage of the PRA's investigation. As a result, SCB qualified for a 30% settlement discount under the PRA Settlement Policy. Were it not for this discount, the PRA would have imposed a financial penalty of £66,500,000 on SCB.

2. SUMMARY OF REASONS FOR ACTION

Standard Chartered Bank

2.1. Standard Chartered is a global banking group headquartered in London. It is designated by the Financial Stability Board, in consultation with the Basel Committee on Banking Standards and national authorities, as a global systemically important bank ("G-SIB").

2.2. SCB is a PRA-authorised firm and the main United Kingdom operating entity in the Standard Chartered group. As at 31 December 2020, it had total assets of US Dollar ("USD") 408 billion which is more than 50% of the Standard Chartered group's total assets. The PRA supervises Standard Chartered on both a group-wide basis and on a solo basis in respect of SCB. SCB is a Category 1 firm, meaning that it has the capacity to cause significant disruption to the UK financial system if it were to fail.

The PRA's increased expectations regarding SCB's USD liquidity

2.3. In late 2017, the PRA was concerned about a heightened risk in relation to SCB's USD liquidity outflows. To address this concern, the PRA asked SCB to meet new expectations in respect of its USD liquidity: to achieve and maintain a positive USD Gap 2 metric, a measure of a firm's USD liquidity that assumes that the firm is locked out of all but the most liquid wholesale funding markets and all foreign exchange markets (the "USD Gap 2 Metric"), with a survival period of 91 days.

2.4. SCB agreed that it would achieve and maintain a USD Gap 2 Metric with a survival period of 91 days by 30 November 2017 – which SCB achieved – and report the metric to the PRA daily (the "PRA's Expectations"). The PRA required SCB to demonstrate compliance with the PRA's Expectations through daily submissions of the FSA047 and FSA048 ("FSA047/048") regulatory returns (which had previously been submitted weekly).

SCB's engagement with the PRA

2.5. Throughout the Relevant Period, and while the PRA's Expectations were in place, representatives of SCB attended regular meetings with PRA Supervision to discuss various aspects of SCB's financial position, including liquidity risk. PRA Supervision received SCB's FSA047/048 returns containing liquidity data, but also placed reliance on the information provided by SCB's representatives at these meetings.

2.6. The purpose of the discussions with the PRA was to provide the PRA with information and data to enable it to supervise SCB effectively and to inform the PRA's judgement about key risks to SCB.

Liquidity reporting – responsibility and oversight

2.7. SCB's Group Finance function was responsible for SCB's liquidity regulatory reporting during the Relevant Period. The Group Liquidity Regulatory Reporting ("GLRR") team in the Group Finance function prepared, produced and submitted liquidity regulatory returns to the PRA, with the support of the Group Financial Services ("GFS") team, also in Group Finance.

2.8. The Treasury Markets team in the Group Treasury function was responsible for managing SCB's day-to-day liquidity, including ensuring SCB met regulatory expectations. Treasury Markets relied on the FSA047/048 returns to measure compliance with the PRA's Expectations.

2.9. A number of formal committees and governance fora exercised oversight of SCB's USD Gap 2 Metric liquidity position. In particular, the Finance Operational Risk Committee ("FORC") had oversight of operational risks and risk controls for the Group Finance function, including risks arising from liquidity regulatory reporting. In addition, USD Gap 2 Metric reporting was included in Board Risk Committee and Group Risk Committee updates, through the report of the Group Chief Financial Officer.

Errors in SCB's USD Gap 2 Metric reporting

2.10. During a 15 month period within the Relevant Period, SCB identified five errors that resulted in periods of misreporting of the USD Gap 2 Metric. Whilst the first error resulted in SCB underreporting the USD Gap 2 Metric (i.e. once the error was corrected, the USD liquidity position was stronger than SCB had reported to the PRA), the remaining errors resulted in SCB overreporting its position (meaning that the USD liquidity position was in fact weaker than SCB had reported). The facts and matters of this Notice do not concern Standard Chartered group's Liquidity Coverage Requirement ("LCR").

<u>Error 1</u>

2.11. On 7 March 2018, SCB identified that certain forward-settling cross-currency swaps had been incorrectly excluded from the Individual Liquidity Adequacy Standards ("ILAS") reporting system, which resulted in the underreporting of the USD Gap 2 Metric by USD 1.8 billion ("Error 1"). SCB staff did not notify the PRA of Error 1 at the time because the USD liquidity position was stronger than that SCB had reported to the PRA and because it did not result in a breach of the PRA's Expectations (meaning this error did not result in SCB breaching its USD Gap 2 Metric limit). The error was not logged as an Operational Risk Event ("ORE") and so was not escalated internally to the FORC or to senior management.

Error 2

2.12. On 15 May 2018, SCB identified that an error in a transaction processing system ("OPICS") led to incorrectly profiled maturity dates for certain repo trades being fed through into the ILAS reporting system, which resulted in the overreporting of the USD Gap 2 Metric by USD 10 billion ("Error 2"). Error 2 did not result in a breach of the PRA's Expectations. SCB notified the PRA of Error 2 on 29 May 2018. The error was not logged as an ORE and so was not escalated internally to the FORC or to senior management.

Error 3

2.13. Following Error 2, SCB introduced a trading book tactical reporting tool which resulted in identification of an additional encumbrance which meant the USD Gap 2 Metric had been overreported by USD 3.3 billion ("Error 3"). Error 3 did not result in a breach of the PRA's Expectations. SCB notified the PRA of Error 3 on 30 July 2018. The error was not logged as an ORE and so was not escalated internally to the FORC or to senior management.

Error 4

2.14. On 28 November 2018, the Treasury Markets team identified that a cell in the spreadsheet used for preparation of the FSA047/048 return included a positive value where a zero or negative value was expected. This was investigated by SCB, which concluded that this was caused by an error in SCB's ILAS reporting system, which had erroneously included in the USD Gap 2 Metric client collateral held at the London Clearing House ("LCH") but not the return of that collateral to clients ("Error 4"). Error 4 resulted in an overreporting of the USD Gap 2 Metric by USD 7.9 billion and a breach of the PRA's Expectations (meaning this error caused SCB to fall below the USD Gap 2 Metric survival period of 91 days). SCB notified the PRA of this error on 1 April 2019, over four months after it was identified. The error was escalated to the FORC and to senior management shortly after it was notified to the PRA and was logged as a "Significant" ORE.

Error 5

2.15. On 28 May 2019, SCB identified that its ILAS reporting system included certain Ginnie Mae asset-backed securities in the USD Gap 2 Metric based on their notional value, as opposed to their carrying value ("Error 5"). Error 5 resulted in an overreporting of approximately USD 2.5 billion and contributed to SCB's breach of the PRA's

Expectations. SCB notified the PRA of Error 5 on 3 June 2019 and the error was escalated to the FORC on 2 July 2019.

2.16. The PRA requested that SCB conduct a back-testing exercise to assess the impact of Errors 4 and 5 on the previously reported USD Gap 2 Metric. This back-testing showed that over the 413 days between when the effect of the errors was first observed and when the PRA's Expectations were removed, the USD Gap 2 Metric fell below the PRA's Expectations on approximately 40 days. The back-testing also showed that there were four instances when the USD Gap 2 Metric survival days were down to single figures.

3. BREACHES AND FAILINGS

3.1. As a result of the matters outlined at paragraphs 2.10 to 2.16 above, the PRA considers that SCB breached Fundamental Rule 6 because it failed to organise and control its affairs responsibly and effectively to ensure that it accurately complied with the PRA's Expectations in respect of the USD Gap 2 Metric.

3.2. SCB's systems, controls and governance arrangements for USD Gap 2 Metric reporting were not adequate during the period from 7 March 2018 to 3 June 2019. In particular, SCB failed to:

a) ensure that its escalation framework for liquidity miscalculations and misreporting was properly embedded within the Finance function;

b) implement a documented policy setting out when liquidity errors or potential liquidity errors were to be notified to the PRA;

c) maintain and operate adequate controls testing and checks for USD Gap 2 Metric reporting; and

d) ensure that, in the period from 28 November 2018 to 1 April 2019, it had human resources appropriate to investigate potential misreporting of its USD Gap 2 Metric.

3.3. The PRA also considers that SCB breached Fundamental Rule 7 by failing to be open and cooperative with the PRA in respect of Error 4. SCB did not promptly notify the PRA that a potential error had been identified and was in the process of being investigated, despite having opportunities to do so over the course of four months. In the context of

SCB's regulatory reporting requirements and the PRA's Expectations, Error 4 was an issue of which the PRA would reasonably have expected notice more quickly.

3.4. SCB's breach of Fundamental Rule 7 is particularly serious because:

a) The potential size of Error 4 was, when first identified, USD 10 billion, and based on this indicative figure there was a risk that SCB was in breach of the PRA's Expectations;

b) The error occurred following the discovery of three other errors in SCB's FSA047/048 returns (from which the USD Gap 2 Metric is derived) in the nine months prior to the identification of Error 4;

c) There were opportunities for SCB staff who were aware of the error to notify PRA Supervision about it at meetings convened for the specific purpose of discussing liquidity and market conditions between 7 December 2018 (the date of the first meeting after the potential error was identified on 28 November 2018) and 1 April 2019, none of which were taken; and

d) On 28 November 2018, Error 4 was identified as a potential error, and was confirmed as an error in mid-February 2019, but no PRA notification was made at this time as SCB was continuing with the ILAS Review, which included investigating matters which were unrelated to Error 4.

4. REASONS WHY THE PRA HAS TAKEN ACTION

4.1. The PRA is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA's role is to promote the safety and soundness of those firms.

4.2. The PRA relies on firms it supervises dealing with their regulators in an open and co-operative way and to proactively and promptly disclose to the PRA any information relating to the firm of which the PRA would reasonably expect notice. This is particularly important when the PRA is working with firms to manage and mitigate potential acute risks.

4.3. The provision of complete, timely and accurate prudential data is a key component in the PRA's supervisory approach. The PRA relies on firms submitting sufficient data, of appropriate quality, to inform its judgements about key risks, to measure individual firms' compliance and performance. Accurate and timely prudential data supports going-concern supervision and is crucial in identifying, monitoring and managing periods of when firms are at risk of going into stress.

4.4. Where the PRA has set a specific expectation on a firm, (for example by setting an expectation that a firm will hold increased liquidity in response to a specific potential risk, or that a firm will report to the PRA on a more frequent basis than normal to enable the PRA to monitor a risk more closely), the firm is expected to ensure that it has adequate systems and controls in place to be able to meet the expectation, and to have open communication with the PRA about any data integrity or other risk issues affecting compliance.

4.5. The PRA's investigation identified that the root cause of these errors was that SCB failed to ensure that key systems and controls supporting its regulatory reporting framework were adequate to meet the PRA's Expectations, and that SCB failed to organise and control its compliance with the PRA's Expectations. The PRA considers that the failings reflect the fact that SCB's oversight and governance of the USD Gap 2 Metric fell below the standards expected of a systemically important institution.

5. SANCTION

5.1. Taking into account the facts and matters in Annex A and the relevant factors set out in the PRA Penalty Policy, the PRA has concluded that SCB's breaches of PRA Fundamental Rule 6 and Fundamental Rule 7 justified the imposition of a financial penalty of £66,500,000. That penalty was reduced by 30% to £46,550,000 because SCB settled with the PRA during the Discount Stage.

6. ANNEXES/APPENDICES AND PROCEDURAL MATTERS

6.1. The full particulars of the facts and matters relied on by the PRA in its decision-making process regarding SCB can be found in **Annex A**. SCB's breaches and failings are detailed in **Annex B** and the basis for the sanction the PRA imposed is set out in **Annex C**. Relevant procedural matters are set out in **Annex D**. The definitions used in this Notice are set out in **Appendix 1** and the relevant statutory, regulatory and policy provisions are set out in **Appendix 2**.

Oliver Dearie
Head of Legal, Enforcement and Litigation Division
for and on behalf of the PRA

ANNEX A: FACTS AND MATTERS RELIED UPON

1. BACKGROUND

Relevant entity

1.1 Standard Chartered Bank ("SCB") is the main United Kingdom ("UK") operating entity of Standard Chartered, a global banking group headquartered in the UK. SCB is a Category 1 PRA-authorised firm (meaning that it has the capacity to cause significant disruption to the UK financial system if it were to fail).

2. THE USD GAP 2 LIQUIDITY METRIC

2.1 Liquidity Gap metrics are tools used by banks and other financial institutions to assess and monitor specific liquidity risks. In particular, Gap metrics can be used to assess risks associated with reliance on wholesale funding markets for finance in stressed conditions across different time horizons. In such a stress scenario, an assumption may be made that a firm is locked out of wholesale (i.e., non-retail, or business-to-business) funding markets for a defined period of time and the firm's access to new sources of liquidity is therefore limited. The Gap metric can then measure the liquidity available to a firm in such a scenario, expressed with reference to a time period (typically days). Gap metrics can be calculated on an all currency basis (i.e., assuming that the firm retains access to the foreign currency markets and hence the ability to cover its liabilities with assets denominated in any currency) or on a single currency basis, with the latter implying a loss of access to a specific foreign currency market or markets.

2.2 The matters that form the subject of this Notice are concerned with the Gap 2 metric, as defined in the PRA's Liquidity Metric Monitor for the FSA047 and FSA048 ("FSA047/048") regulatory returns, on a US Dollar ("USD") only basis.[1] The USD Gap 2 metric assumes a firm is locked out of all but the most liquid wholesale funding markets and all foreign exchange markets and, without access to funding from these markets, has to cover outflows with cash or highly liquid assets already held in USD (as per the definition of highly liquid under the former Individual Liquidity Adequacy Standards ("ILAS") regime). The PRA Rulebook required SCB to submit FSA047/048

[1] The Prudential Regulation Authority's 'Supervisory Tools: Liquidity Tools' (updated on 24 September 2020) accessed at: https://www.bankofengland.co.uk/prudential-regulation/publication/2013/supervisory-tools-liquidity-tools.

returns. From those returns, the PRA would calculate the Gap metrics, including the USD Gap 2 metric which is the subject of this Notice.

2.3 The Gap 2 metric can be expressed as an absolute surplus/deficit at 14, 30 or 90 calendar days, as a low point within that timeframe, or as a survival period. The surplus/deficit is calculated as the difference between net wholesale outflows over the relevant time horizon and the highly liquid collateral assets held at the time by the firm. The survival period measures the number of days it would take for this surplus to become a deficit (i.e., to reach a net value of nil).

2.4 In late 2017, the PRA was concerned about a heightened risk in relation to SCB's USD liquidity outflows. During the period 25 October 2017 to 3 June 2019 (the "Relevant Period"), the PRA required SCB to demonstrate 91 days' survival against the Gap 2 metric on a USD-only basis (the "USD Gap 2 Metric") to mitigate this risk. The PRA expected SCB to achieve and maintain a positive USD Gap 2 Metric with a survival period of 14 days by 3 November 2017, and a survival period of 91 days by 30 November 2017 – which SCB achieved – and to report the metric to the PRA daily (the "PRA's Expectations"). SCB was to hold the additional USD liquidity required to meet these target survival periods, with the PRA noting at the time that it would revisit this request in the event that the heightened risk of USD liquidity outflows passed.

2.5 During the Relevant Period, SCB submitted daily FSA047/048 returns to the PRA through Gabriel, the PRA's reporting system.

2.6 As part of the PRA's liquidity supervision of SCB, members of SCB's Treasury Markets team attended regular meetings with PRA Supervision to discuss liquidity and market conditions throughout the Relevant Period. At each of these meetings, SCB would typically provide a summary of SCB's liquidity metrics, including the USD Gap 2 Metric survival period and low-point surplus figures. Quarterly liquidity update meetings also took place between PRA Supervision and Group Treasury at a more senior level.

2.7 As well as receiving SCB's FSA047/048 returns containing liquidity data and returns relating to other liquidity metrics including the Liquidity Coverage Requirement ("LCR"), the PRA relied on each of these methods of liquidity risk reporting during the Relevant Period to understand SCB's liquidity position including in relation to the USD Gap 2 Metric and to inform its contingency planning and manage risk. PRA Supervision placed reliance on the information provided by SCB in assessing SCB's compliance with the PRA's Expectations. However, it later transpired that SCB had mis-reported the USD Gap 2 Metric to the PRA for periods between 7 March 2018 and 3 June 2019.

2.8 There were no concerns with SCB's compliance with its LCR. Throughout the Relevant Period, SCB held an average surplus of USD 41.1 billion over its average Group LCR requirement.

3. SCB's LIQUIDITY REGULATORY REPORTING

Liquidity regulatory reporting function

3.1 During the Relevant Period, the Group Finance function was responsible for the preparation and submission of SCB's liquidity regulatory reporting, including the FSA047/048 returns. Within Group Finance, the Group Financial Services ("GFS") team, based in India (in Chennai and Bangalore), would prepare the FSA047/048 regulatory returns, carry out controls testing on those returns, carry out change testing and perform operational risk item tracking. The Group Liquidity Regulatory Reporting ("GLRR") team, based in London, would review the data compiled by GFS and approve the adjustments it had made. GLRR would set control frameworks, review and challenge any processes adopted by GFS, and was responsible for making the regulatory submissions to the PRA. GLRR was ultimately responsible for the processes and accuracy of the reporting, including for raising Operational Risk Events ("OREs") connected to reporting errors or omissions as appropriate.

3.2 The Treasury Markets team in the Group Treasury function was responsible for managing SCB's day-to-day liquidity, including ensuring SCB met regulatory expectations. Treasury Markets relied on the FSA047/048 returns to measure compliance with the PRA's Expectations.

3.3 The SCB Board, the Board Risk Committee ("BRC") and the Group Asset and Liability Committee all received updates on the USD Gap 2 Metric position as part of the Group Chief Financial Officer's report, the BRC Risk Information Report and the Treasurer's Report respectively and/or standard committee metrics.

Committees and governance fora

3.4 During the Relevant Period, SCB maintained formal committees and governance fora which exercised oversight and governance in relation to liquidity regulatory reporting risk.

3.5 The Finance Operational Risk Committee ("FORC") was the key committee for oversight of operational risks and risk control issues for Group Finance, including risks arising from SCB's regulatory reporting. The FORC was responsible for determining whether further escalation of issues brought to it was required (for example, to the Group Operational Risk Committee or the BRC).

Liquidity reporting systems and controls

3.6 During the Relevant Period, firms were required to submit the FSA047 ('Daily Flows'– which collects daily contractual cash flows out to three months) and the FSA048 ('Enhanced Mismatch Report' – which collects contractual cash flows across the full maturity spectrum) regulatory returns. SCB was required to submit a variety of single and multi-currency FSA047/048 returns on an unconsolidated basis including USD-only returns. SCB also submitted additional FSA047/048 returns on a best efforts basis for other entities in its group. SCB used a system called GT Fermat to complete the FSA047/048 returns. These two returns contained the information needed to calculate the USD Gap 2 Metric.

3.7 SCB's USD-only FSA047/048 reporting process operated in the following way. First, the GT Fermat system would generate initial raw data versions of the USD FSA047/048 returns. Next, GFS would manually apply a set of adjustments (previously approved by GLRR) to reflect activity not automatically recorded by the GT Fermat system. Finally, after carrying out daily data controls testing (which included checking the accuracy of the data in the GT Fermat system against the data included in the FSA047/048 returns by way of reconciliation checks, validation and plausibility checks, and other data quality 'sense checks') GFS would send to GLRR spreadsheets containing the adjusted returns, together with the original raw data and the list of adjustments it had made.

3.8 GLRR would then review the data and use a further liquidity monitoring tool called the Liquidity Metric Monitor ("LMM") spreadsheet to calculate and review a set of metrics derived from the FSA047/048 returns, including the USD Gap 2 Metric. GLRR would analyse the line-by-line movements in the returns and in the USD Gap 2 Metric and produce a management information file to track the variances. GLRR would prepare commentary to accompany the submission of the FSA047/048 returns. GLRR would then carry out a final verification of the data (known as a "four-eyes check") by spot-checking individual cells in the working document and the management information document to ensure that the data was the same. Finally, GLRR would submit the data to the PRA via Gabriel.

Risk management framework for liquidity reporting

3.9 During the Relevant Period, SCB's liquidity reporting was subject to a risk management framework known as the Operational Risk Framework ("ORF"). This framework set out the controls applicable to certain risk categories of liquidity regulatory reporting (including ILAS reporting) and also set out where controls testing was required. These controls tests did not relate to checking the underlying data for a liquidity report but were instead tests of the controls in place for preparing liquidity reports (for example, the reconciliation checks that GFS conducted on the FSA047/048 returns).

3.10 From the beginning of the Relevant Period until May 2018, GLRR was responsible for testing and validating SCB's ORF controls relevant to ILAS reporting, including the FSA047/048 returns. From May 2018, a GFS team, known as the GFS Financial Operational Risk Framework Hubbing Team ("ORF Hubbing Team"), took over the responsibility for testing the ORF controls. Under this process, the ORF Hubbing Team's testing results would be sent to GLRR for approval. The results would then be presented at a Group Finance Operational Risk Forum meeting for further approval.

3.11 Under SCB's risk management framework, liquidity reporting was divided into "priority" and "non-priority" reports. The main difference between priority and non-priority reports was the required frequency of controls testing. Whilst quarterly controls testing was required for priority liquidity reports, controls testing for non-priority liquidity reports was conducted at the discretion of the relevant "risk framework owner" in Group Finance. Each year SCB would assess whether regulatory reports should be designated as priority reports. Before and during the Relevant Period, ILAS reporting and the FSA047/048 returns were categorised as "non-priority" reports.

3.12 During most of the Relevant Period, SCB used a software platform known as the Enterprise Operational Risk Platform ("EORP") to record ORF controls and OREs. Relevantly, if a risk event attributable to liquidity reporting occurred, the GLRR team was responsible for deciding whether or not the risk event constituted an ORE. If an error was considered to be an ORE, GLRR was required to log it in EORP within 15 calendar days of discovery. The ORE would then be considered for escalation to the next FORC meeting. Logging an ORE as a "Significant" ORE would immediately raise the issue to senior management through an email cascade, and it would be raised at the next FORC meeting. If GLRR decided that the risk event did not constitute an ORE, it could (at its discretion) log the risk event as an operational risk "Issue" in EORP. Whilst OREs were considered for escalation to the FORC, "Issues" were not.

3.13 A further risk management control in place for SCB's regulatory reporting during the Relevant Period was the application of a "Board Risk Appetite" ("BRA"). For liquidity metrics assigned a BRA, SCB's BRC would determine whether a buffer would be applied to the liquidity metric to mitigate the risk of not meeting requirements for reporting that metric above a certain level. Any breach of that buffer would be reported directly to the BRC.

3.14 During the Relevant Period, SCB did not conduct controls testing for ILAS reports, including the FSA047/048 returns, and did not conduct an annual review of whether ILAS reporting should be re-designated as a priority report or whether the USD Gap 2 Metric should be given a BRA.

Human resourcing of the liquidity regulatory reporting function

3.15 During the Relevant Period, the GLRR and GFS teams in Group Finance had around six and seven staff respectively. In mid-2018, two members of GLRR left the team. GLRR made a formal request to hire replacements, one of which was described as "urgent". GLRR was given full approval to hire new staff. Towards the end of October 2018, GLRR team again raised the issue of insufficient human resource and asked that it be recorded as an action item within Group Finance. Although approval remained in place to make new hires, and despite GLRR conducting many interviews and making job offers, no external hires with the necessary expertise could be found before the end of the Relevant Period.

3.16 SCB had in 2016 already commenced a long-term programme ("Project Aspire") which aimed to, amongst many other things, improve SCB's liquidity regulatory reporting systems so that less human resource was potentially needed. In the shorter term, SCB brought in individuals who had been doing different roles in the Group Treasury function to assist with GLRR resourcing. However, a lack of experience and inadequate resourcing within GLRR continued to be identified as an issue during the ILAS Review.

3.17 In early November 2018, GLRR described the issue of resourcing to senior staff in Group Finance as an "ORE" with a "potential failure point" being the "incorrect or late submission of regulatory returns". GLRR explained that its resourcing pressures were caused by the increased volume and complexity of SCB's liquidity regulatory reports (including the FSA047/048 returns which was used to calculate the USD Gap 2 Metric), high staff turnover and delays in replacement hiring in GLRR, and the "highly manual" nature of SCB's liquidity reporting processes (in particular in SCB's LCR reporting).

4. LIQUIDITY MISCALCULATION AND MISREPORTING ISSUES

4.1 Between March 2018 and May 2019, SCB identified five miscalculation and misreporting issues that affected the accuracy of its USD Gap 2 Metric reporting.

<u>Error 1</u>

4.2 On 7 March 2018, SCB identified an error in its USD Gap 2 Metric liquidity reporting. The error arose due to the incorrect exclusion of certain forward-settling cross-currency swaps from GT Fermat ("Error 1"). The error resulted in a USD 1.8 billion underreporting of the USD Gap 2 Metric.

4.3 Error 1 was identified by the Group Treasury function, when Treasury Markets and Financial Markets (a market-facing team that accessed various markets and provided expertise on trading book activity) were comparing the USD foreign exchange cash flows reported in Gap 2 with the same cash flows in the Financial Markets booking systems. Treasury Markets found that certain foreign exchange cash flows were being incorrectly excluded from SCB's Gap 2 reporting, resulting in the USD Gap 2 Metric being underreported.

4.4 On 12 March 2018, SCB logged Error 1 as an "Issue" in EORP and completed a review of its nature, cause and impact. As the error had a positive impact on SCB's USD liquidity and Gap 2 position, SCB did not notify the PRA, and as it was not logged as an ORE it was not escalated to the FORC or senior management.

<u>Error 2</u>

4.5 On 15 May 2018, SCB identified an error in its USD Gap 2 Metric liquidity reporting. Error 2 arose because there was an error in OPICS, one of SCB's upstream transaction processing systems (that is, a system that booked the transaction into SCB's financial records), which led to incorrectly profiled maturity dates for certain repo trades being fed through to GT Fermat ("Error 2"). In essence, the Gap 2 metric required SCB to treat 'open maturity' trades (which did not have a fixed maturity date) as if they would mature overnight and the associated cash outflows would fall within the Gap 2 review period. However, Error 2 meant that SCB in fact treated these trades as ‘term maturity’ trades, with a fixed maturity date further in the future. This led to an underreporting of first-day maturity outflows, and incorrect reporting of outflows later in the 91 day Gap 2 survival period. Error 2 resulted in an overreporting of the USD Gap 2 Metric by USD 10 billion, but the USD Gap 2 Metric remained positive throughout the 91 day survival period and did not result in a breach of the PRA’s Expectations.

4.6 Treasury Markets identified the issue as part of its preparation for SCB’s implementation of an internal liquidity stress metric on a USD single currency basis. It discovered discrepancies when comparing the internal liquidity metric against the reported USD Gap 2 Metric.

4.7 On 25 May 2018, SCB completed a review of the nature, cause and impact of Error 2. The review considered the impact of the error on each month following the introduction of the USD Gap 2 Metric (a ‘look-back’), and examined what the USD Gap 2 Metric position would have been in previous months. SCB then logged the error (and a corresponding action plan) as an “Issue” in EORP.

4.8 On 29 May 2018, SCB notified the PRA about Error 2. On 7 June 2018, SCB and the PRA held a follow-up meeting on Error 2. As it was not logged as an ORE, it was not escalated to the FORC or senior management.

4.9 In response to Error 2, SCB enhanced the controls process relating to ILAS reporting. It introduced a daily manual check of the Gap metrics by Financial Markets to understand the movements. In addition, on 21 July 2018, it introduced a trading book tactical reporting tool, which removed the OPICS trading book from GT Fermat daily batch results and replaced it with information taken from APEX for all trading book security positions and cash flows. Further, SCB carried out a complete review of the securities reporting in ILAS returns, which was completed by the end of July 2018.

<u>Error 3</u>

4.10 The introduction of the trading book tactical reporting tool in response to Error 2 resulted in SCB identifying an additional encumbrance which affected the USD Gap 2 Metric (“Error 3”). The nature of this error was that certain trading book securities were being included as unencumbered assets in the USD Gap 2 Metric calculation, when in fact they were funded by repo trades and should not have been included.

4.11 On 23 July 2018, SCB completed its review of Error 3 and its impact on the USD Gap 2 Metric. The correction of Error 3 revealed that the USD Gap 2 Metric had been underreported by USD 3.3 billion. However, the USD Gap 2 Metric remained positive throughout the 91 day survival period and so there was no breach of the PRA's Expectations. SCB logged the misstatement (and a corresponding action plan) as an "Issue" in EORP.

4.12 On 30 July 2018, SCB notified the PRA of Error 3. As it was not logged as an ORE, it was not escalated to the FORC or senior management.

Error 4

4.13 On 28 November 2018, SCB identified a potential error affecting the USD Gap 2 Metric. Treasury Markets performed a comparison of the figures reported for SCB's internal liquidity metric with the USD Gap 2 Metric. It identified inflows in a USD Gap 2 Metric reporting category where cash outflows were expected. Further investigation revealed a positive value in a data cell in the LMM spreadsheet, which should always have been either zero or negative.

4.14 Following investigation by GLRR, it was found that there were four London Clearing House ("LCH") client collateral accounts, of which three were excluded from ILAS reporting but the fourth account was incorrectly included ("Error 4"). Error 4 meant that client collateral was included in ILAS reporting, but the corresponding return of collateral to the clients was not. This resulted in a USD Gap 2 Metric overstatement. The effect of Error 4 was an overreporting of the USD Gap 2 Metric of USD 7.9 billion.

Initial identification of Error 4

4.15 On 28 November 2018, Treasury Markets observed that the internal liquidity metric showed a lower surplus of liquidity than the USD Gap 2 Metric reported. This was unusual because the USD Gap 2 Metric adopted a more conservative approach to reporting, which should have resulted in a lower margin of liquidity compared to the internal liquidity metric. Treasury Markets' initial assumption was that the internal liquidity metric, which was in the process of being implemented, was incorrect. Treasury Markets therefore asked the Treasury Liquidity team (also in the Group Treasury function) for a breakdown of certain lines in the internal liquidity metric.

4.16 On 29 November 2018, Treasury Markets identified that a cell in the LMM spreadsheet ("Line 49") was showing a positive number (around USD 10 billion), even though it related to liabilities and should therefore have been either zero or negative. Treasury Markets called GLRR the same day to discuss the finding. Following the call, GLRR emailed GFS to request a breakdown of the figure that Treasury Markets had identified as unexpectedly positive.

4.17 On the same day, GLRR explained to Treasury Markets that the line related to cash collateral for client clearing. Treasury Markets replied later that day, requesting an analysis looking back at the movement on the account balance over the previous 11 months. GLRR confirmed that the amount was cash collateral for derivatives.

4.18 Soon after SCB first identified Error 4 as a potential error on 28 November 2018, Group Finance decided to investigate the error further and to look for any other errors in its ILAS liquidity reporting process, with the support of Treasury (the “ILAS Review”). The ILAS Review included various workstreams to understand the nature and quantum of Error 4, as well as unrelated workstreams to look for other potential errors in the ILAS system with the aim of providing accurate reporting to the PRA. It also included a review, usually periodically completed by SCB and due for refresh at this time, of how it classified the “stickiness” of its client deposits, given that this categorisation could affect the assets included in the USD Gap 2 Metric calculation. That review revealed that SCB’s conservative approach towards classifying the stickiness of clients’ deposits as Type A instead of Type B meant that some deposit outflows could be classified as less ‘sticky’ (the “A/B Approach”). SCB refreshed its A/B Approach classifications and determined that the refreshed position had a positive impact (USD 3.3 billion) on the USD Gap 2 Metric, which partially offset the impact of Error 4. The net effect was that SCB had underreported the USD Gap 2 Metric by a net figure of USD 4.6 billion.

4.19 On 29 March 2019, SCB completed the ILAS Review, which included a review of the nature, cause and impact of Error 4 on the USD Gap 2 Metric. SCB reported Error 4 and the results of the ILAS Review to senior management shortly after completion of the ILAS Review. The error was logged as an ORE in EORP on 5 April 2019, and subsequently as a Significant ORE. It was further reported to SCB’s BRC on 3 April 2019 and to the FORC on 29 April 2019. Back-testing of the error indicated a USD Gap 2 Metric deficit on several dates. A root cause review was carried out which stated that there were two root causes of the issue, namely: the complexity of SCB’s liquidity reporting systems; and inadequate oversight by the liquidity reporting teams, in particular a lack of detailed cross-validation of different liquidity reporting metrics.

PRA notification of Error 4

4.20 Staff in Treasury Markets and GLRR had each concluded by late November/early December that Error 4, if confirmed, would have the impact of overstating SCB's USD Gap 2 Metric. On 14 February 2019, GLRR emailed Treasury Liquidity confirming that there had been a misstatement in the USD Gap 2 Metric position, stating the net effect was USD 8 billion. The review was ongoing to identify the quantum, but there was an indication that SCB's USD Gap 2 Metric position might have been overstated by around USD 10 billion. That email forwarded an internal GLRR email which provided a status update on a number of strands of the ILAS Review: a number of checks had been completed, but other workstreams were listed as pending (including one into the A/B Approach).

4.21 From 7 December 2018 to 1 April 2019, members of the Treasury Markets team attended regular fortnightly meetings with PRA Supervision to discuss liquidity and market conditions. At each of these meetings, SCB would typically provide a summary of its liquidity metrics, including the USD Gap 2 Metric survival period and low-point surplus figures. It did not occur to SCB attendees who were aware of Error 4 to raise it at these meetings, either when it was a potential error (from 7 December 2018 to 13 February 2019), or after it was confirmed (from 14 February 2019 to 1 April 2019).

4.22 On 1 April 2019, SCB notified the PRA of Error 4 and provided an explanation of the causes and impact of the error. Following notification of Error 4 to the PRA, SCB provided further follow-up explanation to the PRA in April and May 2019.

4.23 Following the ILAS Review, the net effect was that SCB had underreported the USD Gap 2 Metric by a net figure of USD 4.6 billion.

4.24 GLRR also carried out a detailed back-testing exercise to determine the actual USD Gap 2 Metric position during the period that it was mis-reported as a result of the matters identified by the ILAS Review. This involved recalculating the USD Gap 2 Metric for each affected day and determining whether the revised position represented a surplus or deficit, as well as whether there was any impact on the survival horizon. The back-testing indicated that SCB would have reported to the PRA a negative USD Gap 2 Metric (a failure to meet the 91 day survival period) on 17 of 90 days in the first quarter of 2019, and three of 61 days in November and December 2018. The lowest point for the survival period was on 27 February 2019, at 13 days' survival (i.e., that it would take 13 days for the net difference between cumulative outflows and the cumulative liquid asset buffer to go below zero). The back-testing showed that the effect of Error 4 started on 27 April 2018 and increased significantly on around 13 July 2018. It continued until the error was identified and corrected in March 2019. Its effect was exacerbated by the concurrent effect of Error 5, which is discussed below.

4.25 GLRR proposed and implemented the following remediation measures to address the issues raised by Error 4:

a. The introduction of controls on implementing systems/process changes;

b. The implementation of cross-metric cashflow validations, including a reconciliation between ILAS and LCR liquidity metrics, using the Cashflow Mismatch Risk (CFMR) report as a master data source;

c. An independent review of this cross-validation exercise; and

d. The introduction of key liquidity reporting process reviews on a rolling basis, covering each metric at least annually.

Error 5

4.26 On 28 May 2019, SCB identified an error in its USD Gap 2 Metric. The error was the inclusion of certain Ginnie Mae asset-backed securities in GT Fermat based on their notional value, as opposed to their carrying value (i.e., the value of the securities after deducting the estimated costs of sale) ("Error 5"). Error 5 resulted in an overreporting of the USD Gap 2 Metric of approximately USD 2.5 billion.

4.27 Error 5 arose because GT Fermat was not configured to calculate the carrying values of asset-backed securities by applying a discount to their notional value. Although Group Treasury and UK Country Finance were aware of the issue, GLRR was not aware of the issue and had not therefore been applying the necessary manual adjustment for ILAS reporting.

4.28 SCB completed its review into the nature, cause and impact of the error on 28 May 2019.

4.29 On 3 June 2019, SCB reported Error 5 to the PRA. SCB provided a further update on 14 June 2019. On 5 June 2019, the error was logged as an "ORE" in the EORP, together with an action plan, and the issue was reported to the FORC on 2 July 2019.

4.30 Error 5 would in isolation have resulted in the USD Gap 2 Metric being below the 91 day survival horizon requirement for seven days in the first quarter of 2019. Taken together with the backtesting carried out after the ILAS Review, the two issues resulted in the USD Gap 2 Metric falling below the 91 day survival horizon requirement for approximately 40 of the 413 days between 27 April 2018 and when the PRA's Expectations were removed. There were four instances when the USD Gap 2 Metric survival days were down to single figures.

ANNEX B: BREACHES AND FAILINGS

1. BREACHES

1.1 During the Relevant Period, as a result of the facts and matters set out at Annex A to the Notice, SCB breached relevant requirements of the PRA's Fundamental Rules. In particular, SCB breached:

a. Fundamental Rule 6 (a firm must organise and control its affairs responsibly and effectively); and

b. Fundamental Rule 7 (a firm must deal with its regulators in an open and co-operative way, and must disclose to the PRA appropriately anything relating to the firm of which the PRA would reasonably expect notice).

1.2 These rules are included at **Appendix 2**.

2. THE PRA'S EXPECTATIONS

2.1 The provision of complete, timely and accurate liquidity data is a key component in the PRA's supervisory approach. The PRA relies on firms submitting accurate liquidity data to inform its judgments about key risks, to measure compliance and performance and to feed into macro-prudential decisions. Accurate and timely liquidity data supports going-concern supervision and is crucial in identifying, monitoring and managing periods when firms are under liquidity stress or potentially entering such periods. The failure to provide accurate and timely data can indicate a range of weaknesses in a firm's ability to manage its business prudently.

2.2 Firms should therefore take reasonable care to organise their affairs responsibly and effectively, with adequate systems and controls in place to mitigate and prevent errors or misstatements in regulatory reporting or which might occur during the processing of regulatory data. These systems and controls should be commensurate to the size and complexity of the institution and designed to mitigate against potential risks to the integrity of the firm's liquidity reporting. The controls framework should also include appropriate on-going system validations and checks to ensure that the firm is able to submit accurate liquidity reporting on a continuing basis. This is particularly important where a firm has been asked or required to report a new type of liquidity return, either temporarily or on a permanent basis.

2.3 Firms should also uphold effective risk management policies, including escalation policies. To ensure risk is properly managed, firms must ensure that such policies are widely understood so that risks can be properly communicated to, and managed at, the appropriate level of seniority as soon as possible.

2.4 The PRA also expects to be notified promptly of any material issues relating to the accuracy and integrity of a firm's liquidity reporting. Firms should therefore clearly identify and document individual and team responsibility and accountability for notifications to the regulator. Firms must also make sure that individuals or teams carrying out such roles are familiar with their duties and responsibilities so that they can appropriately notify the PRA of any material issues relating to the firm's liquidity reporting. Even where a firm has allocated regulatory notification responsibilities to a particular team, the PRA expects all staff members interacting with the regulator to appreciate that they should disclose anything relating to the firm of which the PRA would reasonably expect notice, in accordance with the duty to be open and cooperative. In addition, whilst the PRA recognises that a firm will want to investigate issues further once identified, this does not mean that information of which the PRA reasonably expects notice can be withheld for lengthy periods of time until those investigations are completed. Indeed, the fact of an investigation into a material error is itself something about which the PRA would reasonably expect to be notified.

2.5 The PRA's primary objective (in the supervision of banks) is to ensure the safety and soundness of the firms it regulates. At times this may involve working closely with firms to mitigate acute risks. To do this effectively, the PRA relies on firms to be transparent and to maintain an open and continuous dialogue with it. Where reliance is placed by the PRA on particular tools to monitor and manage risk in such situations and a firm becomes aware that such tools are or may be yielding inaccuracies, the PRA expects to be alerted to this promptly as any failure in this regard may undermine the PRA's ability to effectively supervise firms in such situations.

3. FAILINGS

3.1 During the Relevant Period, SCB breached relevant requirements of the PRA's Fundamental Rules. In particular, the PRA considers that SCB breached Fundamental Rule 6 and Fundamental Rule 7 as they applied at the time.

3.2 The PRA considers that SCB breached:

3.2.1 Fundamental Rule 6 because it failed to organise and control its affairs responsibly and effectively to ensure that it accurately complied with the PRA's Expectations in respect of the USD Gap 2 Metric. SCB's systems, controls and governance arrangements for USD Gap 2 Metric reporting were not adequate during the period from 7 March 2018 to 3 June 2019. In particular, SCB failed to:

i) ensure that its escalation framework for liquidity miscalculations and misreporting was properly embedded within the Finance function;

ii) implement a documented policy setting out when liquidity errors or potential liquidity errors were to be notified to the PRA;

iii) maintain and operate adequate controls testing and checks for USD Gap 2 Metric reporting; and

iv) ensure that, in the period from 28 November 2018 to 1 April 2019, it had human resources appropriate to investigate potential misreporting of its USD Gap 2 Metric.

3.2.2 Fundamental Rule 7 by failing to be open and cooperative with the PRA. In respect of Error 4, SCB did not, having identified a potential issue on 28 November 2018, promptly notify the PRA (despite having opportunities to do so over the course of four months) that an error (initially a potential error and later a confirmed error) had been identified and was in the process of being investigated. In the context of SCB's regulatory reporting requirements and the PRA's Expectations, Error 4 was an issue of which the PRA would reasonably have expected notice more quickly.

Design, implementation and/or operation of key systems, processes and controls

3.3 SCB failed to ensure that key systems and controls supporting its ILAS reporting process were adequate.

3.4 SCB's systems and controls failures extended across a number of different areas, as follows:

3.4.1 *Escalation framework not embedded within Finance in relation to liquidity reporting*: SCB failed to ensure that its escalation framework was embedded within Finance in relation to errors in liquidity reporting. Although SCB had a risk management and oversight framework in place to monitor liquidity reporting issues, GLRR did not log Errors 1 to 3 as OREs and did not report Error 4 as an ORE when it was first confirmed as an error. As a result, SCB's internal reporting of the USD Gap 2 Metric liquidity miscalculations and misreporting to senior management was deficient. The FORC and SCB's senior management were not made aware at the appropriate time of the errors identified in relation to the USD Gap 2 Metric, and also the impact of one of these errors on SCB's compliance with the PRA's Expectations.

3.4.2 *No formal policy for PRA notification:* While there was an understanding within SCB that confirmed errors in SCB's liquidity reporting were to be notified to the PRA, there was no documented policy setting out when liquidity errors or potential liquidity errors were to be notified to the PRA. As a result, SCB did not promptly notify the PRA when Error 4 was identified as a potential error.

3.4.3 *Inadequate controls testing*: During the Relevant Period, SCB's ILAS reporting and FSA047/048 returns were not subject to the full-scale periodic control framework reviews that were in place for other liquidity reports (such as LCR). Whilst the PRA recognises that there was a general expectation within SCB that the FSA047/048 returns would be decommissioned during the Relevant Period, SCB's controls testing did not identify the USD Gap 2 Metric errors, which SCB nonetheless identified by other means. There was also insufficient oversight by liquidity reporting teams on the ILAS reporting system input. In particular, some issues were not identified because of a lack of GLRR visibility of Financial Markets transactions. The PRA considers that this decreased the likelihood of SCB identifying underlying systems and data integrity issues before they led to errors in SCB's FSA047/048 returns.

3.4.4 *Inadequate human resources to assist with the ILAS Review*: Given the significance and complexity of the PRA's Expectations in respect of the USD Gap 2 Metric, it was essential that SCB had appropriate human resources to investigate potential misreporting of its USD Gap 2 Metric. Notwithstanding any challenges it faced in hiring staff, the PRA considers that human resourcing constraints contributed to the length of time that it took to investigate Error 4, to complete the ILAS Review (which was commenced shortly after Error 4 was identified as a potential error on 28 November 2018), and to notify the PRA about Error 4.

Failure to notify promptly the PRA of Error 4

3.5 SCB failed to be open and cooperative with the PRA by reason of it not promptly providing information of which the PRA reasonably expected notice.

3.6 On 28 November 2018, staff in GLRR and Treasury Markets became aware of a potential error in SCB's returns, the indicative effect of which was to overstate SCB's USD Gap 2 Metric position potentially by USD 10 billion. Information about a potential error of this magnitude affecting the accuracy of SCB's USD Gap 2 Metric reporting was relevant to the PRA's prudential oversight of SCB in light of the heightened risk to SCB's USD liquidity outflows. SCB was aware that the PRA was relying on this metric to mitigate and manage that heightened risk. By mid-February 2019, GLRR confirmed Error 4, stating the net effect was USD 8 billion, and SCB was aware of the potential implications of the error on the accuracy of SCB's USD Gap 2 Metric reporting. Notwithstanding this, SCB did not notify the PRA about the error until 1 April 2019, having taken four months to complete the ILAS Review and confirm the correct USD Gap 2 Metric position (albeit that the discovery of Error 5 later revealed further correction was required).

3.7 The PRA considers SCB's breach of Fundamental Rule 7 arising from Error 4 to be particularly serious because:

3.7.1 The potential size of the error was, when first identified, USD 10 billion, and based on this indicative figure there was a risk that SCB was in breach of the PRA's Expectations;

3.7.2 The error occurred following the discovery of three errors in SCB's FSA047/048 returns (from which the USD Gap 2 Metric is derived) in the nine months prior to the identification of Error 4;

3.7.3 There were opportunities for SCB staff who were aware of the error to notify PRA Supervision about it at meetings convened for the specific purpose of discussing liquidity and market conditions between 7 December 2018 (the date of the first meeting after the potential error was identified on 28 November 2018) and 1 April 2019, none of which were taken; and

3.7.4 On 28 November 2018, Error 4 was identified as a potential error, and was confirmed as an error in mid-February 2019, but no PRA notification was made at this time as SCB was continuing with the ILAS Review, which included investigating matters which were unrelated to Error 4.

3.8 The ILAS Review took a significant amount of time to complete. When the ILAS Review concluded, the result of the reporting error (that there had been an incorrect inflow into a zero/negative line item in the LMM spreadsheet) had not changed significantly from the initial identification and analysis of the error by Treasury Markets and GLRR in late November / early December 2018, albeit the cause of the error was confirmed.

3.9 For PRA Supervision's purposes, understanding how the error had occurred was ancillary to knowing that the error had potentially occurred. SCB should have begun an open dialogue with the PRA on this issue at an early stage, when the error was a potential error, and any confirmation there was an error and its size could have followed. This approach would have satisfied Fundamental Rule 7 and enabled the PRA to monitor SCB's compliance with the USD Gap 2 Metric accurately.

3.10 In this respect, it is significant that senior management within SCB was not notified about Error 4 until after the PRA was notified. Had the issue been promptly escalated to senior management, the PRA would likely have been notified of the error earlier. There were also missed opportunities for SCB staff to notify the PRA of the error during periodic meetings with the PRA to discuss liquidity and market conditions. Although it was not intentional, SCB created a misleading impression about the level of the USD Gap 2 Metric by stating the USD Gap 2 Metric low points reported to the PRA by GLRR at these meetings, without also noting that Error 4 (an overreporting error or potential overreporting error, depending on the date of the meeting, which could have materially affected these figures) was currently under investigation.

Conclusion on failings

3.11 SCB's systems and processes in relation to the PRA's Expectations did not enable SCB to comply adequately with its USD Gap 2 Metric reporting obligations. Failings relating to policy documentation, escalation and notification, controls testing and human resourcing meant that SCB was not able to meet the PRA's Expectations. These failings also contributed to SCB's failure to escalate appropriately and promptly notify the regulator of Error 4, which was information of which the PRA would reasonably expect notice, and which was only notified to the PRA after a four month delay.

3.12 SCB’s failings were particularly significant given the size of the five errors and the importance of the USD Gap 2 Metric. The errors impaired the ability of the PRA to understand, monitor and mitigate the heightened risk to SCB’s USD outflows which the USD Gap 2 Metric was intended to protect against, and SCB therefore fell short of the PRA’s Expectations.

3.13 As a result of these failings, SCB breached Fundamental Rule 6 and Fundamental Rule 7 during the Relevant Period.

ANNEX C: PENALTY ANALYSIS

1. FINANCIAL PENALTY

1.1. The PRA's policy for imposing a financial penalty is set out in '*The PRA's approach to enforcement: statutory statements of policy and procedure September 2021'*, in particular *Statement of the PRA's policy on the imposition and amount of financial penalties under the Act* (the "PRA Penalty Policy"). Pursuant to paragraphs 12 to 36 of the PRA's Penalty Policy, the PRA applies a five-step framework to determine the appropriate level of financial penalty.

***Step 1*: Disgorgement**

1.2. Pursuant to paragraph 17 of the PRA's Penalty Policy, at Step 1 the PRA seeks to deprive a person of any economic benefits derived from or attributable to the breach of its regulatory requirements, where it is practicable to ascertain and quantify them.

1.3. The PRA has not identified any economic benefit that SCB derived from the breaches, including any profit made or loss avoided, that it would be practicable to ascertain or quantify.

1.4. The Step 1 figure is therefore **£0**.

***Step 2*: The seriousness of the breach**

1.5. Pursuant to paragraph 18 of the PRA's Penalty Policy, at Step 2 the PRA determines a starting point figure for a financial penalty having regard to the seriousness of the breach by the firm – including any threat it posed or continues to pose to the advancement of the PRA's statutory objectives – and the size and financial position of the firm.

1.6. Paragraph 19(a) of the PRA's Penalty Policy sets out that a suitable indicator of the size and financial position of the firm may include, but is not limited to, the firm's revenue.

1.7. Standard Chartered group's statutory operating income for the financial year ending 31 December 2018 (being the financial year preceding the date when the breaches ended) is approximately USD 14,789,000,000 and SCB's total revenue was a significant proportion of this figure. Given the magnitude of this figure, the PRA considers that a financial penalty based on either a percentage of either Standard Chartered group's or

SCB's revenue figures would be disproportionate.

1.8. To arrive at a penalty, the PRA has instead taken the following factors into account (alongside the general size, significance and systemic importance of SCB) to produce a figure at Step 2 that properly reflects the nature, extent, scale, gravity and overall seriousness and significance of the breaches:

a) The provision of prudential regulatory information is fundamental to the PRA's ability to effectively supervise firms and discharge its statutory objectives. As a result, the PRA attaches considerable importance to the preparation and submission of complete and accurate reporting to the PRA. This is particularly the case for institutions of SCB's size and systemic importance – its safety and soundness can impact the financial stability of the UK financial system as a whole.

b) SCB failed to be open and cooperative with the PRA by reason of it not providing information of which the PRA could reasonably have expected notice more quickly. SCB failed to notify the PRA promptly of Error 4 once it had been identified as a potential error on 28 November 2018, and the potential implications of the error on the accuracy of SCB's USD Gap 2 Metric reporting. Timely disclosure of information and the notification of inaccurate reporting on significant matters is crucial to the ability of the PRA to supervise firms effectively. SCB should have been well aware of how sensitive PRA Supervision was to issues that affected SCB's liquidity resilience at that time.

c) Error 4 occurred following the discovery of three earlier errors in SCB's FSA047/048 returns in the nine months prior to the identification of Error 4.

d) Failings relating to policy documentation, escalation and notification, controls testing and resourcing meant that SCB was not able to properly oversee its USD Gap 2 Metric reporting and to ensure that the information submitted to the PRA was complete and accurate. The failings are particularly significant given the size of some of SCB's liquidity miscalculations and the importance of the USD Gap 2 Metric. The PRA also considers that the failings reflected the fact that SCB's oversight and governance of its regulatory control framework had fallen below the standards expected of a systemically important institution.

1.9. The PRA has also had regard to the matters set out at Annexes A and B to this Notice.

1.10. Taking these factors into account, the PRA considers the failings in this case were significant and has determined that the appropriate Step 2 figure is **£70,000,000.**

***Step 3*: Adjustment for any aggravating, mitigating or other relevant factors**

1.11. Pursuant to paragraph 24 of the PRA Penalty Policy, the PRA may increase or decrease the Step 2 figure to take account of any factors which may aggravate or mitigate the breaches. Any such adjustment will normally be made by way of a percentage adjustment to the figure determined at Step 2.

1.12. In deciding whether any adjustment for aggravating or mitigating factors is warranted, the PRA has considered the following factors:

a) the previous disciplinary record and general supervisory history of SCB both in respect of the PRA's regulatory requirements and those of any other regulatory or law enforcement agencies;

b) the PRA has made clear in the *Approach to Banking Supervision* and *Approach to Enforcement* documents, as well as in other final notices, the importance of the provision of accurate quantitative data. Despite this SCB failed to comply with its Fundamental Rule 7 obligations;

c) SCB self-identified, investigated and resolved all of the errors which the PRA investigated;

d) SCB cooperated fully with the PRA investigation, offering to conduct an internal investigation and provide the results to the PRA, commissioning and conducting its own reviews to respond to information requirements and sharing the results with the PRA; and

e) SCB has taken steps on its own initiative to remediate the failings these reviews and the PRA's investigation have identified.

1.13. Having taken into account these factors, the PRA has concluded that the Step 2 figure of £70,000,000 should be decreased by 5%.

1.14. The Step 3 figure is therefore **£66,500,000**.

***Step 4*: Adjustment for deterrence**

1.15. Pursuant to paragraph 27 of the PRA Penalty Policy, if the PRA considers the penalty determined following Steps 2 and Step 3 is insufficiently effective to deter the firm that committed the breach, or others, from committing further or similar breaches, then the PRA may increase the penalty at Step 4 by making an appropriate deterrence adjustment to it.

1.16. The PRA does not consider an adjustment for deterrence is necessary in this particular matter.

1.17. The Step 4 figure is therefore **£66,500,000**.

***Step 5*: Application of any applicable reductions for early settlement or serious financial hardship**

1.18. Pursuant to paragraph 29 of the PRA Penalty Policy, if the PRA and the firm upon whom a financial penalty is to be imposed agree the amount of the financial penalty and any other appropriate settlement terms, the PRA Settlement Policy provides that the amount of the penalty which would otherwise have been payable may be reduced.

1.19. The PRA and SCB reached an agreement to settle during the Discount Stage therefore a 30% settlement discount applies to the Step 4 figure.

1.20. The Step 5 figure is therefore **£46,550,000**.

Conclusion

1.21. The PRA therefore imposes a financial penalty of **£46,550,000** on SCB for breaching Fundamental Rule 6 and Fundamental Rule 7.

ANNEX D: PROCEDURAL MATTERS

1. DECISION MAKER

1.1. The settlement decision makers made the decision which gave rise to the obligation to give this Notice.

1.2. This Notice is given in accordance with section 390 of the Act.

2. MANNER AND TIME FOR PAYMENT

2.1. SCB must pay the financial penalty in full to the PRA by no later than 10 January 2022.

2.2. If all or any of the financial penalty is outstanding on 11 January 2022, the day after the due date for payment, the PRA may recover the outstanding amount as a debt owed by SCB and due to the PRA.

3. PUBLICITY

3.1. Sections 391(4), 391(6A) and 391(7) of the Act apply to the publication of information about the matter to which this Notice relates. Under those provisions, the PRA must publish such information about the matter to which this Notice relates as the PRA considers appropriate. However, the PRA may not publish information if such publication would, in the opinion of the PRA, be unfair to the persons with respect to whom the action was taken or prejudicial to the safety and soundness of PRA-authorised persons or prejudicial to securing an appropriate degree of protection to policyholders.

4. PRA CONTACTS

4.1. For more information concerning this matter generally, contact David Chaplin at the PRA (direct line: 020 3461 6605, david.chaplin@bankofengland.co.uk).

APPENDIX 1: DEFINITIONS

THE DEFINITIONS BELOW ARE USED IN THIS NOTICE:

1. “A/B Approach” means SCB’s approach towards classifying the ‘stickiness’ of certain clients’ deposits;

2. “the Act” means the Financial Services and Markets Act 2000 (as amended);

3. “APEX” means the tactical solution data source that fed into SCB’s transaction processing system and provided referential data and transaction/position details for the asset classes booked into that system;

4. “BCBS 239” means the Basel Committee on Banking Supervision’s Principles for Effective Risk Data Aggregation and Reporting;

5. “BRA” means a Board Risk Appetite, which is a designation applied by Treasury to regulatory returns or liquidity metrics to facilitate monitoring;

6. “BRC” means SCB’s Board Risk Committee, which amongst other responsibilities determines the buffer to be applied to liquidity metrics that have been assigned a BRA;

7. “Discount Stage” means, as provided for in the PRA Penalty Policy and PRA Settlement Policy, the early period of an investigation during which the subject of an investigation will qualify for a 30% discount to the proposed financial penalty if they enter into a settlement agreement with the PRA;

8. “EORP” means the Enterprise Operational Risk Platform, a software platform used by SCB during most of the Relevant Period to record ORF controls and OREs;

9. “Error 1” means the error resulting in certain forward-settling cross-currency swaps being excluded from the USD Gap 2 Metric;

10. “Error 2” means the error by which incorrect profiling by OPICS of maturity dates for certain repo trades fed through to GT Fermat;

11. “Error 3” means the additional encumbrance error identified as a result of the trading book tactical reporting tool put in place to resolve Error 2;

12. “Error 4” means the error by which client collateral held at the LCH but not the return of that collateral to clients was erroneously inclusion in the USD Gap 2 Metric;

13. “Error 5” means error by which certain Ginnie Mae asset-backed securities were included in the USD Gap 2 Metric based on their notional value, as opposed to their carrying value;

14. “Financial Markets” means the team within the Group Treasury function that accesses markets and provides expertise on trading book activity;

15. “FORC” means SCB’s Finance Operational Risk Committee, which had oversight of operational risks and risk controls for the Group Finance function, including risks arising from liquidity regulatory reporting;

16. “FSA047” means the liquidity report that records details of a firm’s daily flows out to three months;

17. “FSA048” means the liquidity report that records details of a firm’s contractual cash flows across the full maturity spectrum;

18. “Gabriel” was the PRA’s online reporting system used to gather regulatory data from firms during the Relevant Period;

19. “Gap 2” means the Gap metric that assumes a firm is locked out of all but the most liquid wholesale funding markets and, without access to funding from these markets, has to cover outflows with cash or highly liquid assets that it holds;

20. “GFS” means SCB’s Group Financial Services team, based in Chennai and Bangalore, which prepares the FSA047/048 regulatory returns;

21. “GLRR” means SCB’s Group Liquidity Regulatory Reporting team, based in London, which is responsible for SCB’s liquidity regulatory reporting, including of the FSA047/048 returns, to the PRA;

22. “Group Finance” means SCB’s finance function, which was responsible for SCB’s liquidity regulatory reporting during the Relevant Period;

23. “Group Finance Operational Risk Forum” means the team in Group Finance responsible for supporting the function in managing its operational risks and risk controls;

24. “Group Operational Risk Committee” means the committee that oversees the management of operational risks across SCB;

25. “Group Treasury” means SCB’s treasury function, which includes a number of teams including the Treasury Liquidity team, the Treasury Markets team, and the Financial Markets team;

26. “G-SIB” means a global systemically important bank, as identified by the Financial Stability Board, in consultation with the Basel Committee on Banking Standards and national authorities;

27. “GT Fermat” means the ILAS reporting system used by SCB to produce the FSA047/048 returns;

28. “ILAS” means the Individual Liquidity Adequacy Standards;

29. “ILAS Review” means the review conducted by Group Finance to investigate Error 4 and look for any other errors in its ILAS liquidity reporting process;

30. “Issue” means an operational risk issue that SCB does not consider constitutes an ORE (or Significant ORE);

31. “LCH” means the London Clearing House;

32. “LCR” means Liquidity Coverage Requirement;

33. “Line 49” means the relevant part of the LMM spreadsheet where the positive cell anomaly caused by Error 4 was first identified;

34. “LMM” means the Liquidity Metric Monitor, a tool used by the PRA to demonstrate some of the metrics it calculates using information from the FSA047 and FSA048 returns;

35. “LMM spreadsheet” means the spreadsheet used to calculate and review a set of metrics derived from the FSA047/048 returns;

36. “Notice” means this Final Notice, together with its Annexes and Appendices;

37. “OPICS” means the static and reference data source that provided input to SCB’s transaction processing system on security positions;

38. “ORE” means an Operational Risk Event;

39. “ORF” means SCB’s Operational Risk Framework, which sets out the controls applicable to certain risk categories of liquidity reporting (amongst other operational risks);

40. “ORF Hubbing Team” means the GFS Financial Operational Risk Framework Hubbing Team, which was responsible for testing ORF controls from May 2018;

41. “PRA” means the Prudential Regulation Authority;

42. “PRA’s Expectations” means the expectations of SCB set by the PRA on 25 October 2017 that SCB achieve and maintain a positive USD Gap 2 Metric with a survival period of 91 days by 30 November 2017 and report the metric to the PRA daily;

43. “PRA Penalty Policy” means ‘The Prudential Regulation Authority’s approach to enforcement: statutory statements of policy and procedure (effective from 15 September 2021), Appendix 2: Statement of the PRA’s policy on the imposition and amount of financial penalties under the Act’;

44. “PRA Rulebook” means the Prudential Regulation Authority Rulebook;

45. “PRA Settlement Policy” means ‘The Prudential Regulation Authority’s approach to enforcement: statutory statements of policy and procedure (effective from 15 September 2021), Appendix 4: Statement of the PRA’s settlement decision-making procedure and policy for the determination of the amount of penalties and the period of suspensions or restrictions in settled cases’;

46. “PRA Supervision” means the team within the PRA responsible for supervising SCB during the Relevant Period;

47. “Project Aspire” means the extensive programme which SCB commenced in 2016 which aimed to, amongst many other things, improve SCB’s liquidity regulatory reporting;

48. “Relevant Period” means the period between 25 October 2017 and 3 June 2019;

49. “SCB” means Standard Chartered Bank (Firm Reference Number: 114276);

50. “Survival Period” means the number of days it would take for a firm’s surplus of highly liquid collateral assets to reduce to nil in the event that a firm is locked out of wholesale funding markets and has to cover its wholesale funding outflows from those surplus collateral assets;

51. “Treasury Liquidity” means SCB’s liquidity policy-making team, second-line team within Group Treasury which was responsible for the creation and interpretation of policies and internal standards within the framework of liquidity overseeing liquidity risk management undertaken by Treasury Markets;

52. “Treasury Markets” means SCB’s first line market-facing team within Group Treasury, which was responsible for managing SCB’s day-to-day liquidity, including ensuring that SCB met regulatory expectations;

53. “UK Country Finance” means the relevant part of Group Finance responsible for finance processes in SCB’s UK branch;

54. “USD Gap 2 Metric” means the Gap 2 liquidity metric used to assess and monitor SCB’s USD liquidity risk, in respect of which the PRA expected SCB to keep the metric positive with a survival period of 91 days.

APPENDIX 2: RELEVANT STATUTORY AND REGULATORY PROVISIONS

1. RELEVANT STATUTORY PROVISIONS

1.1. The PRA has a general objective, set out in section 2B(2) of the Act, to promote the safety and soundness of PRA-authorised persons. Section 2B(3) of the Act provides that the PRA's general objective is to be advanced primarily by:

(a) seeking to ensure that the business of PRA-authorised persons is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and

(b) seeking to minimise the adverse effect that the failure of a PRA-authorised person could be expected to have on the stability of the UK financial system.

Section 206 – Disciplinary powers

1.2. Section 206 of the Act provides that: "*If the appropriate regulator considers that an authorised person has contravened a relevant requirement imposed on the person, it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate*."

1.3. SCB is an authorised person for the purposes of section 206 of the Act. Relevant requirements imposed on authorised persons include rules made under the PRA Rulebook, including the PRA's Fundamental Rules.

2. RELEVANT REGULATORY PROVISIONS

PRA's Fundamental Rules

2.1. Fundamental Rule 6: A firm must organise and control its affairs responsibly and effectively.

2.2. Fundamental Rule 7: A firm must deal with its regulators in an open and co-operative way, and must disclose to the PRA appropriately anything relating to the firm of which the PRA would reasonably expect notice.

3. RELEVANT POLICY

Approach to the supervision of banks

3.1. *The Prudential Regulation Authority's approach to banking supervision, April 2013* (as updated in October 2018) sets out the PRA's approach to banking supervision.

Approach to enforcement

3.2. *The Prudential Regulation Authority's approach to enforcement: statutory statements of policy and procedure, April 2013* (as updated in September 2021) sets out the PRA's approach to exercising its main enforcement powers under the Act.

3.3. In particular, the PRA's approach to the imposition of penalties is outlined at Annex 2 - *Statement of the PRA's policy on the imposition and amount of financial penalties under the Act*; and the PRA's approach to settlement is outlined at Annex 4 - *Statement of the PRA's settlement decision-making procedure and policy for the determination of the amount of penalties and the period of suspensions or restrictions in settled cases*.