Ring-fencing: what is it and how will it affect banks and their customers?

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- The largest UK banks are required by UK law to separate core retail banking services from their investment and international banking activities by 1 January 2019. This is known as ring-fencing.
- The aim of ring-fencing is to protect the core retail banking services on which customers rely from risks associated with activities outside the ring-fence.
- Ring-fencing is intended to improve the resilience of the largest UK banks. It also seeks to ensure that if a large bank was to fail, there would be minimal disruption to banking services used by individuals and small businesses in the United Kingdom.
- To implement ring-fencing, banks will need to significantly restructure their activities during 2017 and 2018, with implications for their customers, counterparties and suppliers.

Overview

The global financial crisis revealed the need for fundamental changes to how banks are run. In response, the Government developed legislation to require UK banks to separate within their groups the provision of core retail services from other activities such as investment and international banking. These requirements are known as ring-fencing. The aim is to protect UK retail banking from shocks originating elsewhere in the group and in global financial markets. Ring-fencing — also referred to as 'structural reform' — is a key part of the Government's package of banking reforms designed to increase the stability of the UK financial system and prevent the costs of banks failing falling on taxpayers.

Today, many banking groups provide a mix of services, for example, taking deposits from households and small businesses, mortgage lending, payments processing, corporate lending and trading in financial markets. The risks associated with these activities are very different, but often they are provided alongside each other within a banking group.

One implication of this is that problems in one type of activity can disrupt a bank's ability to provide services in other areas. Ring-fencing will result in the separation of core banking services — taking deposits, making payments and providing overdrafts for UK retail customers and small businesses — from other activities that banks undertake. This will help protect core services from problems which may arise elsewhere within a banking group. Banks which have been separated from the rest of their groups in this way are known as ring-fenced bodies.

Ring-fencing requirements will apply to banks with more than £25 billion of retail deposits from 2019. Large UK banking groups must ensure that the structure of their businesses is consistent with ring-fencing requirements. This means that most will need to adopt new legal structures and ways of operating, through large and complex restructuring programmes in 2017 and 2018. These changes will also affect some of the banks' customers, counterparties and suppliers. For example, the sort codes of some customers will change.

The legislation requires the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) to develop rules to set out how banks should implement ring-fencing. The majority of these rules have now been finalised.

The implementation of ring-fencing is being closely managed by the banks, and monitored by the PRA and the FCA.

Introduction

Ring-fencing will result in fundamental changes to the United Kingdom's large banking groups, with the aim of improving financial stability. It is a key part of the Government's package of banking reforms, developed in response to the global financial crisis. It also contributes to broader work on solving the problem of banks being 'too big to fail' by making banks safer and reducing the impact for UK taxpayers and the economy if a large bank was to fail in the future.

The Government has decided that banks with more than £25 billion of core retail deposits should be ring-fenced.(1) Banks in scope of the reform will need to make significant changes to their organisational and operational structures in 2017 and 2018 to comply with the new regime, which comes into force on 1 January 2019.(2) Once implemented, around 75% of UK retail deposits will be held within banking groups subject to ring-fencing.(3) As required by the legislation, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) have also developed new rules for implementing ring-fencing.

Large banks typically provide a wide range of banking services. Some are domestic retail banking functions on which individuals and small businesses depend — such as payments processing and mortgage lending. But banking groups can operate globally or take risks that are unrelated to their retail operations, through activities like investment banking.

The aim of ring-fencing is to protect the provision of retail banking functions used by UK customers by separating — or 'ring-fencing' — them from other activities to be conducted outside the ring-fence. The ring-fenced bodies (RFBs) which provide such core services for customers — defined in the legislation as making and receiving payments, deposit-taking and providing overdrafts — will be subject to requirements which should make them less likely to fail. But this does not mean the intention is to create a 'zero-failure' regime for RFBs. If, in the future, an RFB was to get into difficulty, ring-fencing is designed to support measures to ensure that its customers would still be able to receive core services.

Banks typically operate as a group of separate, but related, legal entities (a 'banking group'). This is because banks may choose, or be required by regulation, to establish a separate legal entity to provide a particular financial service or to operate in a particular country. Having a number of legal entities may also be the result of mergers or acquisitions, where a business was bought by the group and its separate legal entity status was maintained.

One of the key requirements of ring-fencing is that the legal entity within a banking group that provides core retail activities cannot also provide other activities such as investment and international banking. Such activities are referred to as 'prohibited' or 'excluded' activities. A bank in the scope of the reform that undertakes these activities will either need to stop doing so, divest them to a third party, or place them within separate legal entities outside the ring-fence in its banking group. When banks choose to do the latter, the legislation requires that there is sufficient separation between that entity and the RFB. In particular, any financial, management or operational relationship between an RFB and other members of its group cannot pose a threat to the RFB's provision of core retail services.

Ring-fencing requires adequate separation between RFBs and entities which undertake prohibited or excluded activities. But ring-fencing does not prevent RFBs being owned by a parent company that also owns a bank that undertakes prohibited or excluded activities; such entities can sit within the same banking group as an RFB so long as this is consistent with the objectives of ring-fencing.

Ring-fencing will result in a significant restructuring of the UK banking system. To conform with ring-fencing requirements, some banks will need to undertake very large and complicated programmes of work of a type and scale not attempted before. The changes that banks will need to make will also affect their customers, counterparties and suppliers. Some may find they will need to deal with a different part of the bank as a result of ring-fencing, and the nature of their relationship may also change as the bank ensures the services it provides from different parts of the group are consistent with ring-fencing requirements. This may involve changes to customers' terms and conditions, or amendments to contracts with suppliers and counterparties. Other key groups, such as bank employees or bank pensioners, may also be affected but the implications for these groups are not included in the scope of this article.

Background to ring-fencing

Assessing the need for banking reform

The global financial crisis led to the run on Northern Rock in September 2007, the collapse of Lehman Brothers in September 2008 and the UK Government's support packages for Lloyds Banking Group after its acquisition of HBOS, and the Royal Bank of Scotland, in October 2008. As part of its response to the crisis, the Government established the Independent Commission on Banking (ICB), led by Sir John Vickers, to recommend banking reforms to promote financial stability and competition in the United Kingdom.

(1) The Government argued that applying ring-fencing to smaller banks may result in disproportionate costs and hinder competition. See HM Treasury/Department for Business, Innovation and Skills (2012), *Banking reform: delivering stability and supporting a sustainable economy*, June.
(2) See Financial Services (Banking Reform) Act 2013, www.legislation.gov.uk/ukpga/2013/33/contents/enacted. In October 2016, the Deputy Governor for Prudential Regulation and Chief Executive of the PRA reiterated that the PRA will continue to implement ring-fencing in accordance with the legislative requirements and timetable set out by the Government. See Woods (2016).
(3) Building societies are not subject to ring-fencing, but are subject to certain activity restrictions under the Building Societies Act 1986.

In its 2011 report, the ICB proposed a package of measures designed to make banks better able to absorb losses, make it easier and less costly to repair banks that face difficulties, and curb incentives for banks to take excessive risks. In particular, the ICB recommended greater levels of capital and other resources to absorb losses that banks may face, as well as the ring-fencing of UK retail banks.(1)

The ICB argued that if Lloyds and RBS had been ring-fenced prior to the crisis, it may have reduced the need for government support during the crisis. For example, most of RBS's losses arose in its global markets activities; a ring-fence would have reduced the likelihood that those losses would affect the bank's retail operations. The ICB also argued that ring-fencing would have provided the Government with alternative options to having to make a capital injection to ensure banks were able to continue to provide banking services. These may have included, for example, isolating the RFB for sale or temporary public ownership, while winding down the rest of the group.

Aside from ring-fencing, there are other initiatives to implement structural reforms for banks. In the United States, the Volcker rule prohibits banks from engaging in proprietary trading (trading in financial instruments on their own behalf), and in the European Union, the European Commission has proposed prohibiting the largest retail banks from undertaking proprietary trading as well as conferring new powers on bank supervisors to require further activity restrictions.

Legislating for banking reform

The Government concluded that ring-fencing would result in a significant net benefit to the UK economy and accepted the majority of the ICB proposals.(2) These were implemented though the Financial Services (Banking Reform) Act 2013 ('the Act'), which has the following key features:

- The specification of the 'core activities' which banks must place into RFBs — ie the accepting of deposits by UK banks from retail and small business customers in the United Kingdom or elsewhere in the European Economic Area (EEA).(3)
- The requirement that RFBs do not 'deal in investments as principal', that is, they do not buy or sell financial assets on the bank's own behalf, ie undertake proprietary trading.
- The amendment of the objectives of the PRA and FCA to reflect the aims of ring-fencing, and a requirement that the PRA and FCA make rules to ensure banks implement ring-fencing in accordance with the principles of the legislation. The box on page 167 describes the PRA's ring-fencing objectives.
- Powers for the PRA to require further restructuring of banking groups if they fail to deliver the essential elements of ring-fencing (known as the ring-fence 'electrification' powers). The PRA can exercise these powers only after consulting the FCA and with the consent of the Treasury, and the PRA's decision can be challenged in a judicial tribunal.
- A requirement that the PRA report annually to Parliament on the extent to which RFBs use the exceptions specified in the legislation to the ring-fencing requirements, and to review two years after the implementation of ring-fencing whether there is a case for further restrictions on proprietary trading. Additional reviews by independent experts of the ring-fencing legislation and proprietary trading are also required.

The Act was supplemented by two pieces of secondary legislation in 2014. The first sets out that banks with more than £25 billion of 'core deposits' (mainly those from retail and small business customers) will be required to implement ring-fencing.(4)

The second sets out more detail on the restrictions imposed on the business of RFBs.(5) It defines activities which RFBs cannot undertake in addition to 'dealing in investments as principal'. It also lists the types of exposures the RFBs cannot have. A number of exceptions to these restrictions are also specified. These restrictions are designed to ensure RFBs are not exposed to risks from investment or international banking.

How will banks be structured after implementing ring-fencing?

As described above, the legislation specifies the core retail activities that must be provided within RFBs. It also specifies which activities must not sit within RFBs, and must instead be provided by separate legal entities. This article uses the term 'investment bank' as shorthand for entities carrying on activities that the RFB cannot do, although in practice these entities may not always undertake all of the sorts of activities typically associated with the term 'investment bank'. Similarly, by 'international banking' we mean activities undertaken in non-EEA entities.

Beyond these legislative requirements on the activities that must or must not be undertaken in the RFB or the investment bank, there is a degree of flexibility for banking groups when deciding how to restructure. For example, the Act does not mandate what sort of entity may carry out activities such as mortgage lending or taking deposits from large corporates. Some banking groups will place such activities in their RFBs, alongside their retail deposit-taking operations, but others may not. Examples of the activities which are mandated, prohibited or permitted to be placed in the RFB are listed in **Figure 1**.

(1) ICB (2011).
(2) See HM Treasury/Department for Business, Innovation and Skills (2012).
(3) The legislation makes no distinction between UK and other EEA banking services, consistent with requirements under EU law.
(4) The Financial Services and Markets Act 2000 (Ring-fenced Bodies and Core Activities) Order 2014.
(5) The Financial Services and Markets Act 2000 (Excluded Activities and Prohibitions) Order 2014.

The PRA's ring-fencing objectives(1)

The general objective of the PRA is to promote the safety and soundness of the firms it regulates. It does this primarily by seeking to:

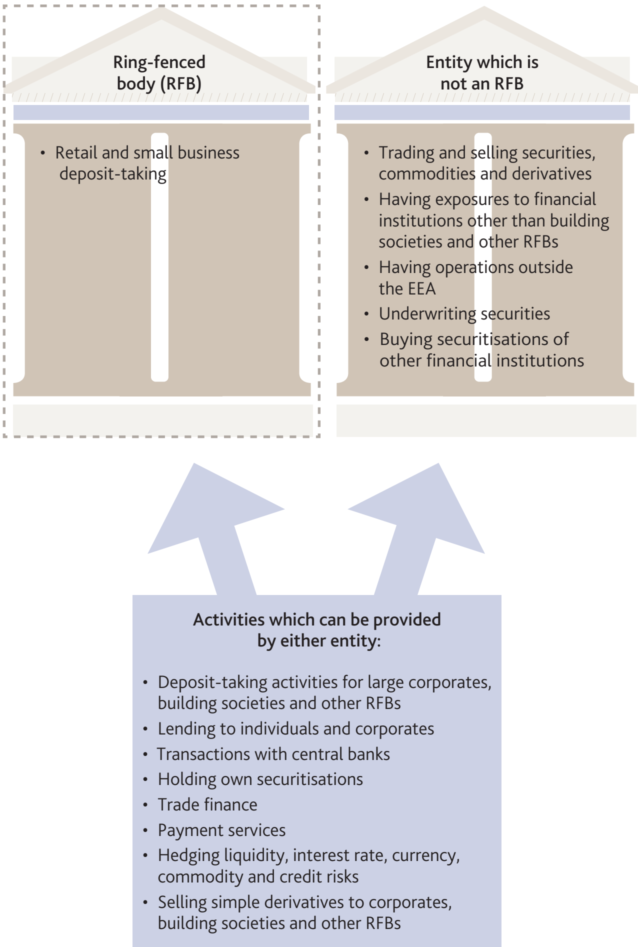
(a) ensure that the business of PRA-authorised firms is carried on in a way which avoids any adverse effect on the stability of the UK financial system; and
(b) minimise the adverse effect that the failure of a PRA-authorised firm could be expected to have on the stability of the UK financial system.

The ring-fencing legislation requires the PRA also to discharge its general functions in a way that seeks to:

i. ensure that the business of RFBs is carried on in a way that avoids any adverse effect on the continuity of the provision in the United Kingdom of core services;
ii. ensure that the business of RFBs is protected from risks (arising in the United Kingdom or elsewhere) that could adversely affect the continuity of the provision in the United Kingdom of core services; and
iii. minimise the risk that the failure of a ring-fenced body or of a member of an RFB's group could affect the continuity of the provision in the United Kingdom of core services.

(1) See Financial Services and Markets Act 2000; www.legislation.gov.uk/ukpga/2000/8/contents and Financial Services (Banking Reform) Act 2013; www.legislation.gov.uk/ukpga/2013/33/contents/enacted.

Figure 1 Activities within groups that contain an RFB



As a result, banks are able to take different approaches to the restructuring of their businesses. Some groups are creating RFBs which are focused on the provision of retail services to individuals and small businesses. Other groups have created much broader ring-fenced businesses, which include a larger set of permitted activities. Each of these choices is compatible with the objectives of ring-fencing and reflects the strategies and business models of different banking groups.

The development of the ring-fencing rules

The legislation requires the PRA to make rules with which RFBs will need to comply in order to meet the ring-fencing principles set out by the Government. These rules must deliver several outcomes, which can broadly be thought of as ensuring that RFBs are sufficiently financially, operationally and organisationally separate from other entities in their banking groups (see the box on page 168 for more detail). This aims to ensure that RFBs are insulated from risks arising elsewhere in their banking groups. The PRA's rules seek to achieve this in two main ways.

First, the extent of the relationships between the RFB and other members of its banking group will be limited. This means, for example, that the RFB should not be financially dependent on other group members, and that it has a governance and management structure which is able to make decisions in the interests of the RFB and independently of the rest of the group. This reduces the likelihood of contagion from other group entities.

Second, the RFB should be sufficiently capitalised and have enough liquidity so that it is able to withstand financial stress, including from other parts of the group. This means the RFB should be better able to withstand such risks, and would not need to rely on other group members for financial support.

In developing its rules, the PRA's approach has been to ensure RFBs will operate in a way which is consistent with the legislative requirements, but without being overly prescriptive about how banks meet those outcomes given the differences in the structure and activities of the firms in scope. For example, the PRA requires that an RFB manages any exposures that it is has to other members of its group to the same standards it applies to the management of its exposures to third parties. But the PRA has not sought to define precisely how banks go about meeting this requirement; instead banks

The group ring-fencing purposes

The PRA is required to make rules to ensure the continuity of the RFB's core activities, and to achieve sufficient separation of the RFB from the rest of its group.(1)

What constitutes sufficient separation is set out by the legislation, which requires the PRA to seek to:

(a) reduce the potential for risks which originate elsewhere in a banking group to affect an RFB;

(b) ensure RFBs are able to take decisions independently of the rest of their banking groups;

(c) reduce an RFB's dependency on financial or other resources provided to it from other members of the banking group; and

(d) ensure RFBs are able to carry on their business even if other group members fail.

(1) See Financial Services (Banking Reform) Act 2013.

are expected to devise their own approach that will satisfy the outcome specified in the PRA's policy. This approach recognises the diversity of the banks subject to the reform and enables PRA supervisors to implement ring-fencing in a proportionate manner. The PRA has a power to waive rules for a firm where the application of the rule would be unduly burdensome or would not meet the purpose of the rule, but only if doing so would be consistent with the PRA's objectives.(1)

The ring-fencing rules have also been developed to be consistent with other elements of the post-crisis regulatory reform agenda. In particular, the rules have been designed to support measures to ensure RFBs have a recovery plan and are resolvable, ie that public authorities will be able to intervene to ensure the failure of a firm is orderly.(2) The rules are also consistent with delivering safer banks through the application of higher capital requirements in the form of the systemic risk buffer and the PRA's Senior Managers Regime.(3)

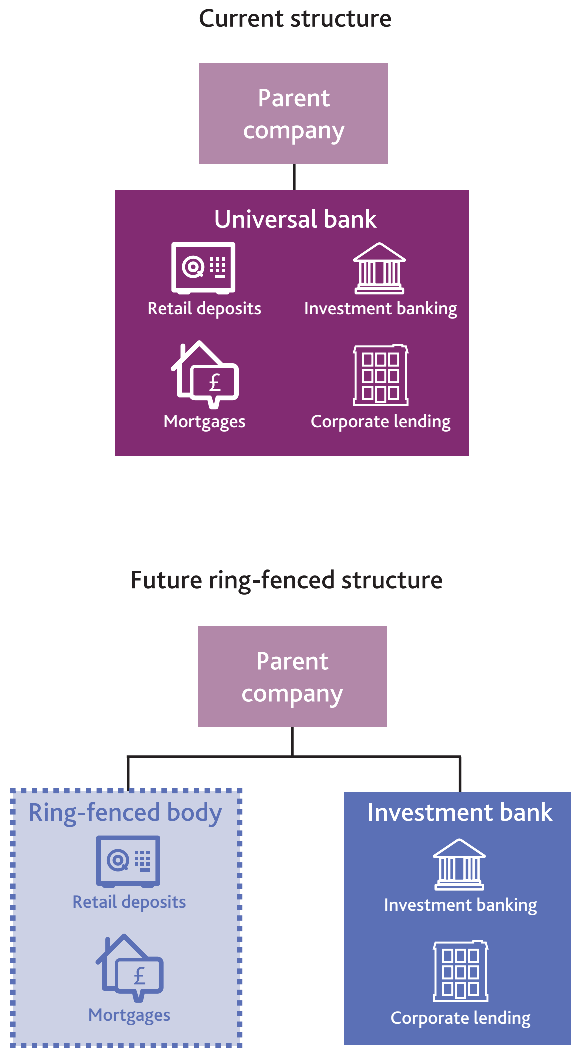
A wide-ranging set of policies has been developed by the PRA to implement ring-fencing. Where possible, these build on existing frameworks and approaches for bank regulation. The PRA undertook extensive consultation in developing its proposed policy. The majority of the PRA's rules are now finalised, giving the banks certainty over how they need to restructure their organisations.(4) Key examples of these policies are set out in the box on page 169.

How will ring-fencing be delivered?

Ring-fencing requires significant work for most of the banks in scope of the reform. Most of these banks currently undertake a mix of retail, international and investment banking activities. These activities are often spread across a number of legal entities in the banking group, and a legal entity may undertake a range of very different activities. Ring-fencing will mean that banking groups need to ensure that RFBs undertake only those activities which the legislation permits.

Figure 2 illustrates some of the changes which may need to be made to a banking group's ownership structure, and to where activities may sit within that ownership structure. It shows how a 'universal' bank providing a range of activities will need

Figure 2 Moving to a ring-fenced structure



(1) For further discussion, in particular in respect of the PRA's rules on governance arrangements for RFBs, see the speech by Andrew Bailey, 'Progress on prudential regulation and three areas to complete', October 2015; www.bankofengland.co.uk/publications/Documents/speeches/2015/speech854.pdf.
(2) See Sellar and Adeleye (2016).
(3) Government legislation applies higher capital requirements in the form of the systemic risk buffer to RFBs (as well as large building societies). This recognises that these institutions are systemically important to the domestic financial system. The Senior Managers Regime allocates responsibilities to key decision-makers and strengthens the PRA's enforcement powers over these individuals.
(4) See Bank of England (2016a).

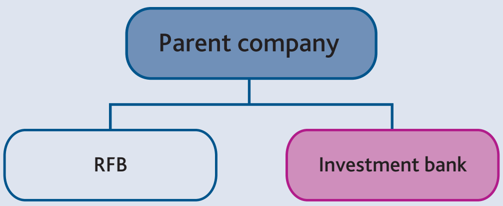
Summary of PRA ring-fencing policy(1)

This box summarises some of the key areas of the PRA's ring-fencing policy. The PRA will expect the banks to satisfy these requirements as they implement their ring-fences. These policies will be applied in a proportionate way; for example, a PRA rule may be modified or waived where this is consistent with PRA objectives.

Structure of banking groups

- The PRA's expectation is that RFBs do not own investment banks. This helps insulate the RFB from risks arising in international and wholesale financial markets.
- The PRA also expects that RFBs are not owned by investment banks. This supports the RFB's ability to make decisions independently.
- Instead, if a banking group includes both an RFB and an investment bank, these should be 'siblings' in the group's structure (**Figure A**).
- The RFB will need to meet regulatory capital and liquidity requirements on its own, in addition to requirements that will also need to be met at group level.
- The RFB's transactions with other group members must be on arm's length and third-party terms.

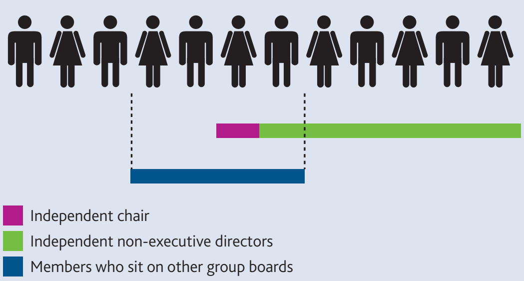
Figure A Simplified legal entity structure



Independent governance

- The RFB's Board must be able to take decisions independently of the rest of its group. For example, requirements include that the majority of the RFB Board must be independent non-executive directors, including the Chair. No more than a third of the RFB Board may sit on the Boards of other group entities (**Figure B**). This will help ensure that the RFB Board is able to make independent judgements in the interests of the RFB. There are a range of other requirements relating to the governance, systems and controls of an RFB to support this outcome.

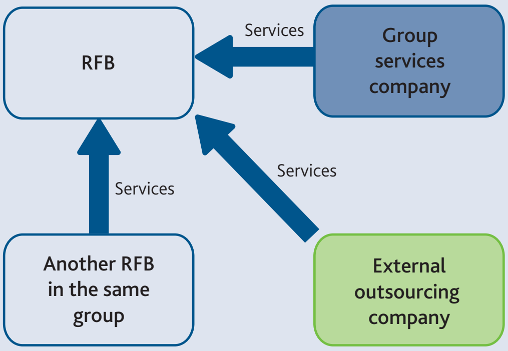
Figure B RFB independent governance



Operational continuity

- RFBs can outsource services, for example those supporting IT processing or treasury 'back office' functions, to other RFBs or designated services companies within the RFB's wider banking group, but not to entities such as investment banks. RFBs are able to outsource to approved suppliers outside the group too (**Figure C**).(2)
- This ensures that an RFB is not dependent on an investment bank to provide services which may threaten the continuity of its operations if the investment bank experiences financial stress or operational disruption.

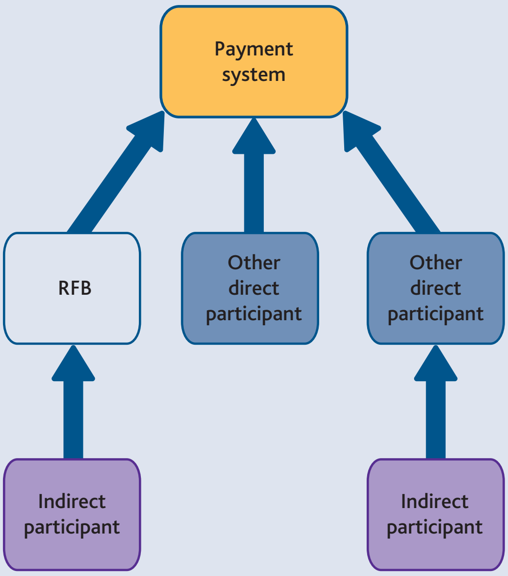
Figure C Possible providers of services to an RFB



Payments schemes participation

RFBs are required to be direct participants in the main payment systems they use, where possible, rather than using another bank to provide them access (indirect participation). This ensures RFBs are not dependent on other entities to continue providing core payment services (**Figure D**).

Figure D Access to payment systems



(1) The diagrams in this box are indicative and for illustrative purposes only; real bank group structures and arrangements may not resemble these simplified examples.
(2) RFBs will also need to meet general PRA requirements on operational continuity, including that functions which require senior management judgement, or decision-making that could affect the soundness or risk appetite of the firm, should not be outsourced. See Bank of England (2016b).

to be separated into an RFB and (at least) one other entity. These should sit as sibling entities in the ownership structure, as described in the box on page 169. The banking group will also need to ensure that activities undertaken by its various legal entities are located across the group in a way that is consistent with the requirements in the legislation.

The reorganisation of these activities will involve a complex set of changes to be made by the banks in scope of the reform. The extent of change will reflect the range of activities currently undertaken by a banking group, and how the group is currently structured. Banks' customers, counterparties and suppliers may also be affected. The changes associated with ring-fencing are being closely managed by the banks, and monitored by the PRA and the FCA.

Below we highlight some of the main changes that a bank may need to take.

Step 1: setting up the new ring-fenced body

- Banking groups may need to redesign their legal entity structures. This is an extensive exercise given the size and complexity of these groups. Some groups will seek to create new UK banking entities (requiring new banking licences), either to be their RFBs or to undertake activities that RFBs cannot. These newly formed or reconfigured entities would need to be able to satisfy capital, liquidity and other regulatory requirements.

- Banking groups need to review the way they govern their businesses to ensure that RFBs are able to manage themselves independently of the rest of their banking group. This may require them to set up new boards and management committees and appoint new individuals to perform separate roles for the RFB and other members of the group. Reporting lines may need to be amended or replaced to ensure that the RFB retains the ability to take decisions independently and satisfies Senior Managers Regime requirements.

- Banking groups will need to review how their new RFB interacts with the rest of the group to ensure it has an adequate degree of financial independence. Any relationships between the RFB and other group members, such as providing business services like IT or operational support, or entering into financial transactions, will need to be re-examined to ensure that they comply with ring-fencing requirements. Banking groups may face significant work just to map out which services are currently provided to and from different entities in the group — even before they start updating their many contracts.

- Banking groups will need to change their internal systems to ensure they can operate under their new structures. For example, IT systems may need to be redesigned so that the RFB is not reliant on technology provided by an investment bank in the group. Changes to such systems are often very complex and will require extensive planning to reduce the risk that customers experience any disruption when systems changes are implemented.

- RFBs may also need to make changes to the way they connect to payment systems, in order to meet the requirements described in the box on page 169. Payment systems are essential in supporting economic activity, and banks play a key role in enabling their customers to make and receive payments. The banks will need to ensure payments are made and received as expected when they implement their ring-fences.

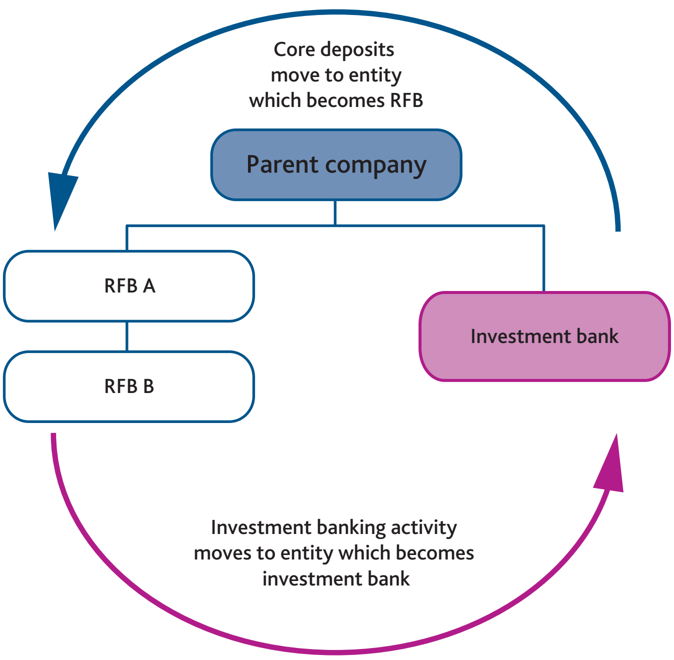
- Some groups are choosing to reconsider how they brand their businesses — such as renaming and rebranding their banking entities to align better with their new structures and strategies. Other banking groups will have only one brand, but will need to make clear to customers whether the entity they deal with is ring-fenced or not.

Step 2: moving activities into the new structure

Once the structure of the new banking group has been established, groups may need to move assets (such as loans) and liabilities (such as deposits) between different legal entities — to put the flesh on the bones of their skeleton structures.

For some banking groups, this will mean moving activities like retail deposit-taking into entities that will become RFBs. For others, this will mean moving activities like investment banking out of entities that will become RFBs. For some, it may mean a mix of both (**Figure 3**).

Figure 3 Reorganising banking activities into the ring-fenced structure



Most of these assets and liabilities will be transferred through a 'ring-fencing transfer scheme' (RFTS). This is a process the Government has created through which banks can apply to the court to transfer business between different legal entities. The application is supported by a detailed report by a 'skilled person', an expert who acts on behalf of the court and who is independent of the bank and the regulators. The skilled person assesses whether different groups, such as the bank's customers and counterparties, would be affected adversely by the transfers, and whether the effects are no more adverse than reasonably necessary to restructure the banking group in order to implement ring-fencing.(1)

These transfers are likely to complete during 2018. **Figure 4** shows an illustrative timeline showing when some of the steps could be taken by the banks.

Ring-fencing means that banks will need to ensure that different types of customers sit within different legal entities in their banking groups. For example, some banks' ring-fencing plans involve moving customers which are large companies or financial institutions out of what will become an RFB. Other banks plan to move retail and small business customers into a new RFB.

While most bank customers will experience little disruption as ring-fencing is implemented, some may notice changes associated with the transfer of banking services between different legal entities within the same banking group. As a result, some customers will experience changes to their account details, and in particular the sort codes which are used to ensure payments are routed to the right destination.

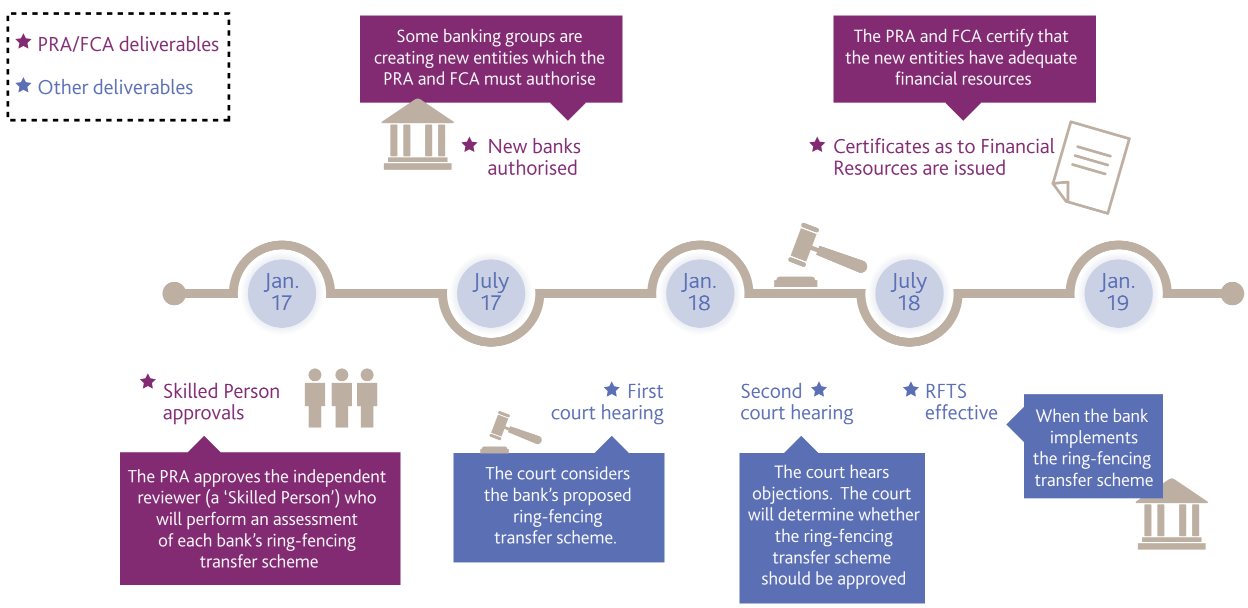
When customers are moved between legal entities, the bank will need to decide whether the old sort code will follow the customers being moved, or stay with the customers which remain. Those account holders who do not keep the old sort code will be allocated a new one. Because sort codes have to be linked to a single legal entity, it is not possible that account holders in an RFB can share the same sort code as an account holder outside of the RFB.

For most account holders, there will be no need to change sort codes, and the banks are working to minimise the impact for those who do need to be allocated a new sort code. In particular, existing systems will be used to ensure payments made referencing an old sort code are redirected to the right recipient. The PRA and FCA are monitoring the progress of the banks as they implement sort code changes. The FCA is focused, in particular, on risks to its consumer protection objectives. The PRA will consider the implications for its ring-fencing objectives related to the continuity of core services.

The Bank of England also needs to make changes to its systems and processes to accommodate ring-fencing. The Bank needs to be able to continue to transact with banks after they have restructured so that it can implement monetary policy and provide liquidity effectively where necessary. The Bank will also work with the banks to ensure they can continue to access payment systems that use Bank infrastructure. In addition, the Bank will also need to ensure the issuance of banknotes by banks in the scope of ring-fencing is not affected by banks' restructuring.

(1) See Bank of England (2016c) and FCA (2016).

Figure 4 Illustrative timeline of ring-fencing implementation changes



Conclusion

The ring-fencing of the core retail activities of the United Kingdom's largest banking groups represents an important part of the response to the financial crisis and meeting the objectives of ending 'too big to fail' and preventing the costs of bank failures falling on taxpayers. Ring-fencing aims to ensure that banks providing services on which individuals and small businesses depend will be less likely to fail, and — if they do so — the impact of their failure on the UK financial system will be lower.

The implementation of ring-fencing will bring about a significant restructuring of the UK banking system and will involve a large degree of change for the banks. It will also affect some of the banks' customers, counterparties and suppliers. The banks are working to ensure this change is managed as smoothly as possible. The PRA and FCA are closely monitoring the banks' plans.

Looking forward, following the implementation of ring-fencing in 2019, the PRA will have an ongoing role to play in supervising the new ring-fenced bank structures, as well as in reviewing and reporting on firms' compliance with the ring-fencing regime. Through these activities the PRA will seek to meet its ring-fencing objectives and support the stability of the UK financial system by ensuring the continuous provision of key retail banking services. The FCA will continue to assess how ring-fencing will affect its objectives for consumer protection, market integrity and competition.

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