



News release

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Good cop/Bad cop – Speech by Sam Woods

At the Mansion House City Banquet, Sam Woods, the Deputy Governor for Prudential Regulation and the Chief Executive of the Prudential Regulation Authority, describes the two different roles the regulator often finds itself playing, good cop and bad cop.

On issues of common ground where there are shared challenges that the regulator and the firms collectively face, there is no inherent conflict between the public and private interest and the regulator plays the role of good cop. Other areas are ‘battlegrounds’ where there is a degree of tension between the PRA’s interests and those of firms, and the PRA has the role of bad cop. Sam sets out what firms should expect to see from the PRA across both of these areas, now that most of the post-crisis reforms have been completed.

Sam explains that two areas where the regulator plays good cop are operational resilience and Brexit. In the case of operational resilience, Sam highlights that the regulatory framework is “thoroughly under-developed” when compared to that of financial resilience, not only in the UK but also internationally. He welcomes the debate taking place following the publication of the operational resilience discussion paper (issued jointly by the Bank, PRA and FCA) and adds that operational resilience matters more now than ever with the emergence of cyber-attacks and customers accessing firms digitally. However, the PRA’s particular interest is where a lack of operational resilience could have an impact on the safety and soundness of firms and/or UK financial stability.

On Brexit, Sam reiterates the message that firms should be working on their contingency plans. He encourages incoming EU27 firms to opt into the Temporary Permissions Regime (TPR) whilst they continue to seek authorisation to continue business in the UK. Sam says this acts to provide certainty until March 2022 and is a “straight-forward, common sense way of lowering the risk of disruption to the City of London”. Sam also urges EU27 colleagues to reciprocate the steps we’ve taken to make sure those insurance and derivative contracts written before Brexit can still be appropriately cleared and serviced after it. In addition, as part of wider contingency planning, Sam makes it clear that “we all need to be ready for a range of outcomes” and so supervisors have been working with firms to ensure that they have in place sufficient liquidity in the event “things go badly”.

Sam highlights a number of areas where the PRA’s incentives and those of firms are not always aligned. One of these relates to internal models, which Sam expects to come under more scrutiny. On internal

models for banking, Sam notes that risk-weights have fallen substantially over the last two decades and that where reductions are caused by model design or calibration changes, firms should expect to have to provide compelling evidence that there has been a reduction in actual risk.

Sam says that ring-fencing has been a “truly massive operation” with “over £800bn of assets moved and over 1.3 million sort code changes”. However, he points out that now the fence is up, it needs to do its job. He emphasises the importance of the ring-fenced entities managing conflicts of interest and retaining independence. To police this “a border patrol of PRA staff” will be set up. They will not only set capital and liquidity requirements but will also ensure compliance with ring-fencing rules.

On the Senior Managers Regime, Sam recognises the efforts that have gone into implementing the regime since its introduction in 2016. However, now that it is in place, he says that firms will be expected to specify which senior manager is “on the hook” to deliver key supervisory priorities, and how their pay will be affected by how well they deliver.

Sam concludes by saying that a certain amount of conflict between firms and the regulator is to be expected as the post-crisis reforms are completed, but that where there is a shared interest in addressing common challenges, the PRA and firms will succeed by working together to mitigate them.

ENDS

Notes to Editors

1. Link to Sam’s [speech](#)
2. [Discussion paper 01/18](#): “Building the UK financial sector’s operational resilience”
3. [Temporary permissions and recognition regimes](#) 24 July 2018