

THE PRC AND THE BANK'S LIQUIDITY INSURANCE OPERATIONS: FRAMEWORK FOR ENGAGEMENT

This paper sets out a framework for engagement between the Bank's Markets and Banking, Payments & Innovation (BPI) Directorates (in practice through the Deputy Governor, Markets & Banking; the Executive Director, Markets; and the Executive Director, BPI, and their staff) and the Prudential Regulation Committee (PRC) with regard to the Bank's Sterling Monetary Framework (SMF) and in particular to those operations providing liquidity insurance to PRA-authorized firms. The framework was agreed by the Bank's Markets and BPI Directorates and the PRC on 15 January 2019. The owner of the framework is the Deputy Governor, Markets & Banking, and it will be reviewed at least every three years.

The Prudential Regulation Authority (PRA) has a general objective to promote the safety and soundness of PRA-authorized firms, and a secondary objective to facilitate effective competition. In advancing its general objective, the PRA must ensure that the business of the firms it regulates is carried on in a way that avoids any adverse effect on the stability of the UK financial system.

Because the design and operation of the Bank's liquidity insurance facilities may affect the safety and soundness of PRA-authorized firms, as well as the stability of the UK financial system, the PRC has an interest in the scope of those facilities and the principles which underlie their design.

The PRC recognises that the responsibility for the detailed design and delivery of the facilities is vested in the Bank's Executive, which is accountable to the Bank's Court for the use of the Bank's balance sheet.

To foster regular two-way engagement between the PRC and the Bank's Markets and BPI Directorates, the following **high-level principles** have been agreed:

- **Periodic review:** the PRC will be given the opportunity to comment on the design and operation of the Bank's liquidity insurance facilities periodically. The PRC will be asked whether the liquidity insurance facilities remain, in the Committee's view, fit for purpose from a micro-prudential perspective.
- **Consultation:** staff in the Bank's Markets and BPI directorates will notify the PRC if (i) in their view material changes are being proposed or made to liquidity insurance facilities; (ii) evidence emerges that the liquidity insurance frameworks are not working as envisaged; or (iii) the PRC's assistance is needed to enable liquidity insurance facilities to operate effectively.

The Bank's Markets and BPI Directorates are not obliged to consult the PRC on the delivery of liquidity insurance operations to a particular institution, but will work with the PRA to ensure that colleagues – and where necessary the PRC – are informed about matters relating to operations involving individual institutions relevant to the functions of the PRA, bearing in mind the circumstances at the time and confidentiality obligations.

- **Information exchange:** the PRC will be provided with information on the system-wide operation of the Bank's liquidity insurance facilities on a quarterly basis, and staff from the Bank's Markets and BPI directorates stand ready to supplement that information as required in the light of developments. In turn the PRA, through its staff, will ensure that the Bank's Markets and BPI directorates are aware of changes to supervisory policies and standards that are relevant to firms' liquidity needs, or their membership and usage of the SMF.

In addition to these high level principles, existing working practices between the PRA and Markets and BPI Directorates will continue.

The Balance Sheet Forum (BSF), chaired by the Deputy Governor for Markets & Banking of the Bank, will continue to meet quarterly to discuss issues relating to the Bank's balance sheet. The PRA Executive Director, UK Deposit Takers; the Executive Director, Prudential Policy; the Executive Director, BPI; and the Executive Director, Markets are all members of the BSF. The BSF will also confirm annually that this framework remains fit for purpose, and will solicit input from the PRC for this purpose.

The Bank's Markets and BPI Directorates, and the main supervisory and policy areas of the PRA, will continue to co-ordinate their activities via senior- and working-level contacts. To embed this further each area will appoint Scale D-level individuals as principal points of contact, and those individuals will meet frequently to ensure information sharing and mutual understanding of current policy and operational issues, subject to appropriate safeguards to ensure the protection and disclosure of confidential information.

Markets and BPI Directorates and the PRA will offer each other training sessions at least annually, covering how the Bank's liquidity insurance facilities operate and any other useful market information; how liquidity supervision operates; and the use of liquidity insurance facilities firms envisage in their recovery plans.

Bank of England

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