



BANK OF ENGLAND

# News release

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19 May 2011

## **Prudential Regulation Authority: the future approach to banking supervision**

The Bank of England (the Bank) and the Financial Services Authority (FSA) have today published a joint paper The Bank of England, Prudential Regulation Authority - Our approach to banking supervision setting out the current thinking on how the future Prudential Regulation Authority (PRA) will approach the supervision of banks, building societies, credit unions and investment firms<sup>1</sup>.

Hector Sants, FSA chief executive and PRA chief executive designate, said:

"The PRA's purpose is fundamentally different from that of previous regulatory regimes and will lead to a significantly different model of supervision to that which was in use pre-2007. In designing this new model we have incorporated both the lessons learned from the last financial crisis and those from firm failures of the past.

"The new regulatory model will be based on forward looking judgements and will be underpinned by the fact that the PRA has a single objective to promote the stability of the UK financial system and in consequence will be a very focused organisation. The new supervisory approach will build on the more intensive approach adopted by the FSA since the crisis."

Andrew Bailey, FSA director of UK banks and building societies and PRA deputy chief executive designate, said:

"Maintaining financial stability is an objective in public policy which we should all value highly. We have seen what happens when we lose it. But achieving and maintaining financial stability does not mean that we have an industry in which no-one can fail.

"In order to deliver its objective of stability of the financial system, the PRA will use a new framework to assess risks to financial stability. This document sets out our thinking so far and aims to foster debate about the design of the PRA."

The paper will be presented and discussed at a conference in London today for CEOs and senior managers of firms that will come under the PRA's supervisory control.

Today's paper outlines:

- the principles underlying the PRA's approach;
- the scope of the PRA;
- the PRA's risk assessment framework;
- the PRA's forward looking, judgement-led approach to supervision;
- the approach to policy-making that will support the judgement-led model; and
- the approach to authorising firms and approving individuals.

The PRA will be responsible for supervising both insurance companies and deposit-takers. A companion paper will be published in June 2011 to cover the PRA's approach to supervising insurance companies.

#### **Notes to Editors**

1. The PRA will be responsible for the prudential supervision of over 2,000 firms, of which around half will be deposit-takers. On current data, it will regulate 157 UK-incorporated banks (of which over 60% form part of overseas banking groups), 48 UK building societies, 652 UK credit unions and 162 branches of overseas banks, split roughly equally between the European Economic Area (EEA) and elsewhere.

2. The joint BoE and FSA publication can be found on the FSA website and the [BoE website](#).

3. A webcast of the conference can be seen on the FSA website or on the BoE website.

4. In July 2010 the Government issued a consultation document on proposed changes to the UK regulatory framework. On 17 February, the Government published **A new approach to financial regulation: building a stronger system**. This document provided more detail on the Government's proposals to disband the Financial Services Authority and establish a new system of more specialised and focused financial services regulators:

- the creation of an independent Financial Policy Committee (FPC) in the Bank of England;
- the establishment of a new Prudential Regulation Authority (PRA) as a subsidiary of the Bank; and
- the creation of an independent conduct of business regulator, the Financial Conduct Authority (FCA), which was formerly provisionally titled the consumer protection and markets authority.

5. The FSA regulates the financial services industry and has four objectives under the Financial Services and Markets Act 2000: maintaining market confidence; securing the appropriate degree of protection for

consumers; fighting financial crime; and contributing to the protection and enhancement of the stability of the UK financial system (this last objective was enacted in April 2010).

## **Enquiries**

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## **Key Resources**

### **The Bank of England, Prudential Regulation Authority - Our approach to banking supervision**

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### **Speech by Andrew Bailey at The Queen Elizabeth II Conference Centre, London**

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### **Speech by Hector Sants at The Queen Elizabeth II Conference Centre, London**

Financial Services Authority website

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