



BANK OF ENGLAND

News release

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Putting up a fence – ring-fencing speech by James Proudman, Executive Director for UK Deposit Takers Supervision

Speaking at the British Bankers' Association, James Proudman gives industry and other relevant stakeholders an overview of the implementation of ring-fencing. Emphasising the scale and importance of this work, James notes that "ring-fencing is a major infrastructure programme that forms part of a broader strategy of co-ordinated improvements" to the financial sector and that "ring-fencing is seeking to deliver wide-reaching benefits to the public". He highlights that ring-fencing is coming soon, with implementation due by 1 January 2019.

The implementation of the ring-fence is a "major step towards implementing the package of post-crisis reforms" in the United Kingdom. Ring-fencing was a key recommendation from the Independent Commission on Banking (ICB) and was legislated for under the Financial Services (Banking Reform) Act 2013. The details of the regime are set in secondary legislation and through Prudential Regulation Authority (PRA) rules. Work is also being undertaken by the Financial Conduct Authority (FCA), HM Treasury, and other regulators to support those foundations, in line with their own statutory responsibilities.

Starting with the role and purpose of ring-fencing, James says "ring-fencing addresses the problem that arises from universal banks that allow investment and international banking activities to be placed on the same balance sheet as the critical functions of lending, deposit-taking and payment services for retail and small corporate customers. This increases the risks to the provision of those critical functions, and potentially puts tax payers on the hook to save the whole bank, if things go wrong in the investment bank or the global economy."

Turning to the design and the build of the ring-fence, James underscores that "responsibility for implementing the Banking Reform Act – that is, successfully putting up the ring-fence on time - lies fairly and squarely with the banks themselves." To this end, the "Bank of England will require full and prompt implementation of the ring-fencing legislation and requirements by 2019. To achieve this, much work must be completed by the banks within a limited timeframe. While the timelines vary, all banks plan to meet this tight deadline, with the bulk of restructuring activities planned from now to mid-2018."

As with any large infrastructure project, it could “face a high degree of delivery risk that all involved are seeking to monitor and mitigate.” He also notes that “there is some potential for disruption to everyday activities as new group structures are moved into place and new ways of operating are brought on-line” but stresses that the “progress on implementing the ring-fence, and the risks arising from that work, will continue to be managed closely by the banks and monitored by the PRA and the FCA until all the requisite work is complete.”

James highlights two specific kinds of change to look out for as the ring-fence goes up. The first being changes to sort codes. James explains that to avoid customers falling on the “wrong side of the fence...the banks have put in place major programmes to re-allocate accounts to the right side of the fence.” The banks estimate that almost a million retail and corporate customers will see changes to their sort codes. To minimise the disruption these changes could cause to customers, banks will ensure that any outgoing payments, for example standing orders and Direct Debits, are made as normal. Banks and payment schemes will also redirect any incoming payments to the new account details.

The second key change relates to the transfers of business. James explains that some banks will need to move the assets and liabilities of significant numbers of customers from one legal entity into another to comply with the legislation. This will be accomplished by a transfer of business process called a ring-fencing transfer scheme, where a judge will consider the impact of the scheme on customers and others. The Court process is expected to begin in late 2017 and last into 2018.

Acknowledging the risks involved in implementing ring-fencing, James provides reassurance that “the Bank of England is working with banks to ensure they have suitable contingency plans in place to meet ring-fencing requirements by 2019” and adds “the risks associated with introducing these changes, however, are outweighed by the long-run benefits of increasing banks’ resilience and resolvability.”

Once the fence is up, the work will not stop there. The PRA is considering how to supervise banks with ring-fenced structures and whether this will require changes to our current supervisory approach. The PRA will produce an annual report to Parliament publicly setting out the extent to which the banks have complied with the ring-fencing provisions.

Concluding, James says that ring-fencing will “contribute to a safer, more resilient and more resolvable banking system for the future – the completion of the ring-fence in 2019 will have been worthy of the building work taking place.”

ENDS

Notes to Editors

[Link](#) to speech

[Link](#) to PRA Structural Reform webpage