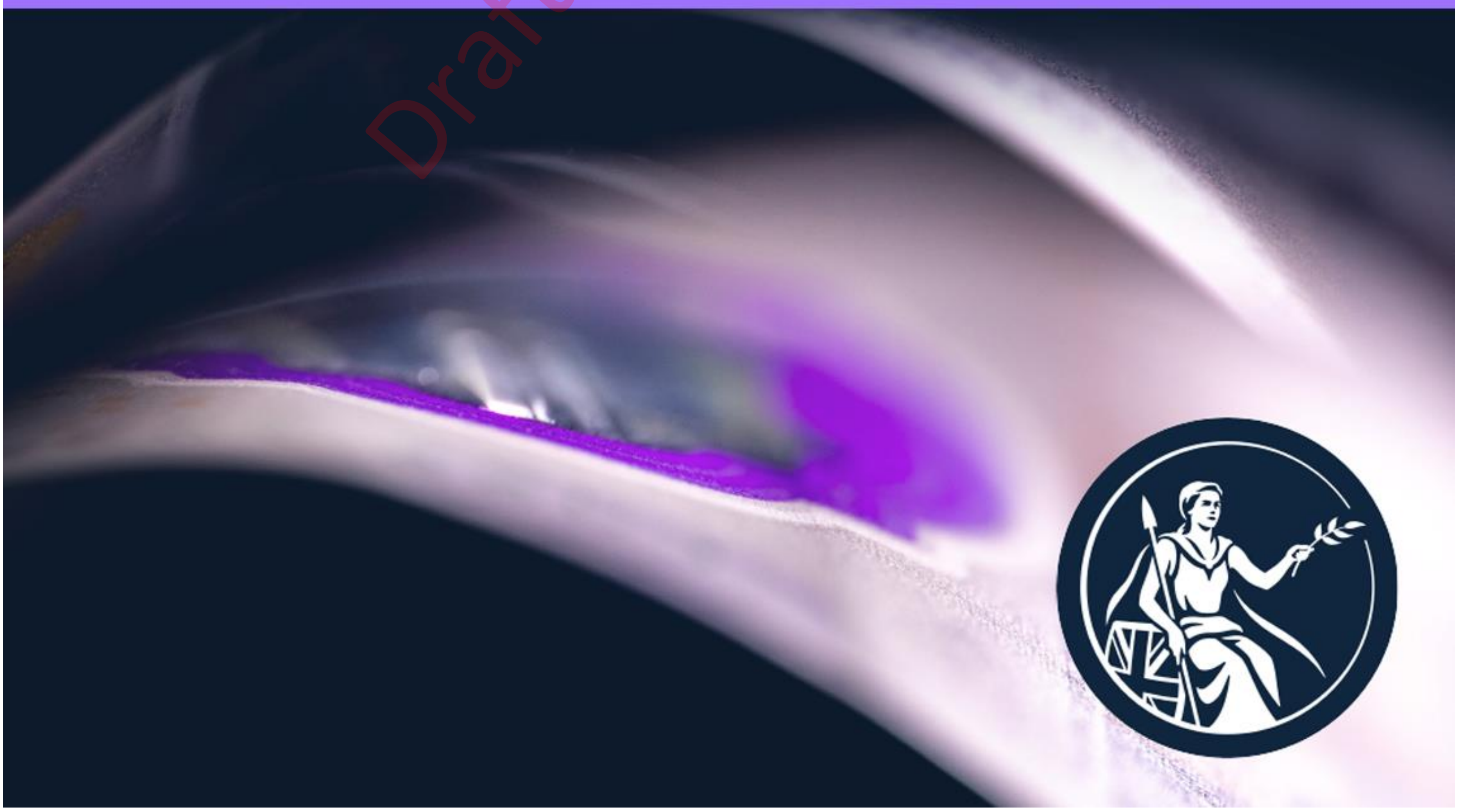
Bank of England PRA

Appendices to CP10/26 – Ring-fenced bodies: Changes to the continuity of provision of services rules

Consultation paper | CP10/26

July 2026



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Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

1: Draft PRA Rulebook: CRR Firms and Non-authorised Persons: Ring-fenced Bodies Instrument [2027]

PRA RULEBOOK: CRR FIRMS AND NON-AUTHORISED PERSONS: RING-FENCED BODIES INSTRUMENT [2027]

Powers exercised

A. The Prudential Regulation Authority ("PRA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137G (The PRA's general rules);
(2) section 137T (General supplementary powers); and
(3) section 192JA (Rules applying to parent undertakings of ring-fenced bodies).

B. The rule-making powers referred to above are specified for the purpose of section 138G (2) (Rule-making instruments) of the Act.

C. The PRA makes the rules in the Annex to this Instrument.

PRA Rulebook: CRR Firms and Non-Authorised Persons: Ring-fenced Bodies Instrument [2027]

Pre-conditions to making

D. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority.

E. The PRA published a draft of the proposed rules in accordance with section 138J(1)(b) of the Act, accompanied by the information listed in section 138J(2). After consulting, the PRA published a draft of proposed rules and had regard to representations made.

F. The PRA makes the rules in the Annex to this instrument.

Commencement

G. This instrument comes into force on [DATE] 2027.

Citation

H. This instrument may be cited as the PRA Rulebook: CRR Firms and Non-authorised Persons: Ring-fenced Bodies Instrument [2027].

By order of the Prudential Regulation Committee

[DATE]

Annex

Amendments to the Ring-fenced Bodies Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

…

1.2 In this Part, the following definitions shall apply:

…

~~*FMI*~~

~~means any of the following: an *interbank payment system*, a *central securities depository* or a *central counterparty*.~~

~~*group services entity*~~

~~in relation to a *ring-fenced body*, means an entity within the same *group* as the *ring-fenced body*, whose only business is to provide services or facilities to any other *person*.~~

…

~~*interbank payment system*~~

~~has the meaning in Article 13(11) of the *Excluded Activities and Prohibitions Order*.~~

…

~~*permitted supplier*~~

~~means a *person* that provides services or facilities to any other *person* and that is:~~

~~(1) a group services entity; or~~
~~(2) a ring-fenced affiliate.~~

…

2 APPLICATION OF RULES WITHIN A SUB-CONSOLIDATION GROUP

2.1 In this Chapter, ~~“~~‘relevant rule’~~”~~ refers to each of the rules in:

(1) 3.5; and

(2) ~~9.1; and~~[deleted]

(3) 11, 12, 13, 14, 15 and 16.

…

9. CONTINUITY OF PROVISION OF SERVICES [DELETED]

9.1

~~(1) Where a *ring-fenced body* receives services and accesses facilities that it requires on a regular basis from an entity in its *group*, it may do so, whether directly or indirectly, only where that entity is a *permitted supplier*.~~[Deleted]

~~(2) (1) does not apply to the extent the *group* member is:~~

~~(a) a direct participant in an *FMI*; and~~

~~(b) acting as an intermediary for the *ring-fenced body* to access the *FMI*.~~[Deleted]

~~(3) For the avoidance of doubt:~~

~~(a) the definition of central counterparty applies for the purposes of this Chapter whether or not the central counterparty is regulated by Regulation (EU) No. 648/2012, or is established in an EEA state or elsewhere; and~~

~~(b) the definitions of *central securities depository* and *participant* apply for the purposes of this Chapter whether or not the *central securities depository* or *participant* is regulated by Regulation (EU) No. 909/2014, or is established in an *EEA state* or elsewhere.~~[Deleted]

9.2 ~~A *ring-fenced body* must ensure the agreement and any related arrangement under which it receives services or accesses facilities it requires in relation to the carrying on of *core activities* does not permit any other party to terminate, suspend or materially alter the services or facilities or the agreement or arrangement as a result of an act, omission or deterioration in the financial circumstances of another entity within the same *group* as the *ring-fenced body*.~~[Deleted]

9.3

~~(1) 9.3(2) applies if the ability of a permitted supplier (PS1) that provides services or facilities referred to in 9.2 to a ring-fenced body is dependent upon the provision of services or facilities to PS1 by another permitted supplier (PS2), whether the provision of services or facilities to PS1 by PS2 is direct or indirect.~~[Deleted]

~~(2) 9.2 does not prevent the ring-fenced body agreeing PS1 may suspend or alter the provision of those services or facilities to the extent it is prevented from providing those services or facilities as a result of a deterioration in the financial circumstances of PS2, provided:~~

~~(a) the ring-fenced body takes all reasonable steps before and after entering into that agreement to reduce the probability and likely impact of such an alteration to the provision of those services or facilities; and~~

~~(b) the agreement requires PS1 to use its best efforts to eliminate or reduce the effect of any such suspension or alteration.~~[Deleted]

…

2: Draft amendments to SS8/16 – Ring-fenced bodies

In this appendix, new text is underlined and deleted text is struck through.

1 Introduction

…

1.6 …Chapter 8 sets out the PRA's expectations on the arrangements that an RFB ~~and its ring- fenced affiliates~~ may make where they receive services and facilities from other group entities or third parties outside of their group.

…

8 Continuity of services and facilities of RFBs

8.1 [Deleted] ~~This Chapter sets out the PRA's expectations on the arrangements that an RFB and its ring fenced affiliates may make where they receive services and facilities from other group entities or third parties outside of their group.~~

~~**Group service arrangements**~~

8.2 [Deleted] ~~As set out in Ring-fenced Bodies 9 of the PRA Rulebook, an RFB and its ring-fenced affiliates may receive services and facilities only from other group entities where such entities are group services entities[1] or are ring-fenced affiliates.~~

8.3 [Deleted] ~~'Services and facilities' includes the following types of services and facilities that support the business of the RFB: data-processing services; property management services; information technology; data centres; and back office functions. Note that this is not an exhaustive list.~~

8.4 [Deleted] ~~Financial or commercial transactions between the RFB and other group members, such as derivative transactions or underwriting risk, are not 'services and facilities' and therefore not within the scope of this Chapter or the rules in Ring-fenced Bodies 9 of the PRA Rulebook.~~

8.5 [Deleted] ~~An RFB would also need to meet any obligations that apply to it under the Outsourcing and Operational Continuity Parts of the PRA Rulebook, and consider relevant PRA expectations in SS9/16 'Ensuring operational continuity in resolution'.[2]~~

1 ~~A 'group services entity' is defined in the Ring-fenced Bodies Part of the PRA Rulebook.~~

2 ~~PRA Supervisory Statement 9/16 'Ensuring operational continuity in resolution' July 2016: www.bankofengland.co.uk/pra/Pages/publications/ss/2016/ss916.aspx.~~

8.6 [Deleted] ~~The PRA expects RFBs and ring-fenced affiliates to be able to demonstrate that they are appropriately managing the operational risk associated with any services and facilities they outsource. Factors supporting this could include:~~

- ~~group services entities are financially and operationally resilient to an insolvency or resolution event involving the group entities they provide services to;~~
- ~~there are appropriate contingency arrangements in the event of there being disruption to the RFB's outsourcing arrangement; and/or~~
- ~~the services and facilities being provided to the RFB are substitutable.~~

~~Group and third-party service arrangements~~

8.7 [Deleted] ~~The provision of services and facilities from other group entities and third parties to an RFB that are required by the RFB to carry on its core activities should not be capable of being disrupted through the acts, omissions, or insolvency of other group members.~~

8.8 [Deleted] ~~It is expected that this could be achieved through RFBs ensuring that:~~

- ~~their contractual arrangements do not contain clauses such as set off rights, security interest, netting arrangements, and material adverse event provisions that could be triggered as a result of the acts or omissions of other group members. Note that this is not an exhaustive list of relevant contractual provisions; and~~
- ~~a material deterioration in the financial circumstances of another group entity, or an insolvency or resolution event, does not disrupt any arrangements the RFB has with relevant parties that are necessary for the RFB to conduct its core activities.~~

8.9 An RFB, and its group, is required to ensure that any services that it receives from other group entities are managed in compliance with other regimes. The PRA expects firms to pay particular attention to:

- the Operational Continuity Part and associated expectations in SS4/21;
- the Operational Resilience Part, and associated expectations in SS1/21;
- the Outsourcing and Third Parties Part, and associated expectations in SS2/21; and
- Fundamental Rule 8 – a firm must prepare for resolution so that, if the need arises, it can be resolved in an orderly manner with minimal disruption to critical services.

8.10 In addition, an RFB is required to comply with rule 3.5 and Chapter 12 of the Ring-fenced Bodies Part, requiring arm's length treatment when interacting with another member of its group.

8.11 This chapter is applicable to the operational services addressed by the regimes noted in paragraph 8.9. While the regimes noted in paragraph 8.9 may extend to financial and commercial services, some financial and commercial transactions may be prohibited or subject to additional requirements. This is in accordance with ring-fencing rules that constrain an RFB's ability to enter into a financial transaction with a member of its group outside the

<u>ring-fence. Therefore, where the provision of financial or commercial services may be permitted under the regimes noted in paragraph 8.9, it does not automatically follow that all financial or commercial transactions would be permitted, or not subject to additional requirements, under the wider ring-fencing regime.</u>

3: Cost benefit analysis

Panel feedback

1. The Prudential Regulation Authority (PRA) is required, under section 138JA of FSMA 2000, to establish and maintain a Cost Benefit Analysis Panel (the Panel). The PRA consulted the Panel on its draft cost benefit analysis (CBA) and the Panel provided positive feedback on both the methodology used to estimate benefits and the overall presentation. The Panel recommended that the CBA bring out more clearly the reasoning behind why the Operational Continuity in Resolution (OCIR) framework provides adequate protections. The PRA has incorporated additional explanation in the CBA, including cross-references to relevant sections of the consultation paper (CP) that address financial stability considerations.

The case for action

2. The 'shared services rules', contained in Chapter 9 of the Ring-fenced Bodies Part of the PRA Rulebook, aim to ensure a ring-fenced body (RFB) continues to receive the services and facilities it needs to carry on activities that are critical to the financial system. For example, taking deposits and processing payments, even if there are failures in the wider group. The shared services rules limit the ability of RFBs to rely on service provision from non-ring-fenced group entities. It does not prevent RFBs relying on group service entity or ring-fenced affiliates, where those are permitted suppliers.

3. As noted in paragraphs 2.5–2.15 of CP10/26, since the introduction of the shared services rules, the Bank and the PRA have enhanced other regulatory frameworks that seek to protect a particular firm's essential functions from disruption elsewhere in the group. These frameworks have matured in the years since ring-fencing was introduced and provide protections that are robust, but more flexible than the shared services rules. The PRA has materially updated the OCIR framework, which requires firms to ensure continuity of critical services in resolution. OCIR also aims to ensure that critical functions including deposit-taking and payments can continue in the event of the wider group's failure. While shared services rules in the ring-fencing regime require structural separation, OCIR permits a wider range of controls-based solutions including, for example, resolution-resilient contracts. In addition to OCIR, the PRA has also strengthened requirements relating to operational resilience as well as requirements for firms to manage their dependencies on third parties.

4. Given these requirements could deliver similar policy intent, and that they have matured since the implementation of ring-fencing in 2019, the PRA considers that the benefit of the shared services rules has diminished. Meanwhile, firm feedback has identified a range of frictions and costs associated with them. These include:

- additional operational costs of duplicating functions within the RFB and other group entities (including IT and HR);
- compliance costs associated with assessing whether arrangements are in scope and with waiver or modification processes; and
- the additional costs of procuring from third parties where RFBs are not permitted to procure from other group members.

5. Firms stated that ring-fencing also limits the way they can develop their capabilities and client offering, for example through the way it impacts on the sharing of expertise and staff mobility and training. Firm feedback identified the lack of a materiality threshold. Unlike the OCIR for instance, which only applies to critical services,[3] rule 9.1 covers all services, not just those of vital importance.

6. In summary, the benefits of the maintaining rule 9.1 have greatly reduced, but the costs of keeping it have stayed the same. Therefore, the PRA considers that the cost-benefit has moved in favour of removing rule 9.1.

Firms and markets affected

7. The proposal most directly affects the five banking groups that have ring-fenced entities. Together these groups provide a significant share of deposit-taking and lending in the UK.

8. Meanwhile, this proposal is likely to affect firms differently depending on the structure that they have chosen to implement ring-fencing. The impact is likely to be more material where the group's model involves duplication of operational services on either side of the ring-fence. Those groups are expected to have more capacity to streamline and reduce operational costs following deletion of the shared services rules.

9. The proposal does not directly affect building societies or credit unions. It could be relevant to banks currently below the ring-fencing threshold that may wish to grow their deposit base in the UK but are unable to meet the existing requirements under the shared services rules.

Baseline

10. Under the baseline, the shared services rules remain in force, alongside OCIR, operational resilience, and outsourcing and third-party risk management requirements. In this scenario, duplication may continue, particularly for those firms that do not primarily rely on service companies and may, therefore, continue to maintain separate IT, data-

3 Defined in the Operational Continuity Part of the PRA Rulebook as services that are essential to delivering critical functions or core business lines.

process services, back office and other functions within the ring-fenced bank.

11. HM Treasury (HMT) is also proposing a number of changes to the ring-fencing regime, including:
    - the introduction of a Growth Allowance, which would enable RFBs to undertake business not currently permitted, up to a quantitative limit;
    - allowing RFBs to offer a wider range of derivative and risk management products;
    - permitting RFB exposures to UCITs; and
    - permitting exposures to certain types of financing vehicles that are supported by UK Public Financial Institutions.

The PRA does not consider that these changes would materially alter the effect of this proposal and therefore, does not consider them further in this CBA.

Direct impact on firms

Reduction in operational costs

12. The removal of the shared services rules would give firms benefits through the opportunity to reduce ongoing costs in the following ways:
    - Reducing duplication: there will be less need to duplicate systems, functions, facilities or staffing across the RFB and the rest of the banking group. This will enable some firms to streamline operations and achieve cost savings.
    - Sharing facilities: RFBs may be able to rely on facilities elsewhere in the group and reduce the need to procure these from third parties.
    - Reducing compliance costs: RFBs will no longer be required to assess their compliance with the shared services rules and submit modification applications.[4]

13. Firms have not provided quantitative feedback on the scale of these costs and it has not been practical for the PRA to estimate them. Instead, we make a top-down estimate based on the information gathered by HMT when the ring-fencing was introduced and reviewed.

14. In 2013, HMT estimated the ongoing operational costs of ring-fencing to all firms at £400 million to £1.2 billion per annum based on data provided by firms.[5] That is approximately £560 million to £1.7 billion at today's prices.[6] In 2022, the Skeoch Review included an updated point estimate based on new data from firms of £0.5 billion, or £570 million in

4 Rule 9.1 has been modified to allow RFBs to receive: technology and data to support trading, quantitative research support, and back-office functions for overseas representatives offices. See the FS Register.

5 See the Impact assessment – Financial Services (Banking Reform) Bill.

6 Based on the change in the ONS series 'gross domestic product at market prices:Implied deflator:SA' from 2013 to 2025.

today's prices.[7] These estimates reflect costs of structural separation, governance and organisational requirements, reporting and intragroup rules. Structural separation is the largest driver of cost and we estimate intragroup rules contribute 10-20% of cost. Intragroup rules include, among other things, rule 7.3 requirements, intragroup dependencies, rule 12 requirements around dealing with other group entities at arm's length, as well as the shared services rules. We also estimate that the shared services rules contribute 50% of the costs of intragroup rules, or 5–10% of total ongoing operational costs. Applying this 5%–10% range to HMT's original figures implies a saving of £28 million to £170 million per annum from deleting rule 9.1. The estimates in the Skeoch review suggest the saving is likely to be towards the lower end of this range.

15. This estimate appears plausible in the context of the total administrative expenses of the RFBs, which were £24.7 billion in 2025 based on PRA data. The estimated saving of £28 million to £170 million represents a reduction of 0.1% to 0.7% in these costs.[8] However, these estimates are subject to significant uncertainty given the limited information on which they are based. They do not take account of the way different firms are structured to rely on service companies. We anticipate that firms with more comprehensive use of service companies will benefit to a lesser degree, although we expect all firms to benefit to some degree. Identifying the potential for cost savings may require detailed work by firms to review their current service provision. Realising the cost savings may, therefore, take some time. These estimates do not take account of any one-off costs that firms would need to expend to access the benefits. We welcome estimates from firms in response to this consultation in relation to: annual ongoing cost savings; and the total one-off transition costs they will experience to achieve those savings.

Increased flexibility for firms

16. Firm feedback suggests that they will benefit from increased flexibility, which will allow them to increase the scope of their offering to clients. These benefits would be in addition to the direct cost savings mentioned above and are most likely to support improved market outcomes. Given challenges such as a lack of data, we have not been able to quantify these benefits.

17. Removal of the shared services rules could enable RFBs' customers to access expertise that sits in the rest of the group and reduce the existing costs associated with moving customers from the RFB to the non-ring-fenced bank (NRFB). This could, in future, enable RFBs to offer a variety of more sophisticated products and services within the ring-fence. The change would also give firms more flexibility in their supplier arrangements relating to low volume non-critical banking products and services, which are not deemed 'critical services'. This would reduce their costs of supplying those services, allowing them

7 See paragraph 5.69 of the **Ring-fencing and Proprietary Trading – Independent Review**.

8 The deletion of Chapter 9 does not reduce firms' reporting or disclosure requirements or broader obligations to demonstrate compliance with PRA rules or the Bank of England's resolution regime. Therefore, the PRA does not consider this reduction in costs to have a material impact on administrative burdens.

to expand their offerings. Examples include corporate services such as sales teams and junior legal staff.

Impacts on firm-level resilience, depositor protection and financial stability

18. The shared services rules support resilience and depositor protection through structural separation. Deleting them is likely to lead to RFBs becoming more operationally dependent on non-ring-fenced group entities. As discussed in paragraphs 2.5–2.15 of CP10/26, the PRA judges that this change will not lead to material risks to financial stability. This is because the OCIR regime, if implemented effectively by firms, allows the PRA to ensure continuity of critical services through mechanisms such as resolution-resilient contracts and transitional service agreements. While the OCIR regime does not completely eliminate risks to continuity of critical services (eg if the contractual enforceability of OCIR safeguards fail in highly remote and compounding situations), the residual risk of disruption in this space can be reduced and managed through the Bank's resolution planning powers in business as usual.

19. Given that the proposal would not undermine the resilience of PRA firms, it should not lead to negative impacts on markets through a reduction in confidence in PRA firms, or increased risk of disruptions to supply. In turn, the PRA does not anticipate a reduction in financial stability, which could otherwise negatively impact the level of UK economic output in the medium to long term.

Impact on the PRA and the Bank of England

20. The removal of the shared services rules would reduce supervisory work associated with firm-specific waivers, modifications and associated interpretative issues. The PRA has processed four rule modifications in relation to the shared services rules in the past three years. The likely reduction in future rule modifications would reduce costs to the PRA.

21. The PRA does not anticipate a need to automatically change the approach to OCIR enforcement or firm engagement via the Bank of England's Resolvability Assessment Framework. However, there is some potential for additional supervisory engagement in order to address the tail risk associated with greater intragroup service provision. The extent to which this is needed will depend on the extent to which firms decide to change their operating model; the prospect of additional costs in this area is uncertain and the PRA has not found it practical to estimate it.

Impacts on markets and economic growth

22. The cost reductions to firms described above will, to some extent, be passed on to customers as firms seek to grow revenues to maximise profits, particularly in more

competitive market segments.[9] Cost reductions will also lead to higher profitability for the RFB groups, to the extent they are not passed on to customers.

23. Deletion may also support competition by reducing barriers to growth for firms approaching the ring-fencing threshold. Increased competition should support lower prices, increased quality or better variety of products and services for UK customers across a range of markets. However, impacts could differ across markets, potentially with a marginal shift from mortgage lending to more SME and corporate lending, if deletion of the shared services rules facilitates such lending.

24. On balance, cost reductions in banks and increased competition between banks should, at the margin, support growth by reducing costs to banks' customers, which include UK SMEs and corporates. This may mean UK SMEs and corporates have marginally more resources available for productive investment. These effects may take some time to emerge and are unlikely to have a perceptible impact on the UK economy as a whole. For these reasons, the PRA has not been able to estimate this benefit.

Overall assessment

25. The PRA considers that the benefit of deleting the shared services rules would exceed its costs. This is based on the PRA's analysis, which indicates that the proposal could lead to material cost savings to firms (which will in part be passed on to customers) without significantly harming firms' resilience or financial stability. The PRA welcomes evidence-based feedback on these matters in responses to this consultation.

9 There is strong evidence that a high proportion of changes to banks' costs are passed through to customers. For example, research by Bank staff finds that c.90% of changes in banks' marginal costs are passed on in a reduction in prices. See Staff Working Paper No. 748 on Bank competition and stability in the United Kingdom by Sebastian J A de-Ramon, William B Francis and Michael Straughan.