



Sam Woods

Deputy Governor, Prudential Regulation
CEO, Prudential Regulation Authority

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Dear CEO

Firms' preparations for the UK's withdrawal from the European Union: planning assumptions

1. This letter is relevant to those banks, insurers and designated investment firms that undertake cross-border activities between the UK and the rest of the European Union (EU).
2. In my letter of 7 April,¹ we asked firms to set out a summary of their contingency plans for the UK's withdrawal from the EU, ensuring that they had considered a full range of scenarios. It is apparent from firms' responses that there are a number of cross-cutting concerns that are likely to present complications for UK and EU firms alike.
3. Specifically, many firms have highlighted risks to the continuity of existing cross-border contracts, and to the cross-border flow of personal data, following UK withdrawal. Firms may choose to solve these issues through their own actions where appropriate, and we will work with firms on those actions. However, we think it will be difficult, ahead of March 2019, for firms on their own to mitigate fully the risks of disruption to financial services, and we are also therefore seeking appropriate mitigations from the UK government and its EU counterparts.
4. We welcome today's announcement from HM Treasury that the government will act if necessary to mitigate risks to the continuity of EEA firms' outstanding contracts in the UK. More broadly, firms will need to move forward based on prudent planning assumptions until details of the UK's new trading relationship with the EU and any implementation period are finalised. This letter sets out the PRA's views on those assumptions.
5. In the absence of continued passporting rights post-Brexit, firms currently exercising those rights to establish a branch or provide services into the UK ('inbound firms') will need to seek PRA authorisation to carry on PRA-regulated activities in the UK.
6. The recent European Council meeting on 14-15 December yielded welcome positive results, including agreement of the need to negotiate an implementation period during which firms could be able to continue undertaking cross-border activity between the UK and EU in much the same way as today.

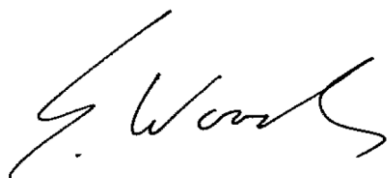
¹ www.bankofengland.co.uk/prudential-regulation/letter/2017/contingency-planning-for-the-uk-withdrawal-from-the-eu.

7. We therefore expect those negotiations to progress early in the New Year. In the meantime, firms may submit applications for authorisation from January, and we will then review timelines and assumptions as the political process moves forward.
8. The scale of the authorisation challenge is significant. We therefore encourage inbound firms to continue their discussions with us, and any inbound firm that has not already done so should engage with the PRA for pre-application discussions now. Under the statutory deadlines that apply, the authorisation process may take up to 12 months from the point of application. The FCA's consent to authorisations will be required and the PRA will work closely with the FCA in processing applications.
9. The PRA's approach to the supervision of international banks and insurers, set out in the consultation papers² published today, is based in part on an assessment of the degree of equivalence of the home state regime in meeting international standards and delivering appropriate outcomes consistent with the PRA's objectives, and of the level of cooperation with the home state supervisor.
10. The outcome of the negotiations between the UK and EU is of course relevant in this context. It is therefore premature for the PRA to reach a final view in these areas, particularly for the most systemically important firms. However, given progress to date in the Brexit negotiations, for the present firms may plan on the assumption that these requirements will be met, and therefore that they may apply for authorisation as branches unless they are conducting material retail business. This assumption may be revisited as Brexit negotiations proceed.
11. In seeking authorisation to carry on PRA-regulated activities, firms will need to meet the Threshold Conditions for authorisation, and we will consider the extent and nature of a firm's presence in the UK, including in relation to mind and management and premises, in determining whether these conditions are met.
12. Under its proposed new approach to bank branches the PRA may apply specific regulatory requirements to systemically important branches where it cannot gain sufficient assurance about the supervisability of the firm. Although the PRA's policy will not be finalised until it has considered the consultation responses, firms are encouraged to take account of the proposals in their applications for authorisations, and in any event should note that amendments may be needed to adapt to the final policy following consultation.
13. The PRA expects those bank branches that undertake, or plan to undertake, significant retail banking activities to apply for authorisation as a subsidiary. This is consistent with the current policy in Supervisory Statement 10/14. The PRA is not proposing to change its policy approach materially in this area. The PRA's expectation is that this will be relevant for a handful of existing EEA bank branches.
14. The PRA is also consulting on a proposal to adopt a similar approach to assessing whether inbound international insurers should seek authorisation as branches or as subsidiaries, based on the level of policyholder liabilities covered by the Financial Services Compensation Scheme (FSCS).

² Consultation Paper (CP) 29/17 'International banks: the Prudential Regulation Authority's approach to branch authorisation and supervision' available at www.bankofengland.co.uk/prudential-regulation/publication/2017/international-banks-pras-approach-to-branch-authorisation-and-supervision, and CP30/17 'International insurers: the Prudential Regulation Authority's approach to branch authorisation and supervision' available at www.bankofengland.co.uk/prudential-regulation/publication/2017/international-insurers-pras-approach-to-branch-authorisation-and-supervision.

15. Some UK firms, and firms which currently operate as third country subsidiaries in the UK, are planning to establish or grow subsidiary operations in the EU. Such firms should note in particular the proposals in the consultation papers that, where there are significant interconnections between the UK and the EU entities, they should ensure that their proposed structures in the region are capable of being effectively managed and supervised, both in business-as-usual and in the event of resolution.
16. The PRA welcomes the government's announcement today regarding its intention to provide the means for the UK authorities, should they consider it necessary, to create a temporary permissions regime for their firms. The PRA encourages firms to begin preparing for authorisation in line with the approach set out today, and will consider use of the temporary permissions regime only as a fall-back.
17. These planning assumptions will be regularly reviewed and updated if necessary.
18. Supervision teams are available to discuss these issues further with firms. Firms that do not have an existing supervisory contact, such as those firms currently providing services into the UK using the Freedom of Services passport, are encouraged to contact the PRA as soon as possible if they wish to apply for authorisation. Further information on the authorisation process, including how to apply, can be found on the PRA's website.³

Yours sincerely



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³ www.bankofengland.co.uk/prudential-regulation/authorisations/new-firm-authorisation.