New banks seminar

New Bank Start-up Unit

10 October 2016
How to become a bank
How to become a bank | Session overview

Key stages to becoming a bank with particular focus on:

• what you should think about before you contact us;

• the key factors we will look at, including the evolution of your Business Plan and mobilisation; and

• what we expect from you and what you can expect from us.
Five key stages | The end-to-end process

- Thinking about becoming a bank?
- Early stages
- What’s life like as a new bank in the United Kingdom?
- After authorisation
- What do you need to do to get started?
- Pre-application
- How can you build out your bank with confidence?
- Mobilisation
- What happens when you apply to become a bank?
- Application
Thinking about becoming a bank?

Early stages
Early stages | Thinking about becoming a bank?

Is it for you?
• Before you contact us think about whether you really need to become a bank.
• There are potentially simpler and less costly alternatives which might be more suitable.

If it is, ask yourself:
• What will your bank do and how will it do it?
• Do you need to undertake any other regulated activities?
The word ‘bank’

- You cannot call yourself a bank unless you are one.
- You can begin the process as Example Ltd but only when you are authorised can you use Example Bank Ltd.

Payment systems:

- Banks must have access to payments systems.
- Consider the options for accessing payment systems as early as possible.
Business Models

- We are always interested in new and innovative business models.

FinTech

- We are open to firms leveraging the benefits of new technology.
- We regularly attend industry events and meet with FinTech firms.

Regardless of business model or technology platform firms should demonstrate their viability and sustainability.
What do you need to do to get started?

Pre-application
Pre-application | What do you need to do to get started?

Our experience tells us:

• that meeting prospective new banks before they submit their application can be highly beneficial for both parties.

Structured formal meetings will help you:

• understand the process and what happens at each stage;
• understand our expectations and Threshold Conditions;
• identify any concerns early on so that you can decide if you want to take your application further; and
• submit as complete an application as possible.
# Pre-application meetings

<table>
<thead>
<tr>
<th>Meeting Type</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial meeting</td>
<td>The first formal meeting. It provides an opportunity for you to discuss your plan and ask us questions about the authorisation process. We will provide written feedback which you should incorporate as you develop your Business Plan.</td>
</tr>
<tr>
<td>Feedback meeting</td>
<td>Held after you have submitted your updated Business Plan. We will again provide feedback which you will be expected to address in your Business Plan.</td>
</tr>
<tr>
<td>Mobilisation and operational risk meetings (Optional)</td>
<td>We may arrange this optional meeting if you are going to take the mobilisation route and/or your proposed business is particularly dependent on IT or outsourcing arrangements.</td>
</tr>
<tr>
<td>Challenge session</td>
<td>The last formal meeting held just before you submit your application where we will provide detailed challenge on the content of your near-final Business Plan. You will be expected to incorporate feedback from the Challenge session into your application.</td>
</tr>
</tbody>
</table>
Your Business Plan is key and we will need to understand how you will make money and be confident of the **viability** and **sustainability** of your business before we can authorise your bank.

But it is an evolutionary process, where you set the pace.
We would expect you to be able to provide high-level answers to the following:

• How will your bank make money?
• What products will you offer and how and who will you offer them to?
• Who will run the bank and how will they do it?
• How will the bank be funded?
• What systems will your bank need and who will operate them?
• What will you do in-house and what will you outsource?
The Business Plan should set out, in detail, your:

• Business model
• Governance arrangements
• Customer journey
• Risk management framework
• Capital and liquidity requirements
• IT and operational arrangements
What happens when you apply?

Application
Submit your application to the PRA:

• Two printed copies of all of the application documents.
• Two electronic copies on memory stick, DVD, etc.
• Application fee of £25,000.

We will then:

• review your application including whether it is complete or not;
• write to you within eight weeks with the results of this initial assessment;
• arrange a formal monthly catch-up call with you; and
• arrange any interviews or visits.
What is completeness?

• Have you provided all of the required application forms, fully and correctly completed?
• Is the information provided of sufficient quality and detail, incorporating our feedback, to allow us to complete our assessment?

Why does it matter?

• Complete applications – 6 month statutory deadline.
• Incomplete applications – 12 month statutory deadline.
• All applications – 6 month voluntary deadline.
Application | What do we look for? Business model

Viability and sustainability
• How does the firm make money?
• Where will the firm be in five years?
• How does the firm achieve growth and what are the implications of that?

Products
• What will be offered?
• How will they be offered?

Market
• Who will be your customers?
• Who will be your competitors?
### Application: What do we look for? Risks & compliance

<table>
<thead>
<tr>
<th>Risks</th>
<th>Controls</th>
<th>IT &amp; Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>What are the key risks for your firm?</td>
<td>How do you seek to control your risks?</td>
<td>How will you build your systems?</td>
</tr>
<tr>
<td>Credit</td>
<td>What will your Compliance and Audit functions look like?</td>
<td>What will be outsourced?</td>
</tr>
<tr>
<td>Market</td>
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<tr>
<td>Conduct</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT &amp; Operations</td>
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</tbody>
</table>
Board and executive
• Skills – relevant banking experience and independence.
• Background and suitability for roles.

Structure
• Committees and reporting lines.

Senior Managers Regime and interviews
• We usually interview key individuals from the board and executive.

Owners and controllers
• We need to see through the layers to the ultimate controller.
• Influence on the firm.
The PRA will make a decision on the minimum regulatory requirement for capital and liquidity.

Capital
- Firms will need to raise adequate capital in advance of being authorised.
- Firms should look carefully at their Pillar 2A add-ons.
- In most circumstances wind-down costs are used to set Pillar 2B.

Liquidity
- Overall Liquidity Adequacy Requirement (OLAR), not just the Liquidity Coverage ratio (LCR).
- Possible outflows of deposits.
- Composition of High Quality Liquid Asset buffer.
Before authorising a firm, the PRA will set Internal Capital Guidance (ICG), expressed as a percentage of risk-weighted assets (RWAs). But new banks do not typically hold any RWAs when first authorised.

For SSBs, the initial minimum capital requirement is £1 million, plus buffers. The £1 million is the Base Capital Requirement (BCR), and may apply both during and after mobilisation.

Once the bank’s RWAs rise beyond a very low level, and its ICG exceeds the BCR, the ICG sets the effective level of capital to be held (plus buffers).

A SSB is defined as a bank with less than €5 million of capital which provides current and savings accounts, or lends to SMEs, or offers residential mortgages.
Application What do we look for? Recovery & resolution

Recovery plan
• A firm’s recovery planning forms a key part of our assessment of a firm’s risk management procedures.
• Early warning indicators and triggers.
• Management actions.
• Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP) will cover stresses and recovery plans.
• Reverse stress test – what breaks the bank?

Resolvability
• To authorise a bank we must consider it resolvable.
• Business continuity plans that limit the impact on customers.
How long will it take?

• We try to assess all applications within six months but this is not guaranteed if your application is incomplete.
• You can help by responding promptly and comprehensively to our queries.

The decision

• Both regulators will make a decision independently.
• The PRA will make the final decision **BUT** it may only authorise a new bank with the FCA’s consent.
• If the FCA does not provide its consent, the bank will not be authorised.
“It will take longer than you think and cost more”

Are forecasts plausible? Have they been stress tested?

Appropriate level of banking knowledge on the Board and executive

Consolidation

Capital structure – are all Common Equity Tier 1 (CET1) shares equal?

Capital must be in place before authorisation
Build your bank with confidence

Mobilisation
What is mobilisation?

• Introduced in 2013 as one of the original proposals from our Barriers to Entry report, sometimes referred to as Authorisation with Restriction (AWR).

• The new bank is **authorised** at an earlier stage to help with securing further investment, recruiting staff, investing in IT systems, committing to third-party suppliers, etc.

• But we **limit** the amount of business the new bank can undertake until it is fully operational, to typically aggregate deposits of £50,000.

• Mobilisation is **not** required, nor is it necessarily suitable for all banks and we cap the mobilisation period at 12 months.
How is this different?

• The key difference is that the new bank is **authorised** at an earlier stage and will appear on the Financial Services Register.

• You will be an **authorised bank**, but with a limit on the business you can undertake until you are fully operational.

• The regulatory requirements for banks that take the mobilisation route are **not lower**. The same standards will need to be met before you become fully operational regardless of the route taken.
### Mobilisation

<table>
<thead>
<tr>
<th>Assessment area</th>
<th>Fully operational at authorisation</th>
<th>Mobilisation route</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business plan/viability</td>
<td>Fully developed</td>
<td>Fully developed</td>
</tr>
<tr>
<td>Financial resources Sources of funding ICAAP &amp; ILAAP</td>
<td>Fully developed</td>
<td>High-level structure</td>
</tr>
<tr>
<td>Corporate governance Structure Board Senior management</td>
<td>Fully developed</td>
<td>Key ‘guiding minds’ in place with senior roles</td>
</tr>
<tr>
<td>Customer journey including details of products, pricing, and on-boarding arrangements</td>
<td>Fully developed</td>
<td>critical to mobilisation identified and ready to</td>
</tr>
<tr>
<td></td>
<td></td>
<td>be recruited</td>
</tr>
<tr>
<td>Recovery Plan</td>
<td>Fully developed</td>
<td>Near final</td>
</tr>
<tr>
<td>Business Continuity Plan</td>
<td>Fully developed</td>
<td>Draft</td>
</tr>
<tr>
<td>Risk management and control structures</td>
<td>Fully developed</td>
<td>High-level outline</td>
</tr>
<tr>
<td>IT infrastructure and systems</td>
<td>Fully developed</td>
<td>High-level outline</td>
</tr>
<tr>
<td>Material outsourcing arrangements</td>
<td>Fully developed</td>
<td>High-level outline</td>
</tr>
<tr>
<td>Policies and procedures</td>
<td>Fully developed</td>
<td>Not required but development should be planned</td>
</tr>
<tr>
<td>Mobilisation plan</td>
<td>n/a</td>
<td>Fully developed and signed off by the board</td>
</tr>
</tbody>
</table>
What you and we do while you mobilise:

• You continue to build-out your bank – remember the 12 month time limit.
• You tell us how you are doing, submit what we ask to see and let us know if there are changes, issues or problems.
• We will monitor your progress and continue our assessment against Threshold Conditions.
• You must adhere to the requirement limiting the business you can undertake.
• Some regulatory reporting is required.

Remember you are an authorised firm and you must continue to meet our standards.
What you need to have done to exit mobilisation:

• Finished building the bank and have **everything** in place, tested and ready.

• Submit a Variation of Permission (VoP) application to remove the requirement that restricts the business the bank can undertake.

• We will conduct a final review and then (if all is well) approve your VoP application.

• Please allow time in your plans for us to finalise our review (c. six weeks) and complete our signoff processes.

• As with authorisation the application to exit mobilisation requires approval from both regulators.
Mobilisation | What we have seen?

Over the last three years, we have seen some consistent themes:

• **Time** – firms’ mobilisation plans are consistently optimistic.

• **IT systems** – cost more than expected and take longer to implement than expected.

• **Change in Control** – CiC transactions triggered by investors take time to process.

• **Post-mobilisation** – proposals to delay mobilisation activities until *after* mobilisation.
What you can expect from us and us from you?

Expectations
## Expectations | What you can expect from us and us from you?

<table>
<thead>
<tr>
<th>You</th>
<th>We</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will address or incorporate any feedback provided by us into your Business Plan before moving to the next stage.</td>
<td>Will aim to have the minimum number of meetings with you during the pre-application stage.</td>
</tr>
<tr>
<td>Will develop your plans, complete the necessary work, prepare and send materials in good time for meetings with us.</td>
<td>Will assess the material you submit in a timely manner.</td>
</tr>
<tr>
<td>Will be open, honest and co-operate with us.</td>
<td>Will be open, honest and give clear feedback on your proposals.</td>
</tr>
<tr>
<td>Will provide all information that you think we should be aware of.</td>
<td>Will not provide a consultancy service. You should engage others if you need this.</td>
</tr>
<tr>
<td>Will ensure key individuals at your firm who will drive the proposition forward are involved throughout the process and attend the pre-application meetings.</td>
<td>Both regulators will be involved in the pre-application process and will ensure it is as seamless as possible.</td>
</tr>
</tbody>
</table>
Accessing Payment Systems

The PSR
For banks and other payment service providers to operate, they need to be able to move money between accounts. To do this all banks need access to a payment system.

The way in which you choose to access the system is likely to be a decision linked to your business strategy.

Factors influencing access decision:
- Whether you want to be an IAP
- Cost and complexity of access
- Quality of access
- Control of your access arrangements
- Business model
Payment Systems | When to consider access to payment systems

Consider access options
- Thinking about becoming a bank?
  - Early stages

Confirm what systems your bank will need
- What do you need to do to get started?
  - Pre-application
- What happens when you apply to become a bank?
  - Application

How will you build your systems?
- How can you build out your bank with confidence?
  - Mobilisation

Becoming a direct/indirect participant
- What’s life like as a new bank in the United Kingdom?
  - After authorisation

Investing in IT systems
## Payment Systems

Consider your access options

<table>
<thead>
<tr>
<th>Settlement access</th>
<th>You</th>
<th>Indirect Access Provider</th>
<th>Aggregator</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct access</td>
<td>Direct technical access</td>
<td>n/a</td>
</tr>
<tr>
<td>Indirect Access</td>
<td></td>
<td></td>
<td>Direct access</td>
</tr>
<tr>
<td>Provider</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

New options!
### Payment Systems Direct access

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>You have a direct relationship with the payment system operators</td>
<td>You need to gain access to a Bank of England settlement account</td>
</tr>
<tr>
<td>You are not dependent on another bank for access</td>
<td>It is complex and costly</td>
</tr>
<tr>
<td>The time and cost for direct access is reducing</td>
<td>You may need multiple relationships for access to multiple systems</td>
</tr>
</tbody>
</table>
## Payment Systems | Indirect access

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>It is easier, less costly and less complex to gain indirect access – you may already have an existing relationship.</td>
<td>You need to secure a customer relationship with an indirect access provider.</td>
</tr>
<tr>
<td>You do not need to be involved in the operations and management of the payment system operators.</td>
<td>Quality of access - you are dependent on the systems of your indirect access provider.</td>
</tr>
<tr>
<td>You benefit from the support and experience of your indirect access provider.</td>
<td>Resilience and control - you are dependent on the systems of your indirect access provider.</td>
</tr>
<tr>
<td>In most instances you only need one relationship for access to multiple systems.</td>
<td></td>
</tr>
</tbody>
</table>
## Payment Systems

### Direct technical access

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>You gain the benefit of direct access without being a full direct participant in the payment system</td>
<td>You still need to secure a customer relationship with an indirect access provider for settlement purposes</td>
</tr>
<tr>
<td>You have greater control over resilience and the quality of access</td>
<td>You need to identifying the right aggregator</td>
</tr>
<tr>
<td>You don’t need to secure a Bank of England settlement account</td>
<td>If you choose to work with an aggregator, you will need to manage a third party supplier</td>
</tr>
</tbody>
</table>
• Sort codes
• Access to payment systems website
• PSR - directions; complaints; powers
• Indirect Access Provider Code of Conduct
After authorisation
The main topics for discussion:

• Being supervised by the PRA
• Being supervised by the FCA
Being supervised by the PRA
After authorisation
In considering the viability and suitability of the business model, the PRA will look at six modules:

1. Capital
2. Liquidity
3. Governance
4. Credit
5. Operational risk & resilience
6. Recovery
After authorisation | Being supervised by the PRA

How do we supervise?

• Review regulatory returns and management information (MI)
• Monthly phone calls
• Regular on-site visits
• Annual business model analysis
• The six supervisory modules
• Other deep dives and thematic peer analysis
• Internal panels such as the Periodic Summary Meeting (PSM)
• Supervisory colleges (JRAD, FCA)
We are committed to reviewing capital (C-SREP) on an annual basis for the first five years:

- Firm visit
- ICAAP review
- Periodic Summary Meeting (PSM)
- Letter
Capital stack

• Pillar 1, 2a and 2b.
• PRA Buffer, Capital Conservation Buffer, (Countercyclical Buffer).
• New bank approach to setting buffers: wind down costs.

Other Considerations

• Leverage ratio.
• Minimum requirement for own funds and eligible liabilities (MREL).
Capital stack

Wind-down costs

- PRA buffer (bank-specific)
- Countercyclical capital buffer and sectoral capital requirements (system-wide)
- Capital conservation buffer [2.5% CET1]
- Systemic buffers (bank-specific)
- Pillar 2A (bank-specific)
- Pillar 1 [4.5% CET1]

Source: ‘The Bank of England’s approach to stress testing the UK banking system’ October 2015
Capital – CET1

• Many new banks give initial shares to their founders or other early investors. These sometimes have different features to those subsequently offered to external investors.

• In this or a similar situation CRD IV may prevent one type of share from being classified as CET1 if other shares have rights which are more limited.

• The PRA must approve all capital injections after authorisation to ensure that the shares qualify as the tier of capital claimed, unless the shares are of an identical type to shares previously approved.
Many of the issues faced by firms during the financial crisis can be traced back to failures in governance.

- The Senior Managers Regime
- The PRA will assess several aspects of a firm’s governance:
  - How does the board operate and how effective are the committees?
  - What does the MI look like?
  - Design vs. effectiveness
After authorisation | Governance

• **Board size and structure** – Does the board have the capacity to explore key business issues rigorously?

• **NED/iNED split** – Have you got this ratio correct? Is your AuditCo Chair independent?

• **Board experience** – Do you have a mix and balance of skills to collectively understand the business? Do you have succession plans in place?

• **Tenure** – Can you satisfy yourself that individuals remain independent after a long tenure?

• **Diversity** – How diverse is your board? How does this influence decision making processes and effectiveness of actions?
How you manage the bank as it grows is a key consideration. We will want to understand the impact rapid growth could have on the bank and we expect appropriate resources to be in place before growth:

- Governance and risk management:
  - Staffing levels and governance structure should reflect the size of the firm, its business model and risks.

- Implications for financial stability:
  - Are you developing a large market share in one particular product or region?
  - Critical economic functions.
- GABRIEL
- Frequency and proportionality
- Importance of quality – used by Financial Policy Committee, the Monetary Policy Committee and by supervisors to make firm specific judgements
- MI, annual reports and Pillar 3 disclosures are also incorporated in our analysis
- The NBSU helpline is available
• Inadequate growth
• Difficulty launching new products
• Radical changes to the business plan
• Further capital injections and new controllers as a result
Being supervised by the FCA

After authorisation
Our supervisory approach recognises that newly authorised banks may require more support in the early years.

From 20 January 2016, newly authorised retail and wholesale banks moving from Authorisation to Supervision are part of the NBSU for the first two years.

Additional engagement specifically for new banks includes:

- Access to the NBSU telephone line who will act as your day-to-day contact
- An introductory meeting with Authorisations and Supervision
- Subsequent catch-up meetings with Supervision as required

All firms have a responsibility to meet their obligations under Principle 11.
After authorisation: Flexible supervision and what it means

- Supervision is conducted on a **fixed** or **flexible** basis.
- The majority of new banks will be supervised under our **flexible portfolio**.
- The Supervision Division is structured around specialist departments for each industry sector, applying the three-pillar approach:
  
  **Pillar 1**
  Judgement and a forward looking approach are used to address issues.
  
  **Pillar 2**
  Emphasis on mitigating significant risks. In the event of a crystallised risk, focus is on addressing the most important issues that affect our objectives.
  
  **Pillar 3**
  The sector as a whole is analysed to identify the potential drivers of poor outcomes.

- Pillar 2 and pillar 3 form the primary proactive work for flexible portfolio firms.
- We undertake communication and education programmes to deliver key messages to firms.
- Engagement will also take place via cross-market programmes, based on our thinking of the key themes and priorities in the sector.
<table>
<thead>
<tr>
<th>After authorisation</th>
<th>FCA Business Plan 2016/17 key priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pensions</strong></td>
<td>Fair treatment for consumers and stronger competition</td>
</tr>
<tr>
<td><strong>Financial crime and anti-money laundering</strong></td>
<td>Controls that reduce financial crime, and consumers better able to avoid scams</td>
</tr>
<tr>
<td><strong>Wholesale financial markets</strong></td>
<td>Strong controls which protect market integrity and ensure customers are treated fairly</td>
</tr>
<tr>
<td><strong>Advice</strong></td>
<td>Affordable, professional advice to meet customers’ changing and complex needs</td>
</tr>
<tr>
<td><strong>Innovation and technology</strong></td>
<td>Resilient systems and new sources of competition</td>
</tr>
<tr>
<td><strong>Firms’ culture and governance</strong></td>
<td>Strong culture and governance which helps competition and consumers alike</td>
</tr>
<tr>
<td><strong>Treatment of existing customers</strong></td>
<td>Effective competition, a fair deal and greater transparency for longstanding customers</td>
</tr>
<tr>
<td>Priority</td>
<td>Focus Area</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>------------------------------------------------</td>
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<tr>
<td>Firms’ Culture and Governance</td>
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<tr>
<td>Financial Crime and AML</td>
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<tr>
<td>Innovation and Technology</td>
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<tr>
<td>Wholesale Financial Markets</td>
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<tr>
<td>Policy Priorities</td>
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<tr>
<td>Inherent Risks</td>
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</table>
### After authorisation

Engagement plans to address Wholesale Banking priorities

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</tbody>
</table>

- Roundtables
- SMR implementation - feedback
- Ongoing supervisory engagement
- Five questions
- Reactive supervision
- Cross firm reviews
- Innovate/Sandbox
- Data return reviews
## FCA Retail Banking priorities for 2016/17

<table>
<thead>
<tr>
<th>Priority</th>
<th>Description                                                                ategori</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Firms’ Culture and Governance</strong></td>
<td></td>
<td><strong>Aligned to the Culture and Firm Governance priority in the business plan</strong>&lt;br&gt;<strong>We seek:</strong> A culture of responsibility and accountability. A positive tone from the top is embedded throughout the firm.</td>
</tr>
<tr>
<td><strong>Financial Crime and AML</strong></td>
<td></td>
<td><strong>Aligned to the Financial Crime and AML priority in the business plan</strong>&lt;br&gt;<strong>We seek:</strong> Firms understand the financial crime risks of their business and manage these appropriately. Unintended consequences of AML regulation are minimised.</td>
</tr>
<tr>
<td><strong>IT Stability and Security</strong></td>
<td></td>
<td><strong>Aligned to the Innovation and Technology priority in the business plan</strong>&lt;br&gt;<strong>We seek:</strong> Innovation which delivers benefits for customers. IT systems are robust and resilient, disruption of services is well managed and resolved swiftly.</td>
</tr>
<tr>
<td><strong>Treatment of Existing Customers</strong></td>
<td></td>
<td><strong>Aligned to the Treatment of Existing Customers priority in the business plan</strong>&lt;br&gt;<strong>We seek:</strong> Firm pay due regard to the interests of existing customers who are able to benefit from increased innovation and competition.</td>
</tr>
<tr>
<td><strong>Regulatory Change</strong></td>
<td></td>
<td><strong>Supports the Firm Governance priority in the business plan</strong>&lt;br&gt;<strong>We seek:</strong> Firms are engaged with the regulatory change process and implement required changes appropriately.</td>
</tr>
<tr>
<td><strong>Business Transformation (Execution Risk)</strong></td>
<td></td>
<td><strong>Supports the Firm Governance priority in the business plan</strong>&lt;br&gt;<strong>We seek:</strong> Firms identify and/ take steps to mitigate the cumulative risks inherent in transformation activity and/or delivery of multiple programmes.</td>
</tr>
<tr>
<td><strong>Weak Competition</strong></td>
<td></td>
<td><strong>Supports the Treatment of Existing Customers and Innovation and Technology priority in the business plan</strong>&lt;br&gt;<strong>We seek:</strong> Effective competition which is in the interests of consumers.</td>
</tr>
</tbody>
</table>
### After authorisation

**Engagement plans to address Retail Banking priorities**

| Firms’ Culture and Governance | • SMR implementation – feedback  
|                              | • Multi-firm work  
| Financial Crime and AML      | • Supervision AML reviews  
|                              | • Financial crime data return  
|                              | • Reactive supervision  
|                              | • De-risking follow-up activity  
| IT Stability and Security    | • Reactive supervision  
|                              | • Innovate/Sandbox  
| Treatment of Existing Customers | • Multi-firm work  
|                              | • Competition measures  
| Regulatory Change            | • SMR implementation – feedback  
|                              | • Multi-firm work  
|                              | • Assurance activity  

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[Image of MI Analysis and Communication & Engagement]
International banks

What’s different?
International banks | What’s different?

Legal form

• Subsidiary
• Branch
Subsidiaries

A subsidiary is a separate legal entity which must have:

– its own financial resources;

– its own non-financial resources (e.g. governance arrangements, risk management framework, IT, etc.); and

– a viable and sustainable business model.
Branches

• A branch is a place of business which forms a legally dependent part of an existing firm.

• The whole firm must meet Threshold Conditions.

• A branch:
  – is not separately capitalised; and
  – does not have its own board.
International banks | What’s different?

PRA’s appetite for non-EEA branches

SS10/14:

- The home supervisor must be sufficiently equivalent and accept responsibility for the branch.
- New non-EEA branches must focus on wholesale banking and at a level that is not critical to the UK economy.
Mobilisation

- A UK subsidiary or branch of a well-established international firm is unlikely to need a period of mobilisation – it can utilise its parent’s IT systems and infrastructure and can call on its parent for financial resources.

- However, we will consider the use of the mobilisation route on a case-by-case basis.
Supervision of subsidiaries

• The PRA will actively engage the HSS including through supervisory colleges.

Supervision of branches

• The PRA will actively engage the HSS and the split of supervisory responsibilities will be agreed.

• Branches do not submit Common Reporting returns, but must submit Branch Returns and whole-firm liquidity data.
Common challenges

• Understanding the PRA’s appetite for branches;
• Overly ambitious timeframe for authorisation;
• Lack of familiarity with the UK regulatory requirements;
• Key person risk and difficulty recruiting high calibre staff;
• Lack of autonomy granted by the parent (subs); and
• Rotating executives and/or chair (subs).
Useful resources
New Bank Start-up Unit

www.bankofengland.co.uk/pra/nbsu/Pages/default.aspx

NewBankStartupUnit@bankofengland.co.uk

020 3461 8100

Downloadable Guide

Review of requirements for firms entering into or expanding in the banking sector (Barriers to Entry review)

PRA

www.bankofengland.co.uk/pra/Pages/default.aspx

FCA

www.fca.org.uk
Useful resources

Financial Services Register
https://register.fca.org.uk

Payment Systems Regulator
www.bankofengland.co.uk/about/Pages/complaints/default.aspx

Payments UK
www.accesstopaymentsystems.co.uk

PRA Rulebook
www.prarulebook.co.uk

FCA Handbook
www.fca.org.uk/handbook
Useful resources

Sterling Monetary Framework

applications@bankofengland.co.uk

www.bankofengland.co.uk/markets/Pages/money/default.aspx

www.bankofengland.co.uk/markets/Documents/sterlingoperations/summaryops.pdf