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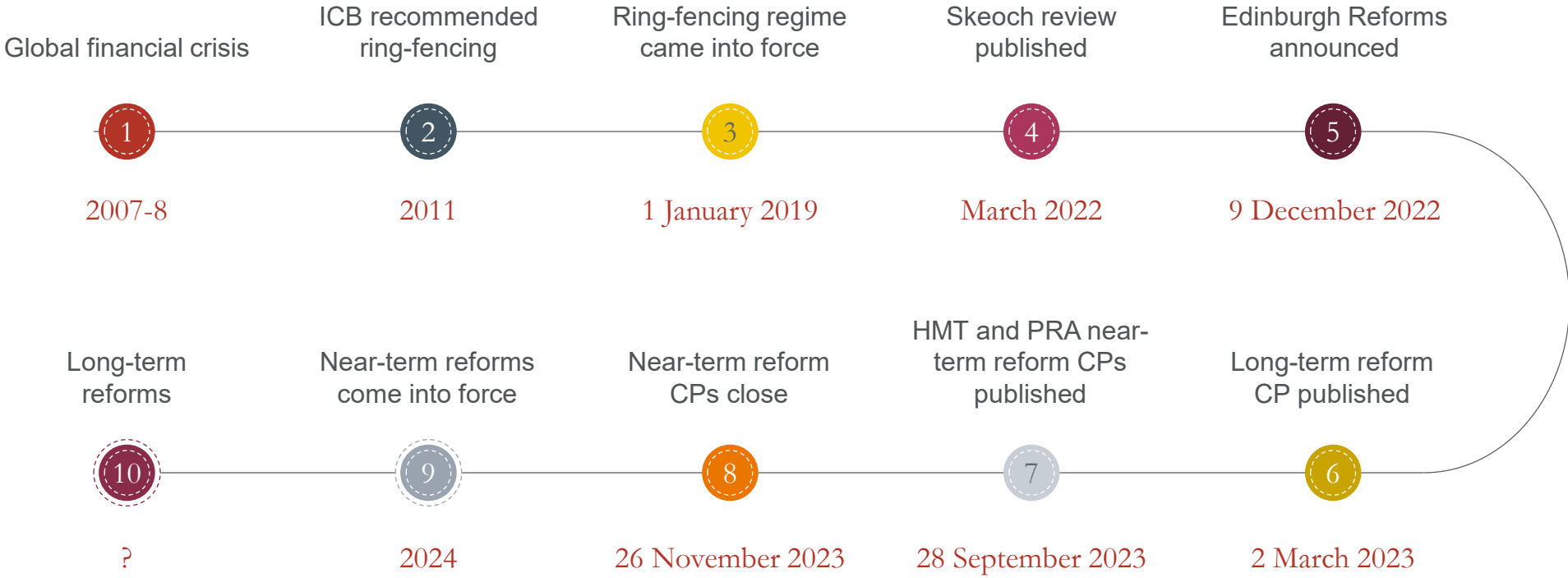
A smarter ring-fencing regime

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Background to near-term reforms



Near-term reforms

A. Ring-Fencing Thresholds

Higher core deposit threshold

- Increase from **GPB25 billion** to **GPB35 billion of core deposits**
- Includes core deposits held in **branches outside the UK and EEA**

De minimis trading assets exemption

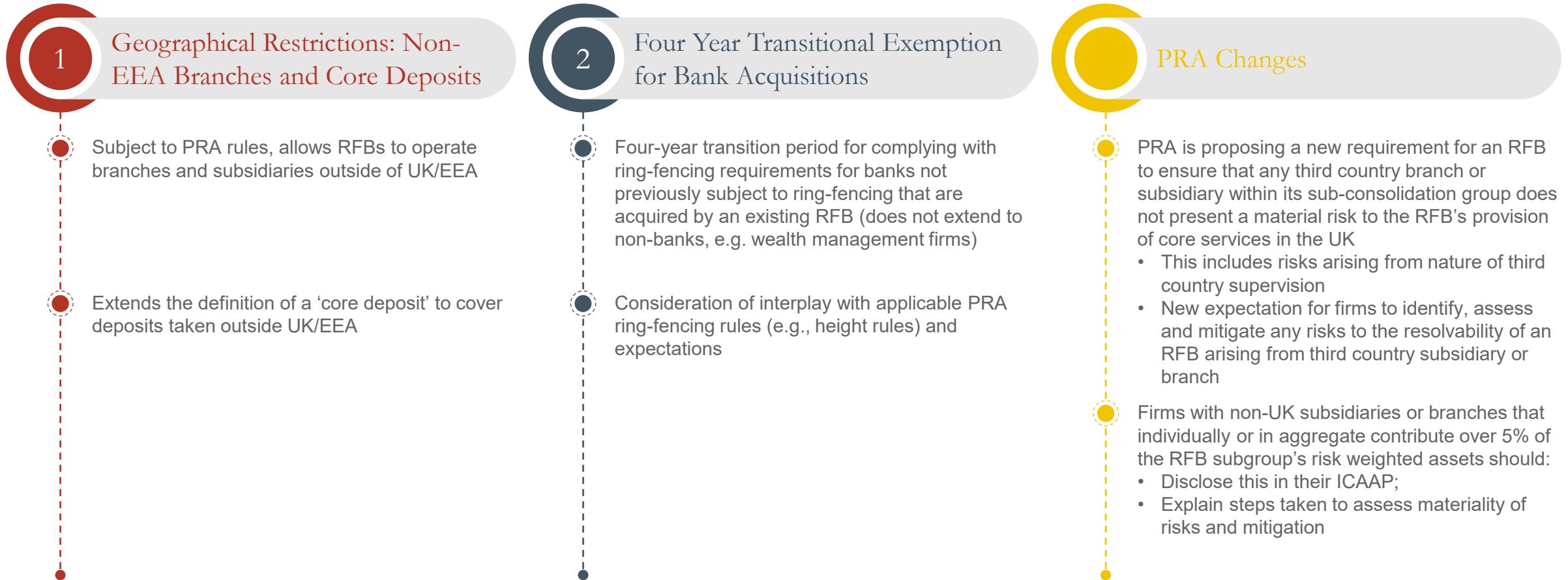
- Exempts retail-focussed banks with trading assets of less than 10% of tier 1 capital, except where the bank is part of a G-SIB
- Financial assets held for trading to be used as a proxy for measuring investment banking operations
- Trading assets will include all operations of a UK banking group (including overseas operations)

De minimis threshold for RFI exposure

- Allows RFBs to incur exposures of up to **GBP100,000** to any **individual RFI**
- Determined by reference to the RFB's aggregate exposures (valued on a fair value basis under IFRS 13)

Near-term reforms

B. Architectural Reforms



Near-term reforms

C. Permitted Products and Services

Facilitating the Provision of Finance to SMEs

Equity investment in UK SMEs

- Permits RFBs to make direct minority equity investments in UK SMEs, make investments in funds which invest predominantly in UK SMEs, and acquire equity warrants when providing loans to UK SMEs
- Investments capped at 10% of tier 1 capital

Exposures to investment firms which are SMEs

- Permits exposure to RFIs which are SME investment firms (under UK CRR), over the proposed GBP100,000 limit
- May lead to situation where SME investment firm would be eligible for exposures over GBP100,000, but not its holding company or fund manager affiliate

Other Products and Services

Trade Finance

- Permits RFBs to undertake a wider range of standard trade finance activities
- Appears to limit eligibility to circumstances where the customer is a supplier or recipient of goods or services – this would remove the possibility of a financing a customer that is an intermediary

Debt for Equity Swaps

- Permits RFBs to engage in 'debt for equity swaps'
- Does not count towards 10% investment in SMEs
- Provided certain conditions are satisfied, permits options and warrants to be issued and exercised as part of a restructuring

Central Banks

- Permits NFRBs to service central banks outside the UK
- Consultation asks whether multilateral/multinational organisations should also be included

Near-term reforms

C. Permitted Products and Services

Other Products and Services

Inflation Swaps

- Permits RFBs to offer inflation swap derivatives (fixed:floating only)

Mortality Risk

- Permits RFBs to hedge mortality risk (arising from loaning money only) through mortality swaps.

Share Dealing Errors

- Permits RFBs to deal in investments as principal to resolve share dealing errors.

Test Trades

- Permits RFBs to deal in investments as principal for the purpose of undertaking test trades

Divestments

- Permits RFBs to divest themselves of bonds

Trustee Services

- Clarifies that RFBs may incur exposures to RFIs when acting as a trustee for minors or charitable incorporated organisations (but not corporates)

Simple Derivatives

- Clarifies that RFBs are permitted to offer FX collars whose components fall into simple derivatives permitted by the EAPO

Near-term reforms

D. Definitions and Technical Amendments



The government is also proposing some limited amendments:

- » Clarifying the current drafting relating to 'structured finance vehicles' to permit RFBs to be exposed to an SFV containing assets created or acquired by RFB or subsidiaries or another RFB in the same group
- » Clarifying the drafting of the permitted exposure arising from 'correspondent banking' arrangements
- » Introducing a 12-month grace period for NRFBs to move deposits of customers no longer classified as an RFI to an RFB



Further evidence



The government is also seeking evidence on other areas, where it found insufficient evidence to provide changes:

- Notice of determination requirement for onboarding NRFB customers
- Status of trustees and insolvency practitioners under the regime
- Definition of “conduit vehicles”, “relating undertakings”, “qualifying organisations” and a member of a “qualifying group” for NRFBs regarding charitable trusts, companies and associations
- Reference to G-SII in the definition of an RFI in legislation
- RFBs providing structured FX derivative products



What's next?

1

Treasury consultation closes on 26 November 2023 and the PRA consultation closes on 27 November 2023

2

Near-term reforms proposed to be laid before Parliament in early 2024 and to take effect immediately

3

Longer term policy paper will be published in 2024 to assess the direction of change.

Questions?

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