



Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

22 May 2014

Consultation Paper (CP4/14) – Supervising international banks: the Prudential Regulation Authority’s approach to branch supervision

Dear Sirs,

Thank you for the opportunity to provide feedback on the Prudential Regulatory Authority’s (PRA) proposed approach to supervising international banks.

This submission is made by PricewaterhouseCoopers LLP (PwC), the UK member firm of the PwC Network. PwC audits and advises many industry participants on prudential and other regulatory, tax and structuring issues, including in-bound financial institutions from EEA and non-EEA countries. In the UK, we have an established unit of dedicated specialists focusing on the impact of regulatory developments on the financial services sector. This letter is not intended to represent the views of our clients, but rather to identify and to comment on certain aspects of the CP which we believe to have particular significance.

We welcome the PRA providing more clarity about its approach to supervising branches of EEA and non-EEA branches. We also support your intention to ask all non-EEA firms to take steps to make adequate provision in their resolution plans for UK branches. This requirement will promote stability for the UK financial system. It will also help ensure the protection of UK retail customers.

As the UK has a pivotal role in the global banking system, other global regulators will carefully study the PRA policy. We recognise the PRA has an important role to protect UK financial stability. It should strike a balance between safety and impact to the real economy while promoting a sound and efficient global banking system. Requiring retail banks to operate as subsidiaries means that international banks will face higher barriers to entry. Subsidiarisation means potentially trapped capital and liquidity. It could result in global capital markets becoming more compartmentalised and therefore potentially less efficient. We believe the PRA approach should be proportionate to different business models and their impact on financial stability. A bank engaged in private banking activities for high net worth individuals, who are often based overseas and/or non-resident for tax purposes, poses very different retail customer protection issues compared to one that provides transactional banking services to 'true' retail customers. We accept that, to a large extent, banking conduct rules do not make

*PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7212 4652, www.pwc.co.uk*



such a distinction. However the PRA and FCA could work together to introduce appropriate changes (e.g. specific disclosure requirements) to the relevant parts of the FCA handbook, along the lines of the differentiation within CONC.

Critical Economic Functions (CEFs)

At a more practical level, the CP leaves a lot of room for supervisory judgement. Firms present or entering the UK through branches will face ongoing uncertainty about whether or not those branches will be deemed to have CEFs. That uncertainty may have a significant impact on firms' strategic decisions. Not knowing for an extended period of time whether or not the PRA would ask an entity to shrink or cease certain parts of its business, or to subsidiarise with the associated costs, could negatively impact their business planning. This risks dis-incentivising banks from using branch structures, which for many organisations would be more effective and efficient from governance, tax and operational perspectives. It could also potentially affect the level playing field between different entities.

We would encourage the PRA to provide as much detail as possible in the policy statement on the definition of CEFs and associated thresholds. For example, in relation to retail banking activities it would be helpful to clarify what terms such as 'de minimis levels' and 'very high level of assurance over resolution' mean in practice. It would also be good to define more precisely what 'transactional accounts' are and which types of clients are considered retail and whether SME or high net worth individuals would be included for instance.

Home State Supervisor (HSS) equivalence

We would like the PRA to provide additional clarity on the process for determining HSS supervisory and recovery and resolution regime equivalence. Firms would benefit from having a better understanding of the criteria, especially regarding depositor preference issues, the process, how long it is likely to take and how they will learn the outcome.

We would also like to bring to your attention the fact that some jurisdictions don't have yet any recovery and resolution regime in place and don't have plans to develop such a regime in the near future while international policy is still in flux. Current branches from those countries are unsure of what will happen to them post policy implementation and it would be helpful for the PRA to communicate clearly what the risk appetite is for those banks to continue operating as branches.

Reporting

While we recognise the right for the PRA to request ad hoc information, we draw the PRA's attention to the importance of minimising the burden on EEA branches especially where EU harmonised requirements should apply as far as possible. We also emphasize the need to improve the forms to make sure they can provide meaningful and comparable information across the branches. The pilot reporting forms do not contain definitions of the different categories of reporting items, making it difficult for firms to identify which elements to report. We would also emphasise that the PRA will need to give firms sufficient lead time for implementation, as further development of IT systems will be required for many branches.



Finally, we would welcome more details on the timeline and practical implementation of the new framework. It would be helpful to clarify the process for non EEA firms to apply for authorisation and to ensure that the PRA can accommodate all requests in a reasonable timeframe. Firms would also benefit from more information on any FSMA-compliant mechanisms the PRA plans to put in place to deliver and execute the subsidiarisation strategy included in the proposal.

We hope that our response will be helpful to you and we would be pleased to discuss our comments further with you. If you would like to do so, please contact Anne Simpson on 020 780 42093 or David Kenmir on 020 780 44794.

Yours faithfully

A handwritten signature in black ink that reads 'Anne Simpson'. Below the signature is a horizontal line.

PricewaterhouseCoopers LLP