

6<sup>th</sup> January 2015

Depositor Protection Responses  
Joanna Bibby-Scullion & Rosie Kameen  
Prudential Regulation Authority  
20 Moorgate  
London EC2R 6DA

Via email: [CP20-14@bankofengland.co.uk](mailto:CP20-14@bankofengland.co.uk)

## **PRA Consultation Paper 20-14: Depositor Protection**

Dear Ms Bibby-Scullion and Ms Kameen,

### Introduction

The Association for Financial Markets in Europe<sup>1</sup> (AFME) welcomes the opportunity to comment on the Consultation Paper. AFME supports the objectives outlined in the Consultation Paper, namely an effective compensation scheme which enhances financial stability in the UK, which facilitates effective and prompt payment of compensation thus improving depositor confidence which, in turn, should minimise the likelihood of a run on a deposit taker. As the Consultation Paper does not raise direct questions on which the PRA seeks views, AFME offers its comments on matters which reflect the current thinking of its Members, namely;

- \*\*Funding requirements
- \*\*Changes in eligibility for depositor protection
- \*\*New disclosure requirements for firms
- \*\* Continuity of access/timetable

### Funding requirements

With the implementation of the Deposit Guarantee Scheme Directive (DGSD), many of AFME's Members, who mostly/solely operate in the professional and wholesale markets in the UK, will be faced with having to contribute to the Financial Services Compensation Scheme (FSCS) in respect of their depositors. Nevertheless, AFME welcomes the PRA's commitment to take into account both the degree of affordability and the likely impact on financial stability, inter alia, on the level of

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<sup>1</sup> AFME represents a broad array of European and global participants in the wholesale financial markets, and its members comprise all pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA), through the Global Financial Markets Association (GFMA) to communicate the industry standpoint on issues affecting the international, European and UK capital markets.

#### **Association for Financial Markets in Europe**

contributions required. Notwithstanding the element of pre-funding contributions to the FSCS and the use of risk based levies, AFME believes it is important that the PRA/FSCS, as far as possible, provides certainty for each contributor in its level of contribution for future years.

AFME looks forward to responding to the forthcoming consultations by both the EBA and PRA on risk based levies. But those AFME Members who do not have retail depositors are surprised that the PRA appears to propose to include legacy costs of previous depositor defaults into the risk based levies calculation and requests that PRA should reconsider its position on this matter; they believe it to be iniquitous that banks who have not dealt with retail customers should be required to pay an element of the legacy costs for compensation of retail customers, *particularly* when it has been FSA/FSCS policy in the past that non-retail banks have not been required to contribute to the FSCS.

#### Changes in eligibility for deposit protection

AFME Members particularly welcome the PRA's proposal to delay the implementation for its Single Customer View (SCV) requirements for those banks who have not been previously subject to SCV requirements, including those requirements to "mark" eligible deposits, as the PRA has recognised the significant IT challenges these requirements present. AFME requests, on behalf of those of its Members who offer banking services to both retail and non-retail customers, that the implementation of the SCV requirements for those parts of the non-retail institutions be similarly deferred on the basis that our Members are likely to operate different IT systems for their non-retail business lines compared to their retail business lines and, hence there will be significant challenges in meeting the SCV requirements.

In terms of "marking" eligible deposits, it is unclear whether the "marking" will have to be conducted at an account level or customer level or whether banks may use a combination of both methods. Members advise that there will be significant IT challenges to be overcome regardless of which "marking" option is used. If marking is used at account (product) level, eligible products for ineligible customers may be marked. However, if marking is conducted at customer level, there may be cases where eligible customers may have ineligible products. Members will also have to be able to have clear cross referencing in their systems, which will further increase the cost and complexity of designing, implementing and testing their systems.

#### New disclosure requirements for firms

Given our comments above on "marking" eligible deposits within each bank's records, AFME requests that the implementation date to provide details (and relevant content) on account statements as to which deposits are eligible and what are not eligible are deferred to those of the "marking" requirements as it is likely that both these requirements will have to be met using the same IT system. Accordingly, it may appear reasonable that the implementation dates for both requirements are introduced in tandem. Furthermore, for non-retail customers, given the relatively low limit of deposit protection (£85,000) compared to their actual deposits, it seems unlikely that they would deem the concept of deposit protection to be significant. Additionally, AFME wishes to compare the short

deadline of 3 July 2015 for this particular requirement to disclose information, (absent a final Policy Statement) compared to the FCA's recent implementation of a 12 month timeline for various disclosures to existing clients in its Policy Statement 14/9 on client assets. Finally, the currently envisaged timescale may not permit banks to adequately train relevant staff to answer questions from customers must not be lost sight of.

Continuity of access/timetable

Whilst AFME Members support the policy objective behind the PRA's proposals in this area as they are designed to make it easier for FSCS-covered deposits to be transferred in a resolution, the Members note the proposals are super-equivalent to the DGSD. Those Members that currently have a Single Point of Entry Bail-in for their resolution strategy suggest that these particular proposals are duplicative and disproportionate. Given the significant IT challenges presented in creating and then maintaining systems that can identify and then separate eligible covered and uncovered balances, we request that the implementation for such requirements be, once again, introduced in tandem with the deferred implementation of the SCV obligations. (One Member estimates, based on a comparative change, PayM, (a process that overlaid their current systems, which cost the industry £750 million and took three years) that to implement the current proposals would cost over £100 million with a three to four year implementation period.) With the Policy Statement due for publication in Q2 this year, a realistic deadline, provided the continuity of access provisions remain, would be 31 December 2018. Such a deadline is consistent with the 20 day payout deadline and the schedule for ring-fencing. Furthermore, a longer deadline will reduce the potential operational risks of unintended consequences on other payments and system changes required by the industry.

We would be pleased to discuss the issues covered in this submission with the PRA or to provide any further information on these issues if that would be helpful.

Yours faithfully,



Denis O'Connor  
Managing Director