

New Regulatory Reform Programme - Summary

The regulatory functions relating to UK deposit taking institutions including banks, building societies and credit unions, that are currently being undertaken by the FSA, will be replaced in 2013, by two subsidiaries of the Bank of England.

The Bank of England will sit at the top of a structure which will have a subsidiary called the **Prudential Regulation Authority (PRA)**, conducting the prudential regulation of financial institutions i.e. the financial health and the impact that this has on the UK economy.

A second regulator – the **Financial Conduct Authority (FCA)** – will be responsible for consumer protection in financial services and the regulation of firm's conduct.

This means that as deposit takers credit unions will be regulated by both new bodies:

- **PRA** – for prudential matters relating to financial strength
- **FCA** – for governance and conduct matters

Commonly referred to as the “**Twin Peaks**” regulatory model.

In April 2011, the FSA moved to a shadow structure with two new business units that mirror this split;

- **Prudential Business Unit (PBU)**
- **Conduct Business Unit (CBU)**

Between now and the formal split the FSA will draw up the structures of the PRA and the FCA. As deposit takers credit unions are now supervised by the PBU.

The FSA will continue as the UK's financial regulator until the formal split.

Prudential Regulation Authority (PRA)

The new PRA will have a single objective:

To promote the safety and soundness of regulated firms

- The PRA will seek to minimise the adverse effects of firm failures on the UK financial system by ensuring that firms carry out their business in a way that avoids these effects.
- It will not be the PRA's responsibility to ensure that no PRA authorised firm fails. This responsibility lies firmly with each firm's management board.
- All firms will be subject to a baseline level of supervisory oversight designed both to reduce the probability of failure and to ensure that if a firm does fail, it does so in an orderly manner.

The PRA's style of supervision will be judgement based

- The nature and intensity of supervision will be commensurate with the level of risk a firm poses to the stability of the system

The PRA will be forward looking in assessing the vulnerability of firms:

- Business models
- Capital and liquidity positions
- Governance
- Risk management and controls

Where threats to safety and soundness are identified the PRA will take supervisory action at an early stage to reduce the probability of disorderly failure.

A proactive intervention framework will be introduced setting out remedial actions focussing on risk mitigation and recovery plans designed to return firms to a stable, sustainable position.

The PRA will take a proportionate approach to the regulation of small firms such as credit unions.