David Soanes - **Prudential Regulation Committee appointment questionnaire**

1. Do you have any business or financial connections, or other commitments, that potentially give rise to a conflict or perceived conflict of interest in carrying out your duties as a member of the Prudential Regulation Committee (PRC)?

No.

I have no business connections and only one other commitment, Vice Chair of my local parochial church council. I previously had holdings of equity and Additional Tier 1 of individual financial institutions which I sold proactively in the period prior to my appointment, other than UBS. I have moved my non-discretionary investment portfolios to discretionary management. Once selected, but before announcement, I discussed my financial holdings with the deputy Secretary of the Bank of England (who is also the part of the Bank's conflicts office) and this prompted me to engage with UBS, my former employer, to deal with my blocked and deferred remuneration as envisaged within the PRA's Supervisory Statement S2/17. I then also sold my cryptocurrency holdings.

I have read the PRC Conflicts Code and broader Bank of England Code and will adhere to them.

2. Do you intend to serve out the full term for which you have been appointed?

Yes.

3. Do you have, or do you intend to take on, any other work commitments in addition to your membership of the PRC? If so, how will you fit them alongside your commitments at the PRC?

No.

I have neither taken on, or currently intend to take on, any other work commitments during my membership of the PRC. As noted in question 1, I have no other work commitments.

4. Please explain how your experience to date has equipped you to fulfil your responsibilities as a member of the PRC. To which areas of the PRC's work do you expect to make particular contributions and where might you want to undertake further research?

I have had a 30+ year career, all with UBS Investment Bank and UBS Group. My investment banking career was focused on capital markets and financial institutions banking. I started in debt capital markets, moved on to running EMEA financial institutions banking, then to running global equity and debt capital markets before running global financial institutions banking. These latter roles came with membership of the executive committee of UBS investment bank, its most senior body that took all strategic and operational decisions. I managed client relationships as well as UBS bankers as UBS book-ran daily senior, securitised, junior-ranking debt transactions, hybrids and multiple equity issues, as well as advising financial institution clients on their strategy and merger and acquisition executions. I had to have detailed knowledge of Basel/Solvency regulations, balance sheet analysis, systems environments and how to apply all of this to individual company and market circumstances across insurers, retail and wholesale banking, wealth and asset management, fin tech and speciality finance.

My understanding of financial institutions, and capital markets was one reason I was involved by HMG in 2008 as the global financial crisis peaked. It culminated in my helping to devise the October 2008 plan to stabilise the UK banking market. This, together with later issues in the banking sector, necessitated my working closely with the PRA, and its predecessor, and gave me insight into their working environment and challenges. The consequences of the financial crisis in 2008 are still fresh in the memory, at least they should be.

Alongside my global leadership of the financial institutions banking team, I had a second role as UK County Head for UBS Group. This encompassed all of UBS's wealth management, asset management, and investment banking operations in the UK and came with membership of the board of the bank UBS Limited and, after that was dissolved, the UK executive committee. These bodies were making the strategic and operational decisions around the UK firm under the close supervision of the PRA. With the advent of Senior Managers and Certification Regime (SM&CR) I was designated as a Senior Manager, giving me first-hand experience of this, much discussed, regulatory reform.

This dual insight and experience accumulated over 30 years will enable me to contribute to the PRC across most of its work, and not just to a particular part of it. I intend to be a challenging but constructive member of the committee. My first months will be spent understanding the current book of work and impending decisions. In the medium term I expect my experience in M&A and markets will make these particular areas of contribution. In terms of learning and development, I will be new to being on this side of the table as regulatory policy is shaped.

5. What is your overall assessment of the track record of the PRA and PRC to date? In your opinion, what are the areas of most success and in which is there still the most work to be done?

The PRA came into existence with the effects of the global financial crisis still resonating. It has successfully built its own reputation domestically and internationally. At the same time, it has worked closely with firms as they have rebuilt their reputations, capital and solvency, culture, resolvability and operational resilience. All of this has been thoroughly tested by a series of events: Brexit, global pandemic, Russia's illegal war on Ukraine and the failure of Credit Suisse - a global systemically important financial institution, with substantial UK operations. I believe these challenges were met, somewhat, because industry senior management skill and diligence has been greatly improved by the introduction of the SM&CR. Another major success is the fact that no depositor or policy holder has lost money nor have taxpayers been called upon. When a firm was resolved, Silicon Valley Bank UK, it happened at a positive value. The PRA has also successfully introduced Solvency UK, ensuring these new capital rules have not caused unwarranted distortions to the sector and its global competitiveness. I answer the latter part of this question in questions 7 and 8.

6. The PRC has a lower public profile and is less transparent than the Bank's two other policy-making committees (for example it does not publish meeting records or minutes). How appropriate do you think this is, and do you think there is a need for the PRC and PRC members to promote greater transparency and public engagement?

Whilst the PRC plays a critical role in financial regulation, its public profile is indeed low compared to other financial oversight bodies. Within the financial industry too, it is the PRA that first comes to mind as the key decision-making body for prudential regulation, rather than the PRC. The PRC operates with a degree of technical complexity and confidentiality that makes publishing meeting records and minutes not practicable. More broadly, any communications are made by the PRA. Indeed, the PRA publish a great deal of information on a regular basis. I see the PRA as being proactive and transparent and clearly signposting its focus and direction of travel through these communications.

Whilst public understanding of the role of the PRC is important for reasons of transparency, accountability and broader financial literacy, I believe the very public profile of the PRA suffices. In short: the committee's effectiveness does not depend on having a public profile, but rather on how it answers to you and both Houses of Parliament more broadly.

a. **Because the PRC does not publish such information, it will be difficult for this Committee to assess your contributions to the PRC. Do you intend to give speeches or be visible in some other way?**

I intend to join the Bank's schools outreach program (I expect it will be similar to Speakers for Schools which I will continue to do on an occasional and voluntary basis). Financial literacy – and education – is important and I have been much engaged in that during my career. I will have the time, because I have no other roles, to visit regional agents, attend conferences and engage with industry bodies like UK Finance, TheCityUK and the Association for Financial markets in Europe to gather information. However, I don't expect to be making speeches, unless asked to by the PRA executive. I also won't have an individual public opinion of the work the PRC does, rather I will only ever publicly reflect the collective position of the PRC and the role it plays in the financial architecture.

I hope that I will be able to offer evidence of my contributions during the Treasury Committee's scrutiny of the "Work of the PRA" and other committee hearings as appropriate, as well as during any private meetings at the Bank.

7. How well has the PRA implemented its secondary competitiveness and growth objective?

This secondary objective (SCGO) was introduced relatively recently through the Financial Services and Markets Act 2023, which came into effect in July 2023. I was struck by the tone of the PRA's first report to Parliament in July 2024. It was clear the PRA, and its CEO, was fully embracing the new requirements with early evidence of a shift in focus. It immediately began incorporating competitiveness assessments into its policy-making process having anticipated the legislation, rather than waiting to respond to the fact of it. Their plans for Basel 3.1 implementation have changed reflecting the new objective, industry input and global developments. Solvency UK changes were also made, some at the PRA's own initiative in light of SCGO. Lastly, the PRA removed the bonus cap, with further changes to remuneration discussed. The objective is still new, making it difficult to assess its long-term implementation and what else, if anything, is in the pipeline. Ultimately there has to be tension between maintaining prudential standards and promoting competitiveness. It strikes me the PRA has shifted to engage with this trade-off as positively as is prudent, considering growth is only possible in a stable financial system.

8. What is your assessment of the PRA's approach to implementing its secondary competition objective?

This objective has been in place since 2014 and there have been a number of developments in the PRA's approach.

I will first answer some different questions: Has there been an increase in competition in the insurance sector? On balance I can't divine much. Has there been an increase in competition in the retail banking sector? For certain products the answer is strongly yes, in others the answer is more qualified. For wholesale and commercial banking, the answer isn't no, but a lot also hasn't changed. This doesn't mean that pricing hasn't improved for the consumer or that service levels haven't improved. I believe they have.

To answer the question posed: The PRA made changes to incorporate competition considerations into its decision-making, including establishing dedicated competition teams and implementing competition-focused analysis frameworks. The PRA took steps to reduce barriers to entry for new banks and insurers through initiatives like the New Start-up Units. Following Brexit the PRA adapted its approach to supervision for smaller firms, recognising that a one-size-fits-all approach disadvantages new entrants and challenger firms. The number of new bank authorisations has increased since the introduction of the secondary objective, though market share concentration in core banking markets remains high.

While the PRA has made determined and organised progress in implementing this secondary competition objective, the limited changes to the competition landscape suggests there remains scope for progress. The challenge of balancing competition with prudential objectives remains, and it also now needs to cope with the introduction of the more recent competitiveness and growth objective – which may further stimulate the nascent M&A market.

9. How well can the PRA measure and regulate operational risk?

As a Senior Manager I had to attest as part of the annual Senior Manager Arrangements, Systems and Controls "SYSC" attestation process. This experience led me to be believe that the PRA has this complex subject well up its list of priorities. It has to be, tail-risk operational incidents can be severe both financially and reputationally. Operational resilience is a priority for financial services firms. It is anchored upon a framework which requires firms to identify important business services, set impact tolerances for disruptions, conduct mapping of key processes and develop and test business continuity plans. Alongside this the PRA's supervisory focus is on monitoring firms' ability to prevent, adapt to, and recover from operational disruptions so maintaining service delivery during potential cyber-attacks, technology failures, or other significant challenges. The final piece is done with an eye on the system wide risks, so avoiding a cascading failure. There have been recent examples of the former, none of which have cascaded. Understanding these events and sharing them across the industry is an important brokering role that the PRA plays.

For operational risk management high data quality and availability is the starting point. However, historical data may be incomplete or inconsistent within (and certainly across) institutions and even complete data ages quickly in its relevance. If data is considered "good" it can be too relied upon as emerging risks may not be captured in what is necessarily backward-looking data. Generally, I believe "data culture" has improved markedly in the past 10 years. Regulating qualitative risks like conduct risk is more complex still and requires close attention to culture but has to run alongside the quantitative process.

Some elements of reporting and training requirements are unpopular with firms and the significant supervisory resources required for qualitative assessment and the need for specialised expertise in various operational risk areas places a strain on the PRA. I believe the current regime of combining capital requirements with supervision coupled with enhanced reporting requirements is a good system.

10. What is your assessment of the risks to financial services arising from climate change and what the PRA is doing to ameliorate those risks? What role can and should the PRC and PRA play in promoting the transition to net zero carbon emissions?

Climate and the green transition carry substantial risks. The risk to financial stability is of an abrupt repricing, where the future value of a given sector quickly changes across the banking and insurance industries. That could be systemic whilst other risks are more compartmentalised. For example, the growing number of uninsurable properties, the liability of which can only fall back on sovereign/state insurers. The immediate cost of natural disasters to insurers and banks, whilst substantial, are lower than pernicious second order effects like supply chain disruption, agricultural land impacts, carbon-intensive industry assets becoming stranded and broad property impairment.

The PRA and PRC have notably increased focus and pressure on this over the past few years. It is clear to firms that there are “Supervisory Expectations” – namely the PRA requires financial firms to integrate climate-related risks into their governance, risk management, and strategic planning processes. This was made real when the Bank of England conducted a climate stress test for major banks and insurers, assessing their resilience to different climate scenarios and pushing firms to enhance their climate risk management capabilities. Additionally, disclosure requirements are mandatory for firms to include detailed disclosures about their climate-related financial risks, following recommendations from the Task Force on Climate-related Financial Disclosures. Work is ongoing to incorporate climate risks into capital adequacy assessments and prudential regulations, ensuring firms have sufficient buffers against potential climate-related financial impacts, which ultimately will promote the transition. Firms themselves aren’t standing still as they develop, for example, green bond financings and engage with their clients to help them develop transition strategies.

11. How will Artificial Intelligence potentially alter the safety and soundness of firms the PRA regulates, and how might the PRC and PRA respond?

The financial services industry has been in a technological battle for over 50 years, ever since the advent of the mainframe computer. Generally, technology has been harnessed to the great benefit of growth, consumers, financial markets and wealth creation. At the same time, however, the complexity that has come from this has led to risks, bubbles and bad actors. AI is not new in this context; it is just the next chapter.

There will be many benefits to safety and soundness: credit risk assessment should see improved credit scoring accuracy through analysis of broader data sources. AI monitoring will enhance fraud detection and cybersecurity. AI will improve risk modelling and stress testing. AI will drive greater automated claims processing, improving efficiency and reducing costs. There won’t be an area left untouched, rather like how the internet, PC and email permeates every aspect of financial services today.

However, AI models will introduce new risks, for example, when they hallucinate, exhibit algorithmic bias which could lead to unfair lending and insurance practices particularly with vulnerable consumers. Operations too dependent on AI will create new operational vulnerabilities if systems fail or are compromised, particularly if there has been vendor concentration in outsourcing these tasks. Will AI be able to imagine non-continuous patterns and "jump-to-default" events? Finally, automated claims and banking services through AI-powered chatbots and customer service systems have the potential to introduce new operational risks and customer frustration.

The PRA and PRC's response is helped by their early engagement with the issues of machine learning. Together with FCA collaboration the first machine learning paper was published by the Bank in 2019, for example. The current approach is "technology-agnostic" i.e. existing rules are applied regardless of the specific technology being used. This has worked well so far, as firms are being cautious in AI deployment and they are not flagging heavy-handed regulators. Despite their caution, AI adoption is widespread in firms' technology platforms.

I'm relying on Sarah Breeden's October speech for much of these next comments. The speech covered the AI subject thoroughly including making these micro-prudential points: Model risk-management – can existing approaches adequately ensure firms understand and control their evolving AI models, especially third-party ones; Data quality standards – which introduces a new data benchmark, namely "training-data quality", and all that implies for bias prevention; Governance challenges - only one-third of firms reported fully understanding their implemented AI technologies, just as its use expands into fundamental areas like credit risk assessment and trading. The PRA and PRC response is evolving but could include developing practical guidance for senior management on AI oversight, considering whether to create specific AI responsibilities within the Senior Managers regime, and determining appropriate levels of human oversight in AI decision-making.

Balancing innovation benefits with proper risk management as AI becomes more integral to financial operations is both a micro and macro prudential challenge. A challenge that will be better met by cross-border regulatory coordination to develop consistent AI standards. Your call for evidence, which closes next week, may pick up on this point. From my current perspective the Bank, PRA and FCA are culturally disposed to leading this collaboration.

12. Apart from the issues highlighted above, would you highlight any other emerging or possible risks to the safety and soundness of firms in any of the sectors regulated by the PRA?

There is already, pre-AI adoption, an ever-present cybersecurity threat with a high likelihood of crystallisation, if not success. There is an increasing sophistication in the cyber-attacks targeting financial infrastructure, individuals and individual firms, which gives rise to the potential for significant operational disruption and data breaches.

Globally, growing government deficits are having to be financed against a headwind of central bank balance sheet reduction, trade disputes and a reduction in global collaboration, with some potential for fractures appearing in financial regulation. All things being equal these will serve to push up the cost of capital. There is a moderate likelihood that deficit financings become unmanageable as interest costs become too burdensome.

The non-bank sector has grown substantially with private credit a notable example. Insurers and banks are exposed to this growth through funded reinsurance and the provision of leverage, as examples, though the PRA has taken steps to limit these exposures. The benefits of having credit markets become more sophisticated and expand to this larger and more diverse investor base are manifold. However, the lack of transparency, no mark-to-market discipline, and rapid growth are concerning. The substantial increase in central bank balance sheets from the financial crisis onwards necessarily led to increased liquidity looking for opportunities in credit (and crypto for that matter). As liquidity is withdrawn the quality of this lending, and privately issued currencies, will be revealed.