BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

**Sam Woods**
Deputy Governor, Prudential Regulation
CEO, Prudential Regulation Authority
T 020 3461 8293
sam.woods@bankofengland.co.uk

7 April 2017

Dear CEO / Branch Manager

**Contingency planning for the UK's withdrawal from the European Union**

1. This letter is relevant to banks, insurers and designated investment firms undertaking cross-border activities between the UK and the rest of the European Union (EU). This includes, for example, subsidiaries of US investment banks based in London doing business throughout the EU under passporting arrangements, as well as UK banks doing likewise, and branches of institutions from other EU states operating here in London.

2. As set out in the Governor's speech today,[1] we expect all firms with cross-border activities between the UK and the rest of the EU to undertake appropriate contingency planning for the UK's withdrawal from the EU, in light of the UK Government's decision to trigger Article 50.

3. The UK Government has made clear that it is aiming for a comprehensive new trade relationship with the EU, coupled with an implementation period. But given that a wide range of outcomes is possible at this early stage, we expect firms to plan for a variety of potential scenarios.

4. The main purpose of this letter is to ensure that all firms are making, and stand ready to execute in good time should the need arise, contingency plans for the full range of possible scenarios such that the safety and soundness of their UK operation is assured and the risk of any adverse financial stability impacts on the UK economy is mitigated. The FPC will oversee these plans to mitigate risks to financial stability.

5. Many firms are well-advanced in their planning and have engaged closely with the PRA as part of that process. However, our current assessment is that the level of planning is uneven across firms and plans may not be being sufficiently tested against the most adverse potential outcomes – for example, if there is no withdrawal or trade agreement in place when the UK exits from the EU, and the UK and

[1] www.bankofengland.co.uk/publications/Pages/speeches/2017/973.aspx

EU do not reach agreement on issues such as implementation periods, mutual recognition of standards, and co-operation in financial regulation or supervision.

6. Depending on the outcome negotiated by the UK government, the new legal framework may result in a statutory and regulatory regime with a large number of firms – currently either physically based in the UK or providing services within the single market via passporting arrangements – coming directly under PRA authorisation and supervision. In that case, we would need to form our own judgements, rather than relying exclusively on those of others.

7. Where firms currently rely on passporting arrangements to undertake business in the UK, or firms' UK businesses include a material non-UK European element, we will expect them to have full contingency plans that cover a range of potential scenarios, including the most adverse potential outcomes outlined above.

8. In particular, firms currently relying on passporting arrangements to undertake business in the UK should take into account the need to apply for authorisation from the PRA, which may be required in order to continue operating either as an incoming branch or as a subsidiary after the UK's withdrawal from the EU. As part of this, firms should develop contingency plans for authorisation, including possible structural changes such as setting up a subsidiary.

9. The PRA's existing statement[2] on its approach to the supervision of bank branches is one relevant consideration for European Economic Area (EEA) bank branches in this context. As a starting point, and based on that statement, the PRA will expect those EEA bank branches which have significant retail/SME transactional deposits to discuss with it whether they need to establish a subsidiary, if they plan to continue that activity in the UK after its withdrawal from the EU.

10. In response to this letter, we request: written confirmation that your board/local branch senior management has considered its contingency plans around UK withdrawal; a short summary of those plans; and assurance that those plans address appropriately a wide range of scenarios, including those discussed above. Where authorisation or other regulatory engagement (for example to support a business restructuring or court-led transfer of business such as a Part VII transfer) is required, please inform us of those plans.

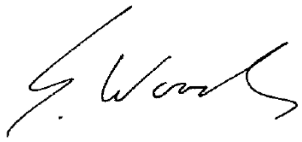
11. We recognise that firms' business models and legal structures vary widely. For many firms operating in the UK, for example, the European element to their business may be small. For such firms, a *de minimis* response will likely suffice.

12. The PRA will use the responses that firms provide as an input to the Bank's own contingency planning, and will share relevant information with the Financial Conduct Authority.

[2] http://www.bankofengland.co.uk/pra/Pages/publications/ss/2014/ss1014.aspx.

13. We would welcome full responses by Friday 14 July 2017.  Your supervision team will be available to discuss these issues with you further as you consider your response.

Yours sincerely



Sam Woods
**CEO, Prudential Regulation Authority**
**Deputy Governor for Prudential Regulation, Bank of England**