BANK OF ENGLAND

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Please quote ref. ******* on all correspondence

Dear Mr Henderson

Thank you for your letter of 14 November addressed to the Governor concerning the Royal Bank of Scotland (RBS) and more generally about holding individuals accountable for instances where misconduct has taken place. The Governor is always grateful to those who take the time to write to him and has passed your letter to me to reply on his behalf. We are sorry to hear about the difficulties you have experienced with RBS and hope you manage to find a satisfactory solution to your complaint.

Turning to your comments about holding individuals accountable where misconduct takes place, as you may appreciate it has only become apparent since the financial crisis that adequate measures were not in place to prevent misbehaviour taking place by firms and individuals within these firms. To address this, since the crisis a new regulatory regime was put in place from April 2013 which has given the Bank of England additional powers over the financial services sector. The Financial Services Act (2012) established an independent Financial Policy Committee (FPC), a new prudential regulator, the Prudential Regulation Authority (PRA) as a subsidiary of the Bank, and created new responsibilities for the supervision of financial market infrastructure providers.

The Prudential Regulation Authority (PRA) is responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms. The PRA works alongside the Financial Conduct Authority (FCA) creating a "twin peaks" regulatory structure in the UK. The FCA is a separate institution and not part of the Bank of England. The FCA is responsible for promoting effective competition, ensuring that relevant markets function well, and for the conduct regulation of all financial services firms. This includes acting to prevent market abuse and ensuring that consumers get a fair deal from financial firms.

Where a firm does not adhere to the rules and is found guilty of misconduct the FCA will take action against the firm. A recent example is where the FCA have fined five banks following an investigation which was launched in October 2013 relating to trading on the foreign exchange (forex) market which found failings. Please see the following link for further information:

http://www.fca.org.uk/news/fca-fines-five-banks-for-fx-failings

Going forward and looking at the bigger picture measures are being taken by regulators which will ensure individuals rather than the institutions are held accountable for bad behaviour. In light of this, the PRA has issued a consultation on 30 July on strengthening accountability in banking. You can find the consultation paper which provides full details on our website using the following link:

http://www.bankofenqland.co.uk/pra/Paqes/publications/cp/2014/cp1414.aspx

The proposals in this consultation are intended to create a new framework to encourage individuals to take greater responsibility for their actions. It will make it easier for both firms and regulators to hold Bank of England, Threadneedle Street, London EC2R 8AH T +44 (0)20 7601 4444 www.bankofengland.co.uk individuals to account so that if Senior Managers take decisions in certain circumstances that cause the institution to fail they may be prosecuted by the PRA or the FCA. The proposals reflect the recommendations of the Parliamentary Commission on Banking Standards (PCBS) and implement changes required by amendments which the Financial Services (Banking Reform) Act 2013 made to the Financial Services and Markets Act 2000 (FSMA).

Prior to this, on 13 March, the PRA published a Consultation Paper on 'Clawback' which sets out proposals to require firms to amend employment contracts to enable them to apply clawback to vested variable remuneration, up to six years after vesting. As a minimum, firms should be able to clawback vested remuneration when:

• There is reasonable evidence of employee misbehaviour or material error; or
• The firm or the relevant business unit suffers a material downturn in its financial performance; or
• The firm or the relevant business unit suffers a material failure of risk management

The consultation closed on 13 May which was followed by a policy statement issued by the PRA on 30 July, this sets out the PRA's response to feedback received during this consultation. The rules will come into force on 1 January 2015. The consultation and policy statement can be accessed through the following links:

http://www.bankofenqland.co.uk/pra/Paqes/publications/clawbackcp614.aspx

http://www.bankofenqland.co.uk/pra/Paqes/publications/ps/2014/ps714.aspx

Lastly it may be worth mentioning, the Fair and Effective Markets Review (FEMR) which is chaired by Dr Shafik was established to conduct a comprehensive and forward looking assessment of the way wholesale financial markets operate, to help to restore trust in those markets in the wake of a number of recent high profile abuses, and to influence the international debate on trading practices. On 27 October the FEMR published a consultation document on what needs to be done to reinforce confidence in the fairness and effectiveness of the Fixed Income, Currency and Commodities (FICC) markets. Further details can be found on our website using the following link:

http://www.bankofenqland.co.uk/publications/Paqes/news/2014/140.aspx

I hope the above information provides some degree of assurance that both the PRA and the FCA are working towards ensuring new measures are implemented to prevent misbehaviour. Thank you once again for writing to the Governor.

Yours sincerely

Jasbinder Kaur

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