Barclays' Response to HM Treasury's 'A Smarter Ring-Fencing Regime: Consultation on Near-Term Reforms'

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Barclays is a universal consumer and wholesale bank with global reach, offering products and services across personal, corporate and investment banking, credit cards and wealth management. With over 330 years of history and expertise in banking, Barclays operates in over 40 countries and employs approximately 85,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

We welcome the opportunity to respond to HM Treasury's 'A Smarter Ring-Fencing Regime: Consultation on Near-Term Reforms' ('the Consultation').

Executive Summary

Barclays considers that the ring-fencing regime currently forms a robust and valuable component of the overall UK financial system. Applied in combination with other rules and regulations, it has contributed to financial stability in the UK during the recent pandemic and other times of macroeconomic uncertainty. As a result, we do not see the need for substantive changes to the ring-fencing regime as it is currently applied. We believe that major changes to the perimeter of the regime as proposed could lead to unintended consequences, which could have an adverse impact on firms, competition, growth, and UK firms' international competitiveness.

In particular, Barclays does not agree with the changes to the threshold level for application of ring-fencing as proposed. Increasing the threshold from £25bn to £35bn may, taken in combination with some of the other proposals in the consultation, have the potential to increase the overall levels of risk posed to the financial system and the taxpayer in the UK. Moreover, in combination with the secondary threshold proposals, an increase in the primary threshold raises the risks of increased complexity in the operation of the regime, the key benefit of which we see as enhancing confidence in the UK banking sector. We would also like to note that, based on recent events, even the failure of a relatively small deposit-taker can have significant consequences on critical parts of UK economy – and increasing the core deposits threshold therefore seems counterintuitive.

In addition to the threshold proposals, Barclays does not consider that the proposal to expand the geographic scope of ring-fencing to deposits placed with non-EEA branches is necessary or helpful. The rationale for permitting ring-fenced banks to have non-EEA activities has not been made clear and does not appear to align with Vickers; it is not evident why this should be encouraged as it exposes UK depositors to non-UK risk.

More pressingly, extending the definition of 'core deposits' to include deposits held in non-EEA branches of UK deposit-takers could require additional existing activities to be transferred to the ring-fence, with the risk that cross-border resolution becomes more complex. Among other consequences, this could negatively impact the provision of services in other jurisdictions, while on the other hand not contributing to the overall stability of the UK financial system. We respectfully urge HMT to reconsider the proposal to extend the definition of 'core deposits' in its future legislation to avoid any impact on the provision of non-UK products and services from where these are already provided outside a UK ringfenced entity.

Otherwise, Barclays welcomes the technical proposals to soften edges of ring-fencing where these have been found to cause undue friction in application of the ringfence while not adding to overall financial stability. While these measures are generally helpful, we suggest that in certain areas the proposals should be made more consistent.

For instance, we welcome HMT's overall direction of travel on alleviating the compliance burden on RFI exposures. However, we do not believe that the proposals go far enough to solve the issues around identifying and monitoring RFIs, and suggest this definition is moved to the PRA Rulebook. In addition, Barclays considers that the transitional provision for M&A should be extended. While helpful, the proposed transitional provisions apply only to the acquisition of banks, rather than asset portfolios or non-bank entities. Moreover, we note that the removal of certain reporting requirements, or the introduction of materiality thresholds, would ensure the proposed changes have the intended effect.

We would be delighted to discuss these points and the rest of the consultation in more detail with HM Treasury.

Yours sincerely,

BARCLAYS