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New PRA boss signals more of the same (with some exceptions)

In his speech at the Mansion House on October 26th the new PRA CEO, Sam Woods, said that "the post-crisis reform package…strikes the right balance…Brexit does not affect this judgement," and promised that the Bank's independent Financial Policy Committee, of which he is a member, will "require a level of resilience to be maintained that is at least as great as that currently planned".

However, Mr. Woods noted the possible unintended consequences of the standardised approach to the treatment of residential mortgages. He drew attention to the gap in risk weights produced by the standardised and internal modelling approaches for low-LTV lending - which are generally employed, respectively, by smaller and larger banks. This gap creates an economic incentive to standardised firms to concentrate on higher-LTV lending, which the PRA hopes to counter in two ways:

- Lower standardised risk weights for low-LTV mortgages (via the Basel Committee), and;
- Improving smaller firms' access to approval for their own internal models

Also of interest are his plans to "recruit the forces of market discipline to our cause" and to explore the disclosure of banks' regulatory returns. Our view at KnowCo is that Pillar 3 disclosure has long been the orphan of bank supervision in the UK and that this is bound to change at some point. With last week's statements, it now looks to be changing sooner rather than later - there will be more to come on this topic in future from KnowCo.

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