

## Corporate & Financial Weekly Digest

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### **Prudential Regulation Authority's Approach to Banking Supervision Announced**

On May 19, the Bank of England and the UK Financial Services Authority (FSA) published a joint paper, "The Bank of England, Prudential Regulation Authority - Our approach to banking supervision," setting out the current thinking on how the future Prudential Regulation Authority (PRA) will approach the supervision of banks, building societies, credit unions and investment firms.

The paper outlines: (1) the principles underlying the PRA's approach; (2) the scope of the PRA; (3) the PRA's risk assessment framework; (4) the PRA's forward looking, judgment-led approach to supervision; (5) the approach to policy-making that will support the judgment-led model; and (6) the approach to authorizing firms and approving individuals.

The PRA will be also responsible for supervising both insurance companies and deposit-takers. A companion paper will be published in June 2011 to cover the PRA's approach to supervising insurance companies.

This paper follows on from the government's July 2010 consultation document on proposed changes to the UK regulatory framework (see the July 30, 2010, edition of Corporate and Financial Weekly Digest), which provides details of the government's proposals to disband the FSA and establish replacement-focused financial services regulators.

Hector Sants, FSA Chief Executive and PRA Chief Executive Designate, said: "The PRA's purpose is fundamentally different from that of previous regulatory regimes and will lead to a significantly different model of supervision to that which was in use pre-2007. In designing this new model we have incorporated both the lessons learned from the last financial crisis and those from firm failures of the past.

"The new regulatory model will be based on forward looking judgments and will be underpinned by the fact that the PRA has a single objective to promote the stability of the UK financial system and in consequence will be a very focused organisation. The new supervisory approach will build on the more intensive approach adopted by the FSA since the crisis."

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Katten Muchin Rosenman LLP  
Charlotte Chicago Irving London Los Angeles New York Washington, DC