

UK Bank Ringfencing and its Implications

Most of our readers will be aware, that come January 2019 UK banks with retail and small business deposits exceeding GBP 25 billion will be required to ring fence these activities from other banking activities, into a ring-fenced entity (RFB) whilst other operating activities such trading, brokerage and M&A for example will fall outside into a non-ring fenced entity (NRFB). Nothing particularly earth shattering there; we know the main UK protagonists it will impact, but how do we expect them to be impacted and what are the implications, particularly with regards to their debt issuance?

As Moody's suggested in their research piece "UK Ring-Fencing Rules To Impact Banks' Credit Fundamentals", Sept 2016, the likelihood is that from a credit perspective the RFB should see its credit profile improve versus its existing co-mingled banking operations and that of the NRFB to relatively speaking deteriorate. This is intuitively straight forward; the asset quality, operations and earnings volatility of the RFB should be superior to that of the NRFB and hence the improvement in credit quality. As an aside, one could argue that the reduction in diversified operations within the RFB, could impart a negative influence to the new RFB.

So, what is our point here? Well as things stand right now, we believe that it is still unclear out of which entity, the RFB or NRFB UK banks will issue unsecured paper from. You might ask the question who cares, we can cross that bridge when we get to it? But you should potentially care. If you're purchasing unsecured paper from a UK bank currently with co-mingled operations, but post Jan 2019 that issuance falls within the NRFB, that could have negative connotations both from a credit perspective and mark-to-market.



Referring back to the Moody's research piece, they intimated that they would be well placed to assess the implications on each bank's RFB and NRFB when that bank has announced its restructuring and which activities will reside in which entity, including that of the debt you currently hold or invest in pre-announcement / re-structuring...

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13th January 2017

Product	Capital Growth
MS 7yr GBP FTSE/S&P Digital 60% EKIP and Digital Barrier	60.50%

Rates (bps)		
	Current	Week Chge
GBP 1yr	55.30	-0.60
GBP 3yr	70.90	-2.50
GBP 5yr	90.80	-3.30

Equity Indices (%)		
FTSE 100	7322.93	1.57%
S&P 500	2246.19	-1.35%
Nikkei 225	19287.28	-0.86%
Eurostoxx 50	3305.39	-0.48%

Currencies (%)		
GBPUSD	1.2219	-0.55%

5yr Credit Spreads (bps)		
Citigroup	74.59	1.89
Credit Suisse	119.83	3.61
Deutsche	166.53	6.12
GS	91.82	2.95
HSBC	70.03	3.30
JPM	64.20	0.74
MS	86.85	2.96

Commodities (%)		
Gold	1197.14	2.09%
Oil	52.77	-2.26%

3m Implied (vol pts)		
FTSE 100	12.07%	-0.17%
S&P 500	11.76%	0.08%
Nikkei 225	18.15%	1.06%
Eurostoxx 50	16.24%	0.25%

5yr Implied (vol pts)		
FTSE 100	19.03%	0.14%
S&P 500	20.92%	0.38%
Nikkei 225	19.47%	0.49%
Eurostoxx 50	20.24%	0.37%

Source Bloomberg / Partner Banks
 Data as at 13th January, 10.30am

Upcoming events	
17 th Jan	World Economic Forum 2017 (to 20 th)
17 th Jan	UK CPI % y/y
17 th Jan	Eurozone ZEW (economic sentiment) Index
18 th Jan	Eurozone HICP % y/y
18 th Jan	US CPI % m/m
18 th Jan	FED's Beige Book Released
18 th Jan	ECB rate announcement
19 th Jan	Draghi to speak



FRIDAY NIGHT 'LIGHTS

Hang fire, we have news you may have missed. Santander UK, Fortem's exclusive UK partnering bank announced on the 22nd of Dec 2016, their proposed ring fencing structure. Santander UK, a stand-alone FCA regulated entity would become it's RFB, holding retail and small business deposits as well as having very limited trading and hedging capabilities, whilst the remainder of its 'markets' business would fall into a newly created Banco Santander UK Branch entity.

And the good news, all of the securitised investments we arrange from Santander will be issued from Santander UK. Peace of mind that you know what you're buying now and that it's backed from a secure, truly UK balance sheet. That is, we believe, a unique offering.

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