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The UK ring-fencing regime: in the spotlight once again

In recent months there has been a renewed focus on the UK ring-fencing regime, with the Chancellor supposedly "open-minded" about the case for further adjustments following the introduction of changes which took effect in February 2025 through the Financial Services and Markets Act 2000 (Ring-fenced Bodies, Core Activities, Excluded Activities and Prohibitions) (Amendment) Order 2025 (the "**2025 SI**"). As we wait to see if further changes will materialise, it is worth recapping on the impact of the changes introduced by the 2025 SI.



Impact of the 2025 SI

The changes introduced by the 2025 SI, whilst not amounting to a material liberalisation of the ring-fencing regime, have generally been welcomed by the market. The changes:

- raise the bar for the application of the regime (by raising the core deposit threshold from £25bn to £35bn and by exempting non-GSIB banking groups with proportionately small trading businesses even where the core deposit threshold is met) (referred to as "**Ring-fencing thresholds**");
- remove the restriction on the ring-fenced part of affected groups ("**RFBs**") having non-EEA branches or subsidiaries and introduce a four-year transition period for complying with the regime where RFBs acquire a bank not subject to the ring-fencing regime (referred to as "**Architectural reforms**"); and
- help to clarify and expand the scope of the products and services that RFBs can offer, with a particular focus on facilitating the provision of finance to SMEs, permitting exposures to small relevant financial institutions ("**RFIs**"), broadening the scope of permitted customer derivatives and expanding the scope of receivables that RFB securitisation vehicles may hold (referred to as "**Permitted products and services**" and "**Definitions and technical amendments**").

The reforms offer the opportunity for affected groups to consider whether they can take steps to optimise their booking model, legal entity structure and ring-fence perimeter in line with the updated regime. For further detail, please read our briefing below in which we summarise and comment on the potential impact of the key updates. Please do get in touch if you would like to discuss any of the reforms in further detail.



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	A. Ring-fencing thresholds		B. Architectural reforms			C. Permitted products and services/Definitions and technical standards		
Reform	Deposit Threshold	Secondary Threshold	Geographic Restrictions	Mergers and Acquisitions	Equity investments	RFI exposures: *de minimis* threshold and exemption of SMEs	Inflation swaps, hedging mortality/longevity risk and offering FX collars	Securitisation Reforms
Description	Increase ring-fencing deposit threshold from £25bn to £35bn of core deposits.	Exemption for banks with trading assets of less than 10% of Tier 1 capital, except where they are part of a Global Systemically Important Bank (G-SIB).	RFBs may establish operations outside of the UK or the EEA.	There is a four year transition period for complying with the ring-fencing regime for RFBs that acquire a bank not subject to the ring-fencing regime.	RFBs may, subject to limits: > make direct minority equity investments in UK SMEs; > make investments in funds which invest predominantly in UK SMEs; and > acquire equity warrants when providing loans to UK SMEs.	RFBs may incur an exposure of up to £100,000 to a single RFI at any one time. RFBs may incur exposures to certain types of RFI that qualify as SMEs.	RFBs may: > offer inflation swaps: > hedge mortality/ longevity risk; and > offer FX collar products.	An RFB's "sponsored structured finance vehicles" may now hold receivables: > originated by other RFBs in the same group; and > originated by a third party, but subsequently acquired by the RFB.
Commentary	The effect of inflation since 2019 means that the significance of this reform should perhaps not be overstated. Nevertheless, it has received a mixed response from market participants. Smaller and medium sized banks have tended to welcome the increase as it provides for additional room to grow outside the ring-fencing regime. By contrast, banking groups within the regime have tended to be less supportive (arguing that the higher threshold will primarily benefit large, non-UK based international banking groups by enabling them to hold more retail deposits in their UK subsidiaries which can be used to fund investment banking activities).	This reform introduces an opportunity for retail-focused banks with relatively small or no trading activities to grow their deposit base without falling in scope of the ring-fencing regime. For UK headquartered banking groups, the assessment of trading assets and Tier 1 capital will be performed on a consolidated basis and therefore capture global trading assets. By contrast, for non-UK headquartered banking groups, only the activities of any UK consolidation sub-group(s) and any UK branches will count towards the calculation. This has been somewhat controversial on the basis that it could in principle enable non-UK headquartered groups to benefit from the secondary threshold whilst engaging in more trading activity than their UK-headquartered peers (by booking trading assets to non-UK branches).	This reform is intended to facilitate RFBs to compete internationally and support UK businesses operating overseas. It remains to be seen whether the PRA will bring forward its proposed rule from its September 2023 consultation paper (CP20/23) which proposed that RFBs must ensure that any third-country branch or third-country subsidiary within the RFB sub-consolidation group does not present a material risk to the provision of core services in the UK by the RFB.	This measure is likely to be helpful to RFB buyers of non-RFBs in business-as-usual M&A, as well as stressed M&A outside formal resolution. The market has generally supported this reform as it removes a potential barrier for M&A activity between RFBs and other banks and aligns with the existing four year transition period that applied in M&A within resolution.	These activities will be subject to an aggregate cap of 10% of the RFB's Tier 1 capital (calculated at the level of the RFB sub-consolidation group). This reform is intended to help unlock SME equity financing in the UK and has been warmly received by the market. The definition of SME (which is based on turnover) reflects feedback from the industry which viewed the Government's original proposed definition as overly complex.	The absence of a *de minimis* threshold to the RFI prohibition has often been flagged as raising an undue operational burden, due to the requirement to report all breaches of the regime to the PRA. This reform has therefore been largely welcomed by the market. The general descoping of SMEs from the RFI definition has been welcomed by the market and will allow a broader range of SMEs to be served by RFBs as well as NRFBs.	The reforms expand and clarify the scope of permitted derivative products that RFBs may offer to their customers and expand the set of risks that RFBs may hedge against. Whilst the ability to offer inflation swaps has been welcomed by the market, the quantitative limits on the size of an RFB's customer derivative book remain unchanged. As a result, the practical impact of these reforms may be limited.	This reform will permit an RFB to securitise receivables originated by another RFB in the same group. It will also permit an RFB to securitise receivables which were originated by a third party, but subsequently acquired by the RFB. These changes will provide RFBs with additional fund raising options in the asset-backed debt market.

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