

100PERCENT.MONEYSM

Standards

The following standards have considered as a guide the recommendations of the UK's Independent Commission on Banking (chaired by Sir John Vickers) established in June 2010 to promote financial stability and competition in the wake of the Global Financial Crisis of 2007 and following years, in particular the Commission's Final Report of September 2011 on ring fencing of the British bank's retail banking division on pages 233 et seq.¹ and its enactment into law by the *Financial Services (Banking Reform) Act 2013*.

Definitions. The terminology used herein is defined in the Glossary of the IBC's Report of September 2011, page 243 et seq.

Purpose and objectives

The purpose of the 100PERCENT.MONEY system ("100PCMSM") is to isolate those banking activities where continuous provision of service is vital to a bank's customers and the business environment in order to ensure (1) this provision is not threatened as a result of activities which are incidental to it, and (2) that such provision can be maintained in the event of the bank's illiquidity, insolvency, and/or failure without government support.

The 100PCMSM is designed to achieve the following objectives at the lowest possible cost to the economy:

- make it easier to sort out both 100PCM banks and non-100PCM banks which get into trouble, without the provision of taxpayer-funded liquidity and/or solvency support;
- insulate vital banking services on which households and businesses depend from problems elsewhere in the financial system; and
- curtail government guarantees, reducing the risk to the public finances and making it less likely that banks will run excessive risks in the first place.

This is achieved by the following five principles.

Principles

1. **Mandated services.** Only 100PCM banks are granted a 100PCM licensed by the International Institute of Professional Accountants (IICPA) as licensor ("licensor") to provide mandated services.

Mandated services should be those banking services where:

¹ <http://webarchive.nationalarchives.gov.uk/20131003105424/https://hmt-sanctions.s3.amazonaws.com/ICB%20final%20report/ICB%2520Final%2520Report%5B1%5D.pdf> retrieved 2017-07-24.

- (a) even a temporary interruption to the provision of service resulting from the failure of a bank has significant economic costs; and
- (b) customers are not well equipped to plan for such an interruption.

Mandated services currently comprise the taking of deposits from, and the provision of overdrafts to, individuals and entities regardless of their legal form.

2. Prohibited services. 100PCM banks should be prohibited from providing certain services. Prohibited services should be those banking services which meet any of the following criteria:

- (a) make it significantly harder and/or more costly to resolve the 100PCM bank;
- (b) directly increase the exposure of the 100PCM bank to global financial markets;
- (c) involve the 100PCM bank taking risk and are not integral to the provision of payments services to customers, or the direct intermediation of funds between savers and borrowers within the non-financial sector; or
- (d) in any other way threaten the objectives of the ring-fence.

3. Ancillary activities. The only activities which a 100PCM bank should be permitted to engage in are:

- (a) the provision of services which are not prohibited; and
- (b) those ancillary activities necessary for the efficient provision of such services.

Ancillary activities should be permitted only to the extent they are required for this provision, and not as standalone lines of business.

Ancillary activities would include, for example, employing staff and owning or procuring the necessary operational infrastructure.

In particular, a 100PCM bank should be permitted to conduct financial activities beyond the provision of non-prohibited services to the extent that these are strictly required for the purposes of its treasury function, i.e. for liquidity management.

4. Legal and operational links. Where a 100PCM bank is part of a wider corporate or other group, the authorities should have confidence that they can isolate it from the rest of the group in a matter of days and continue the provision of its services without providing solvency support.

As a result:

- (a) A 100PCM bank should be a separate legal entity – i.e. any regulated legal entity which offers mandated services should only also provide services which are not prohibited and conduct ancillary activities;
- (b) any financial organisation owned or partly owned by a 100PCM bank should conduct only activities permitted within a 100PCM bank;
- (c) the wider corporate group should be required to put in place arrangements to ensure that the 100PCM bank has continuous access to all of the operations, staff, data and services required to continue its activities, irrespective of the liquidity, solvency and/or financial health of the rest of the group; and

- (d) the 100PCM bank should either be a direct member of all the payments systems that it uses or should use another 100PCM bank as an agent.

5. Economic links. Where a 100PCM bank is part of a wider corporate or other group, its relationships with entities in that group should be conducted on a third party basis and it should not be dependent for its liquidity or solvency on the continued financial health of the rest of the corporate group. This should be ensured through both regulation and sufficiently independent governance.

Thus, where a 100PCM bank is part of a wider corporate or other group:

- (a) its relationships with any entities within the same group which are not 100PCM banks should be treated for regulatory purposes no more favourably than third party relationships;
- (b) all transactions (including secured lending and asset sales) with other parts of the group should be conducted on a commercial and arm's length basis in line with sound and appropriate risk management practices;
- (c) where third party arm's length relationships are not ensured through the application of existing regulation, additional rules should be considered;
- (d) assets should only be sold to and from the 100PCM bank and other entities within the group at market value. The 100PCM bank should not acquire any assets from other entities within the group unless such assets could have resulted from the provision of non-prohibited services;
- (e) the 100PCM bank should meet regulatory requirements, including those for capital, large exposures, liquidity and funding, on a stand-alone basis;
- (f) dividend payments and other capital transfers should only be made after the board of the 100PCM bank is satisfied that the 100PCM bank has sufficient financial resources to do so. In addition, any such payments which would cause the 100PCM bank to breach any kind of capital requirement, including requirements to hold buffers above minimum requirements, should not be permitted without explicit regulatory approval;
- (g) the board of the 100PCM bank should be independent. The precise degree of independence appropriate would depend on the proportion of the banking group's assets outside the 100PCM bank. Except in cases where the vast majority of the group's assets were within the 100PCM bank, the majority of directors should be independent non-executives of whom:
 - (i) one is the Chair; and
 - (ii) no more than one sits on the board of the parent or another part of the group;
- (h) a 100PCM bank should make, on a stand-alone basis, all disclosures which are required by the regulator of the wider corporate group and/or its other relevant substantial subsidiaries, and those which would be required if the 100PCM bank were independently listed on a stock exchange; and
- (i) the boards of the 100PCM bank and of its parent company should have a duty to maintain the integrity of the 100PERCENT.MONEY System, and to ensure the 100PCM principles are allowed and observed at all times.