UK Shareholders' Association
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Re: UK Shareholders' Association Response to Consultation Paper CP2/20 on Capital Requirements and Macroprudential Buffers
(https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/consultation-paper/2020/cp220.pdf)

Dear CP team,

We write for the UK Shareholders' Association, which represents the interests of private shareholders. In addition to our own members, there are 5 million people who own shares and have investment accounts with platforms in the UK. The Office for National Statistics estimates that individual investors own 12% of the UK stock market by value. In addition to this there are many more who have money invested in shares via funds, pensions and savings products such as employee share ownership schemes.

We have two main points about the consultation paper.

The first is that, if the PRA has a statutory duty to consult when introducing new rules (see paragraph 3.1), then it has a duty to consult clearly and intelligibly. However the Consultation Paper is neither clear nor intelligible. It is needlessly complex, see paragraph 2.3 for example, which is virtually incomprehensible to someone not familiar with a host of previous regulatory developments. We have shown the paper to several experts on capital maintenance and they have no idea what it means.

It would not have been difficult to include an introductory section setting out the main concepts used in the paper (such as the crucial distinction between Pillar 1 and Pillar 2) and how they relate to the main proposals of the paper.

Our second point is that, complexity aside, the natural reading of the paper is that the proposed reduction in Pillar 2A is not contingent on any increase in the countercyclical buffer, leading to the asymmetry of an *actual* lowering of minimum capital requirements offsetting a *hypothetical* increase to the buffer.

For example, the paper suggests that the 1 percentage point structural increase in the UK countercyclical buffer announced by the FPC on 16 December 2019 will be offset by lowering of Pillar 2A, yet goes on apparently to contradict itself, saying (para 1.2) that any subsequent changes, even downward changes, in the countercyclical buffer would not be reflected in changes in to Pillar 2A.

Thus on any reasonable interpretation, the paper suggests an overall reduction of loss-absorbency in the UK banking system, and a commensurate increase in leverage, which should be a clear concern for the shareholders who we represent. While shareholders are not risk averse, they wish to take on such risk with full knowledge and understanding of the capital maintenance policies of the firms that they own. When such policies are taken over by the regulator, and when they are incomprehensible even to experts and analysts, they will not have the requisite knowledge and understanding.

In summary, we challenge the obscurity and lack of transparency around the capital setting process set out in the paper, and we urge the PRA to cast daylight on the process in the interests of protecting a financial system whose stability relies on shareholders as the primary shock absorber.

Yours,

Mark Cardale (Chairman, UK Shareholders' Association)

Dr Dean Buckner (Policy Director, UK Shareholders' Association)