

ALMA
ASSET & LIABILITY MANAGEMENT ASSOCIATION

**EXPLAIN TREASURY LIKE I'M
FIVE – GUARDIANS OF THE
BANKS: WHO REGULATES US
AND WHY IT MATTERS**

March 2026 – Matilde Rodeia



AGENDA

This presentation covers the purpose, nature, and framework of Banking Regulation.

1

Why Regulate Banks?

2

How has Banking Regulation Evolved?

3

UK Banking Regulatory Framework Overview









4

International Regulatory Framework Overview

5

Impact on / Importance of Treasury

JOURNEY & ROLE

-   **BsC Business Administration**
University of Bath graduate
-   **Graduate Scheme**
Santander UK - Funding & Liquidity
-   **Treasury Analyst / Manager**
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IMC (2022)



WHY REGULATE BANKS?

- › Prudential regulation
- › Conduct regulation
- › Moral hazard & "too big to fail"



WHY REGULATE BANKS?

Banking is a highly regulated industry as customers trust banks to hold and manage their deposits. Failure creates system-wide consequences.

Banks are highly leveraged

Banks are funded mostly by debt (deposits / wholesale funding) with relatively small equity amounts.

Small losses can wipe out equity quickly → solvency threat

Banks are interconnected

Linked via interbank lending, derivatives, payment systems.

Failure of one bank can spread rapidly (contagion)

Banks are confidence-based

Deposits can withdraw funds on demand.

Loss of confidence → bank runs → liquidity collapse

Failure has system-wide consequences

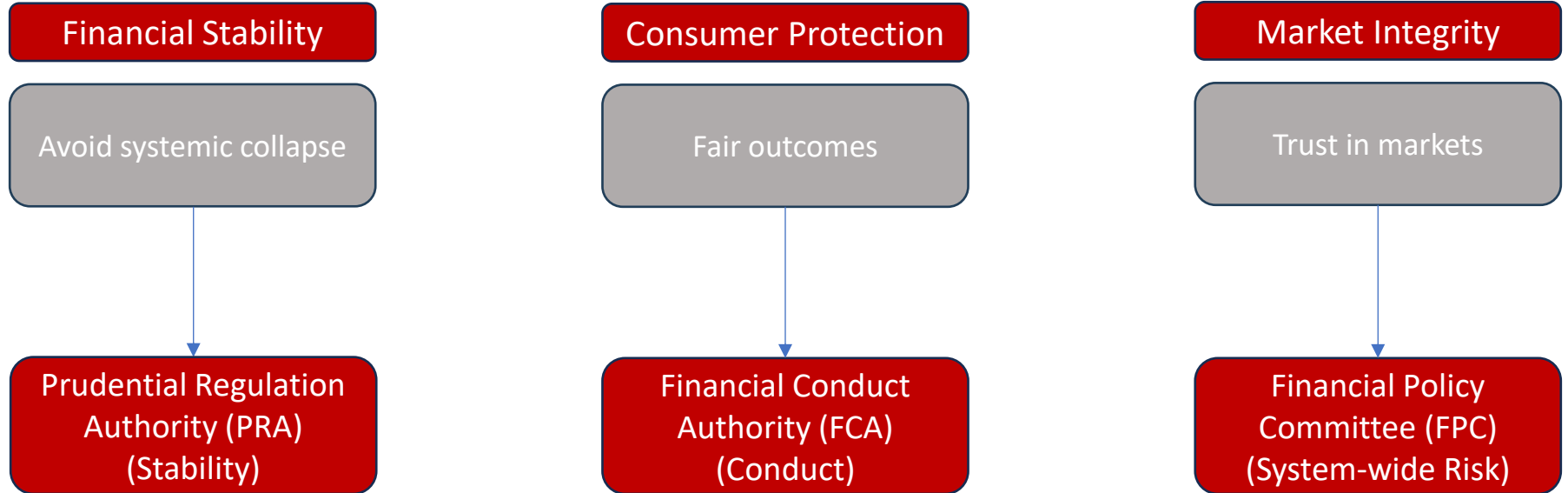
Disrupts credit supply to the economy.

Breaks payment systems.

Can trigger financial crises / recessions

REGULATORY OBJECTIVES

Three core objectives underpin the UK regulatory framework.



UK TWIN PEAKS

Regulation addresses moral hazard and information asymmetry – protecting depositors and the financial system.

PRUDENTIAL REGULATION (PRA)

Promotes **safety** and **soundness** of banks

Addresses '**moral hazard**' – limited liability incentivises excess risk
→ 'Too Big to Fail'

Requires firms to: control risks, hold adequate **capital & liquidity**, submit regular reporting, make public disclosures

Supervisors' lower risk appetite than individual banks to protect public interest

CONDUCT REGULATION (FCA)

Addresses unequal access to information ("market failure")

Ensures banks act fairly, honestly and with integrity

Regulators enforce standards to **avoid socially harmful conduct**

Protects retail investors and market participants

PRUDENTIAL REGULATION

Ensure firms are resilient enough to survive stress. The below key pillars form the heart of regulation from a Treasury perspective.

Capital

Acts as a financial buffer to absorb losses

- CET1 (core capital) – highest quality capital
- Risk-weighted assets – riskier lending requires more capital

Liquidity

Ensures banks can meet deposit withdrawals

- Cash or easily sellable assets
- LCR* (short-term survival)
- NSFR* (stable funding over long term)

Supervision

Checks banks are managing risks properly

- Banks' own assessment of capital & liquidity needs (ICAAP* / ILAAP*)
- Regulator reviews, Stress Testing

* LCR = Liquidity Coverage Ratio; NSFR = Net Stable Funding Ratio; IC/LAAP: Internal Capital / Liquidity Adequacy Assessment Process

REGULATORY FRAMEWORK OVERVIEW

Seven key pillars form the core of Banking Regulation – broadly consistent across jurisdictions.

Licensing

Must be authorised to accept deposits; meet minimum capital & liquidity standards on an ongoing basis.

Restrictions on Business

Legislation defines the activities that banks / other financial firms may, or may not, do.

Reserve Requirements

Minimum reserves (e.g., cash at central bank or in banknotes); less common in developed markets (shifted emphasis to capital / liquidity requirements).

Micro Prudential Supervision

Safety and soundness of individual banks; capital & liquidity focus; supervisory on-site reviews and data submission evaluation.

Macroprudential Supervision

Stability of the financial system as a whole; stress testing of the entire banking system & evaluating resilience.

Market Discipline

Public disclosure of risks and risk management; corrects information asymmetry for investors and customers to make better-informed decisions.

Conduct

Ethical, transparent behaviour in wholesale markets; treating customers fairly.

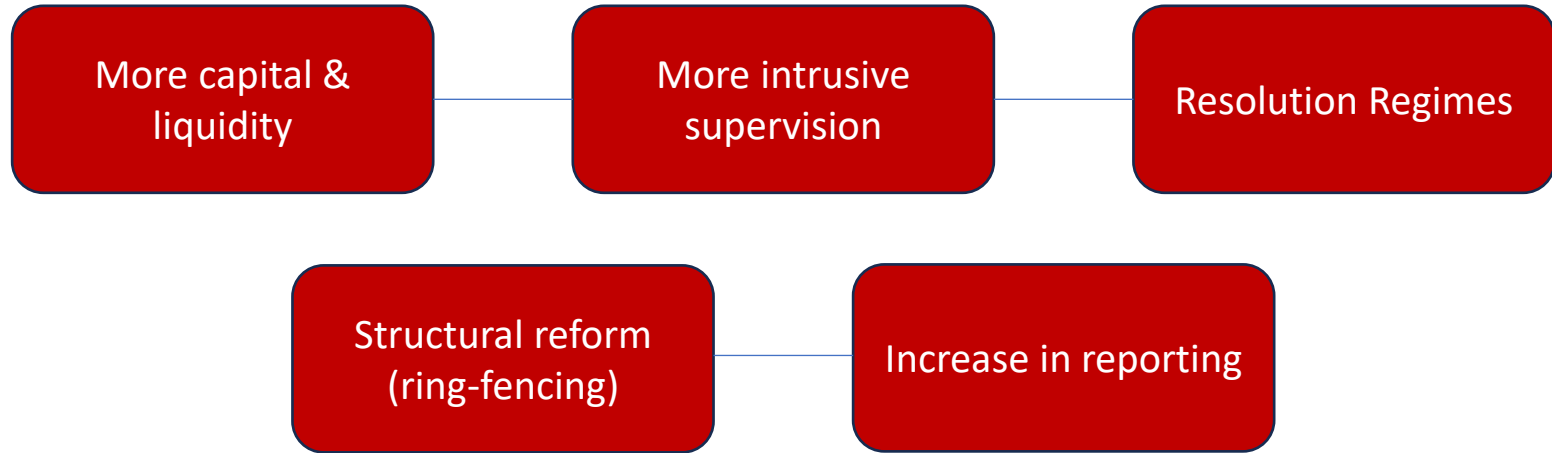
HOW HAS REGULATION EVOLVED?

Post-GFC reforms focused on separating retail / commercial banking from investment banking to protect core services.

Pre-1980s	1980s–1999	2008 Crisis	Post-GFC
<p>Heavily Restricted</p> <ul style="list-style-type: none"> ● McFadden Act (1927) – no interstate branches in US ● Glass-Steagall (1933) – prohibited commercial banks from engaging in IB activities ● Bank Holding Company Act (1956) – prevented companies that owned banks from owning non-bank companies (e.g., insurance) 	<p>Deregulation Wave</p> <ul style="list-style-type: none"> ● Interstate banking restrictions lifted (1994) – allowed banks to grow rapidly ● Glass-Steagall repealed (1999) – sped up trend towards more complex banks (M&A) ● UK 'Big Bang' (1986) – series of reforms to open up London's financial markets / increase competition 	<p>GFC Fallout</p> <ul style="list-style-type: none"> ● Deregulation enabled banks to engage in much wider range of activities ● Added to their scale and complexity – UK Banking assets grew from c.50% to >500% of UK GDP ● Banks 'too big to fail' – had to be bailed out using taxpayers' money. Universal banking model exposed 	<p>Re-Regulation</p> <ul style="list-style-type: none"> ● Structural Reform focused on separating retail from investment banking → greater capital & liquidity requirements ● UK Ring-fencing – Banking services to retail customers must be provided in a separate legal entity vs IB activities ● US Volcker Rule – prohibits proprietary securities trading using retail deposits (high risk)

WHAT CHANGED POST-GFC?

Post-GFC Regulation has resulted in increasing requirements for Banks / Financial Institutions.



UK BANKING SUPERVISION

The 'Twin Peaks' model separates prudential regulation (PRA) from conduct regulation (FCA).

1979

Banking Act – Bank of England (BoE) takes formal responsibility for prudential bank supervision. Introduced license to accept deposits from public / deposit protection.

1987

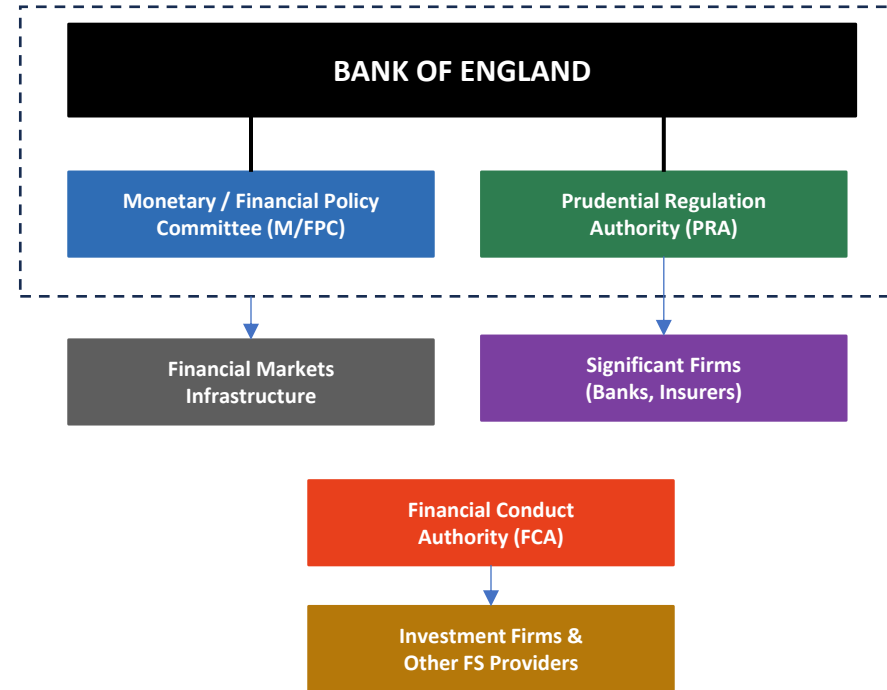
Banking Act – Widened Bank's remit – power to vet bank shareholders / revoke authorization to take deposits.

2000

FSMA* – FSA* created (responsible for banking supervision); introduced 'regulated activities'; light-touch principles-based supervision vs rules-based one size fits all in US / EU.

2013

PRA & FCA created – supervision returns to Bank of England. **Twin Peaks** model adopted – prudential & conduct regulation.



* FSMA = Financial Services & Markets Act; FSA = Financial Services Authority

UK BANK SUPERVISION – PRA

Preventing disruption to provision of critical services & domino effect via a contagious loss of confidence in other banks.

Promote Safety &
Soundness of firms

No 'zero-failure
regime'

Avoid contagion &
adverse effects on
banking services

PRA: responsible for **microprudential**
supervision of all banks

FPC: responsible for **macroprudential**
supervision of the UK financial system

THE UK'S APPROACH TO BANK SUPERVISION

PRA enforces minimum standards for being / remaining authorized to carry out a regulated activity like deposit-taking.

PRA's 8 Fundamental Rules to promote safety & soundness – Firms must:

- 1 Conduct business with integrity
- 2 Conduct business with due skill, care and diligence
- 3 Act in a prudent manner
- 4 Maintain adequate financial resources (capital & liquidity)
- 5 Have effective risk strategies and risk management systems
- 6 Organise and control affairs responsibly and effectively
- 7 Deal with regulators openly and cooperatively
- 8 Prepare for resolution so failure can be managed in an orderly manner

MICROPRUDENTIAL SUPERVISION TOOLS

The PRA uses 4 key tools to assess compliance with its Fundamental Rules, with Treasury implications for each.

SMCR | Senior Managers & Certification Regime

Holds individuals accountable for conduct & competence. Introduced 2016 in response to GFC. Senior Managers approved by PRA; Certified staff must be assessed annually as fit & proper.

ICAAP | Internal Capital Adequacy Assessment Process

Board-approved assessment of capital adequacy under base case & stress scenarios. Reviewed by PRA in Supervisory Review and Evaluation Process (SREP).

ILAAP | Internal Liquidity Adequacy Assessment Process

Board-approved assessment of liquidity and funding adequacy / risk management. PRA sets minimum liquidity requirements based on ILAAP review.

R&R | Recovery & Resolution Planning

Recovery plans define management actions in stress. Resolution plans ('living wills') developed with BoE for orderly failure management.

EU BANKING REGULATION

The EU Banking Union (2012) created a Single Supervisory Mechanism (SSM) to ensure consistent Eurozone supervision.

European Banking Authority (EBA)

Drafts supervisory policy & data reporting requirements. Its 'Single Rulebook' applies cross the whole EU.

European Central Bank (ECB) / SSM

Responsible for delivering a uniform approach to banking supervision under the SSM. ECB directly supervises largest cross-border banks in the Eurozone, working with national supervisors in Joint Supervisory Teams (JSTs).

National Supervisors

Directly supervise less significant banks and work with ECB / SSM in JSTs.

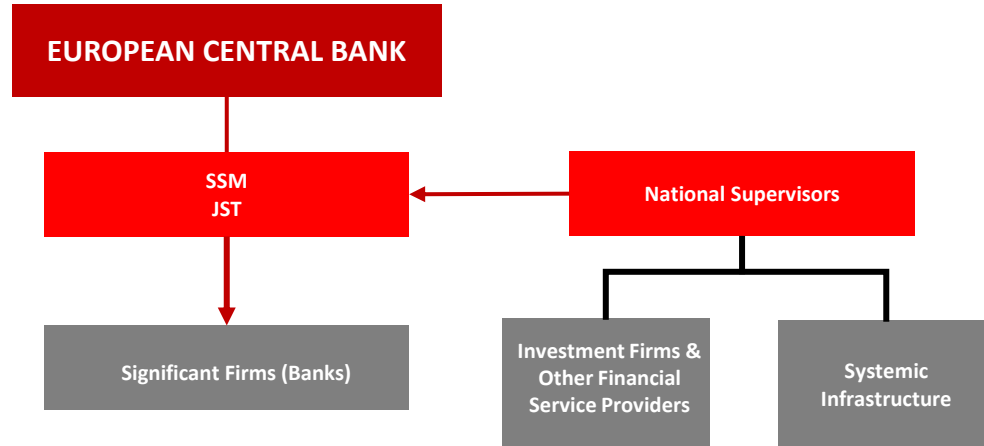
European Systemic Risk Board

Monitors macroprudential risks across the EU financial system.

SINGLE SUPERVISORY MECHANISM

SSM is the system of banking supervision in Europe. Comprises the ECB & the national supervisory authorities of participating countries.

- 1 Ensure **Safety & Soundness** of European Banking System
- 2 Increase Financial Integration & **Stability**
- 3 Ensure **Consistent Supervision** – prevent barriers to rapid & effective management (e.g., during GFC)



INTERNATIONAL PRUDENTIAL STANDARDS

Banks became more internationally active in 1970s/80s

Need for internationally harmonised standards for setting bank's minimum capital requirements

BCBS – Basel Committee on Banking Supervision

Formed by central bank governors & heads of supervision; with support from Bank for International Settlements (BIS) in Basel

Basel Accord (1988) – first minimum capital standards

Today: BCBS sets prudential standards covering: minimum capital & liquidity, large exposures, risk management & governance and public disclosure

Standards apply to internationally active banks

Pillar 3: market discipline

Pillar 2: supervisory review process

Pillar 1: minimum capital & liquidity requirements

BASEL FRAMEWORK

Basel sets the global framework / minimum standards – national regulators (e.g., PRA) implement & enforce it.



Pillar I – Minimum Requirements

- Capital ratios (based on risk-weighted assets)
- Liquidity ratios (Liquidity Coverage Ratio; Net Stable Funding Ratio)



Pillar II – Supervisory Review

- Banks assess own risks (ICAAP / ILAAP)
- Regulators review & challenge (SREP)
- Stress Testing to assess resilience in severe stress



Pillar III – Market Discipline

- Public reporting of capital, liquidity & risk metrics
- Enables investors to assess bank strength
- Encourages prudent behavior & risk management

INTERNATIONAL PRUDENTIAL STANDARDS

FSB – international body that monitors & makes recommendations to promote the stability of the global financial system.

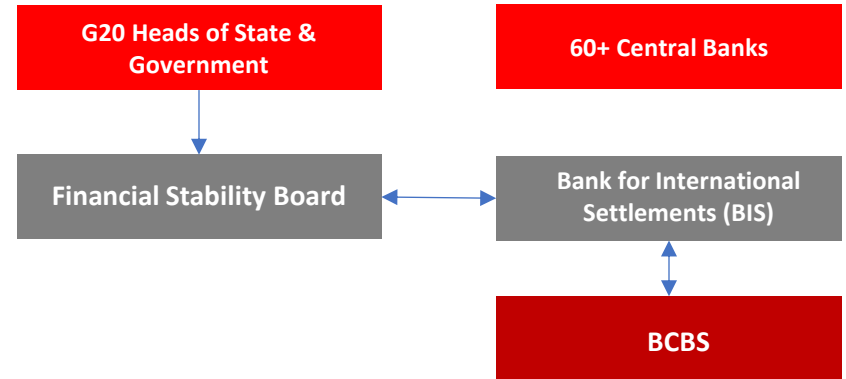
FSB – Financial Stability Board

Established by G20 leading nations in 2009 to promote strengthening of global financial system following the GFC; works closely with BCBS

Monitors and makes recommendations for global financial stability

Monitors & advises on market and systemic developments and their implications for regulatory policy

Annually identifies G-SIBs (Global Systemically Important Banks) and sets resolution standards for such groups



NATIONAL IMPLEMENTATION

BCBS / FSB standards have no direct legal force – member countries need to build them into own national law & guidance.

Standards set by BCBS / FSB have no legal force

Member countries have to build them into their own national law & guidance to give them force

EU – EBA drafts rules & guidance (approved by European Parliament / Commission)

High-level texts are either directives or regulations (both are binding on member states)

Directives

Have to be implemented by national authorities – leaves scope for interpretation

Regulations

Increasingly used to drive greater consistency across member states. Legally binding directly on banks – don't have to be transposed by national authorities

HOW SHOULD BANKS BE REGULATED?

Complex rules have grown since the GFC – but the debate continues: rules vs principles – which one is best?

Rules-Based vs Principles-Based

Rules-based: 'one size fits all'; less supervisory discretion; risk of tick-box compliance; hard for supervisors to deal with new & emerging risks; more consistent across firms.

Principles-based: can use expert judgement; flexible to emerging risks; allows diversity instead of uniformity in banking system; depends on highly skilled supervisors.

Post-GFC: shift to complex rules-based regime. Overly complex rule-making? Debate continues – 'less is more' vs 'more is more'.

Impact of Regulation on Banking Business Models

- Ring-fencing increases cost; removes synergies between commercial and investment banking
- Basel standards significantly increased capital requirements (hold more capital in relation to risks being ran); cost of maturity transformation
- Lending have become more expensive and less available
- Borrowers have turned to capital markets and insurance/pension funds as alternative finance
- Regulatory compliance burden risks distracting from identifying new and emerging risks

IMPACTS ON TREASURY

From a Treasury perspective, it is important to understand why & how banks are regulated as this impacts many decisions.

- 1 Capital & Liquidity**
Capital & liquidity must be managed in compliance with minimum regulatory amounts
- 2 Transactions**
Capital, funding & risk management transactions must be executed in compliance with regulation
- 3 Regulator Engagement**
Treasury engages with supervisors as they conduct reviews of bank's capital / liquidity management
- 4 Conduct**
Treasury personnel must act with integrity meeting both internal and regulatory standards
- 5 Regulatory Expertise**
Treasury act as subject matter experts on regulatory requirements & help businesses manage risks

ALCO & IMPORTANCE OF TREASURY

Why do Regulators view Treasury & the Asset & Liability Committee (ALCO) as important?

ALCO

- Treasury manages various risks (capital, liquidity, interest rate risk)
- Committee that focuses on the Balance Sheet / risks
- Chaired by the CFO

- Responsible for ensuring the bank operates within Risk Appetite & external requirements (capital, liquidity, funding and Interest Rate Risk)

- Provides governance & oversight of key risks
- Monitors regulatory metrics & compliance
- Review & approve Capital and Funding Plans

SUMMARY

Banking is a heavily regulated industry – Key Takeaways:

Supervision & Stability

Case for bank supervision rests on aim for a stable financial system. Stability supports economic growth.

Prudential vs Conduct

Prudential = safety & soundness of firms. Conduct = fair, honest behaviour. Both address market failure (moral hazard; information asymmetry).

UK 'Twin Peaks'

PRA (prudential), under the BoE umbrella, and the FCA (conduct) operate separately.

Structural Reform / Ring-fencing

Post-GFC structural reforms focus on separating / protecting retail/commercial banking from investment banking risks.

Basel / BCBS / FSB

BCBS sets international standards for banking supervision (Three Pillars) – these are transposed into national law. Sets minimum capital & liquidity requirements.

Treasury Relevance

Increasing reporting requirements. PRA's ICAAP and ILAAP directly shape a bank's required capital and liquidity.

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Q&A

THANK YOU

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