The Vickers report

… how the latest recommendations impact GRC

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Extensive banking reforms have been proposed for the UK, focused on taxpayer protection and stabilising the banking system. But there are major implications for the structure and governance of the banking groups, with different arms becoming separate legal entities under independent boards. By 2019, only ring-fenced banks will be able to provide "mandated services". The recommendations were made by the Vickers commission at the UK's Independent Commission on Banking and reported on 12 September.

Despite the apparently lengthy implementation timescale, when the legislation is passed firms will need to start the major reorganisation process straight away to ensure they both comply with the changes and remain competitive.

The capital requirements proposals are, however, out of step with internationally agreed measures and will increase the cost of lending for UK businesses. At the same time, increased regulation in the area of short-term wholesale funding could act as a significant constraint on a ring-fenced bank's ability to fund from short-term wholesale sources. So what does this mean?

The headline recommendations are:

- Ring-fence (legal and operational) retail and wholesale/investment operations
- A buffer to absorb the impact of potential losses or future financial crises – of at least 10% of domestic retail assets in top-quality form
- Facilitate competition and make it simpler to switch bank accounts (account redirection service to be formed by September 2013)

The UK is going it alone on these deep reforms, causing major concern that, although savers and taxpayers will enjoy greater protection should institutions fail, the banks themselves will suffer in the global investment markets in which they compete.

The impact on GRC

Though it is too early to judge, the ring-fencing of banking operations and the subsequent reorganisation of banking groups could have a huge impact on the governance of firms and their risk and compliance frameworks. Organisations could become an archipelago of separate legal entities, with the requirement for some level of ongoing oversight across the entire group. At the same time, compliance and risk processes that are common to the group will need to be built into the framework of each new entity, with employees of those entities taking accountability.

What all these changes mean from a systems perspective is not definitive but it is clear that risk and compliance systems that provide transparency and flexibility in terms of structural and risk framework changes will offer a major advantage to firms struggling to redefine governance and accountability structures.

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