

PRA Issues “Dear CEO” Letters on Brexit Contingency Planning

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On April 7, the Prudential Regulation Authority (PRA) published a copy of the “Dear CEO” letter it had sent to firms relating to contingency planning for the UK’s withdrawal from the European Union. The letter was sent by Sam Woods, chief executive officer of the PRA, in response to a speech by Mark Carney, governor of the Bank of England—also delivered on April 7—on the future of global financial services regulation (available [here](#)).

The letter is relevant to banks, insurers and designated investment firms undertaking cross-border activities between the United Kingdom and the rest of the European Union. The PRA explains in the letter that it expects all such firms to undertake appropriate contingency planning for the UK’s withdrawal from the European Union. It notes that while the government is aiming for a comprehensive new trade relationship with the European Union, coupled with an implementation period, a wide range of outcomes are possible at this early stage. The PRA expects firms to plan for a variety of potential scenarios, so that the safety and soundness of their UK operation is assured, and the risk of any adverse financial stability impacts on the UK economy is mitigated. The Financial Policy Committee of the Bank of England will oversee the plans to mitigate risks to financial stability.

The PRA advises that the current level of planning is uneven across firms, and plans may not be being sufficiently tested against the most adverse potential outcomes (for example, if there is no trade agreement in place when the United Kingdom exits from the European Union). Where firms currently rely on passporting, the PRA expects them to have full contingency plans that cover a range of potential scenarios, including the most adverse potential outcomes. In particular, firms currently relying on passporting to carry on business in the United Kingdom should take into account the need to apply to the PRA for authorization, which may be required to enable them to continue operating either as an incoming branch or as a subsidiary after the UK’s withdrawal from the European Union.

In response to the letter, the PRA asks firms for written confirmation from their board or local branch

senior management that they have considered their firm's contingency plans, a short summary of the plans and assurance that the plans appropriately address a wide range of scenarios. Where authorization or other regulatory engagement is required, the PRA asks to be informed of those plans. For firms that have a small European element to their business, a *de minimis* response will likely be sufficient.

The PRA will use responses as input to its own contingency planning, and will share relevant information with the Financial Conduct Authority.

Full responses to the letter are expected by July 14, 2017.

The letter is available [here](#).

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