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**Sent:** 10 September 2008 11:30

**To:** banking.reform

**Subject:** AXA Financial Stability and depositor protection:  
further consultation PRINTED

I am pleased to provide the AXA UK Group's views on the proposals outlined in the further consultation paper on Financial Stability and Depositor Protection. We will respond separately on the proposals outlined in the consultation paper on the Special Resolution Regime.

**Reducing the likelihood of a bank failing**

- 3.1 The Authorities are seeking views from respondents on the extent that contractual provisions, such as those set out above may prevent the Authorities from taking appropriate action; and the merits of the two approaches set out above.**
- 3.2 Are the criteria as set out, the right criteria and will they provide sufficient flexibility as payment systems evolve overtime?**
- 3.3 Is there a preferred method for recognising payment systems?**
- 3.4 Do you agree that the indicative list in paragraph 3.47 includes all the relevant payment systems which are of systemic or system-wide importance?**
- 3.5 Are the powers, as set out above, necessary and appropriately graduated?**
- We have no comment on questions 3.1-3.5.

**Reducing the impact of a failing bank**

- 4.1 The Authorities would welcome views on the most appropriate ways to deal with other relevant entities in investment banking groups with the aim of helping to maintain financial stability.**
- We believe the focus should be on enhanced regulatory supervision as provided by the recommendations following the FSA's internal review of its supervision of Northern Rock.
- 4.2 Do you agree with the roles for the Authorities for the triggering and operation of the Special Resolution Regime?**
- We still do not agree with the proposals to introduce a Special Resolution Regime. However we agree with the roles for the Authorities in respect of the proposed Special Resolution Regime.
- Any additional costs incurred as part of the Special Resolution Regime should not be covered by the FSCS – such costs should be the responsibility of the failed bank so that the FSA can be seen to be encouraging good financial management.
- 4.3 Respondents' views are sought on the practical considerations involved in developing a SRR.**
- No comment.
- 4.4 What would be the best way to calculate the hypothetical net cost of depositor compensation payments, including the estimation of the recovery rate?**
- The net cost of any depositor compensation payments should be funded by a levy on other banks through the FSCS. There is no justification for insurers or other financial institutions to pay for failures in the banking system.

**Effective compensation arrangements for depositors**

- 5.1 The Authorities would welcome further views on the best way of introducing gross payout when there are mutual debts.**
- We agree that the customer of a failed bank requires access to liquid assets. However we believe that netting off should be made against non current accounts in order to ensure that the depositor does not receive any unwarranted benefits.

**5.2 The Authorities would welcome further views on a possible move to pre-funding and on the proposed legal framework for pre-funding and FSCS borrowing from the National Loans Fund.**

We do not think that pre-funding is the appropriate way to manage a potential bank failure. Claim rates are likely to be low but a claim if it does happen would be significant. We believe it would be more appropriate for the bank to retain the liquidity on its own balance sheets rather than in the FSCS pool.

These proposals also highlight the differences between the deposit protection scheme and the other parts of the FSCS where the potential need for substantial liquidity at short notice will not arise and the current levy mechanism is the most appropriate funding method. Therefore the authorities should revisit the recent changes to the compensation scheme which came into force April 2008 in particular the general financial pool. The compensation scheme should be divided into industry sectors which are clearly ring fenced. If a firm fails within a particular sector only firms within that sector should contribute to the compensation scheme. This would apply to any pre-funding arrangement as well.

**Impact Assessment**

**A.1 Do you have information that would improve the analysis of this impact assessment?**

**A.2 Do you think that there are any significant indirect costs associated with this proposal**

No comment on the impact assessment.

Please do not hesitate to contact me if you would like to discuss this further.

Kind regards

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