Bank of England PRA

The Rt Hon. the Baroness Noakes DBE
Chair, Financial Services Regulation
Committee
House of Lords
London SW1A 0PW

Sam Woods
Deputy Governor, Prudential Regulation
CEO, Prudential Regulation Authority

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Dear Lady Noakes,

Following the Committee's report *Growing pains: clarity and culture change required*, I am writing, as requested, to update the Committee on our work relating to the PRA's secondary competitiveness and growth objective (SCGO) within 12 months of my initial response on 13 August 2025.

The Committee's report highlighted the important role regulators have in supporting the Government's mission to facilitate competitiveness and growth. Embedding the SCGO has continued to be a top priority for me, the wider leadership team, and colleagues throughout the PRA. As I mentioned in my **initial response to the Committee**, we are doing this in a way that supports financial stability – a necessary foundation for sustainable economic growth and a pre-requisite for firms' safety and soundness, in line with our primary objectives. Our aim remains to support responsible risk-taking which in turn underpins innovation and growth.

Since my last response, we have continued to make progress. My **letter to the Prime Minister and Chancellor on 9 December** highlighted the significant progress that we have made in delivering priority reforms to support competitiveness and growth in 2025.

The Committee's report recognised some of the progress the PRA has made, but it did not capture the full breadth of reforms already delivered or now in train. Major developments since I wrote in August include:

1) In January, we published final rules implementing our Strong and Simple capital framework for smaller, domestic-focused lenders from the start of 2027. Our new rules radically simplify the regime for these firms. This will cut costs for Small Domestic Deposit Takers (SDDTs), facilitate competition and support lending to UK households

and businesses. We have also made major progress in delivering significant simplifications for a wider population of firms. We have addressed some key areas of concern for mid-tier firms including through the finalisation of Basel 3.1 standards and changes relating to the minimum requirements for own funds and eligible liabilities (MREL) framework. The PRA also published a discussion paper which sets out our exploratory thinking on the design of a potential simplified **internal ratings based approach (IRB)** for residential mortgages for medium-sized firms. These steps to address key areas of concern for mid-tier firms build on PRA changes in other areas, such as the Senior Managers and Certification Regime and remuneration.

2) In October 2025, we launched the Insurance **Matching Adjustment Investment Accelerator (MAIA)** which supports growth by enabling insurers to seize investment opportunities and recognise a capital benefit from their investments more quickly. This should help the insurance industry deliver on the pledge it made to the Government, in the context of the introduction of the Solvency UK regime, in relation to investment in UK assets.

3) We have started reducing reporting requirements for banks through the Future Banking Data (FBD) programme. The first stage of the reporting reductions, which were implemented with effect from 31 December 2025, should cut costs by around £26 million annually. We are now engaging closely with industry to develop this work further, including through our recent discussion paper **DP1/26**, and expect that larger steps forward in the efficiency of regulatory reporting will follow.

4) Following the Financial Policy Committee's **updated assessment of bank capital requirements** in December 2025, we are taking forward work to ensure the capital framework supports growth and competitiveness, while maintaining resilience. This includes work on the UK's approach to regulatory buffers, leverage ratio requirements and the interaction of elements of the capital framework which attach mainly to domestic exposures.

These developments sit alongside a wider set of PRA initiatives to maintain strong prudential standards while reducing unnecessary compliance burdens, improving proportionality, and supporting innovation and investment, all in line with the Committee's recommendations. This includes delivering on the commitments made as part of the Government's **Leeds reforms** and through the recent Financial Services Bill, including on priority areas such as ring-fencing and the Senior Managers and Certification Regime (SMCR). To give you a sense of the efforts being made on our operational efficiency, the average time taken by the PRA to decide on Senior Manager approvals was 28 days in the most recent quarter (**Q4 2025/2026**), down from 62 days a little over a year ago (**Q4 2024/2025**).

The annex to this letter provides more information on our response to each of the Committee's recommendations to the PRA. Like my August 2025 letter, it is structured under seven cross-cutting themes: proportionality for domestic lenders; capital requirements; investment; compliance costs; operational effectiveness and authorisations; quality of supervision; and growth and performance metrics.

I thank the Committee once again for its report and recommendations. I reach the end of my term shortly so would also like to take this opportunity to thank the Committee for the important work it does in holding the PRA to account for delivering its objectives, and for the interactions I have had with the Committee in recent years.

Yours sincerely

Sam Woods
Deputy Governor and CEO, Prudential Regulation Authority

Annex: The PRA's 2026 response to the FSRC's recommendations

Theme 1: Proportionality for domestic lenders

Recommendations

- Paragraph 230 – *'The PRA should consider whether it is appropriate to apply the Basel Framework to all UK domestic lenders or whether a more proportionate and tailored approach could be applied to determining capital requirements for lenders who are not internationally active. The committee considers that such an approach would not be inconsistent with the secondary objective which is stated to be "subject to aligning with relevant international standards". This approach will require supervisors to have an appropriate level of experience and expertise to understand individual firms' businesses and be able to exercise judgment when making supervisory decisions. This approach will also require a culture that is not unduly risk-averse, and which allows, with appropriate safeguards and controls, supervisors to make risk-based decisions'.*
- Paragraph 253 – '*Our recommendations in paragraph 230 apply equally here. The PRA should consider whether it is appropriate to continue to apply Basel standards to UK domestic lenders or whether a more proportionate approach could be applied to determining capital requirements.'*

PRA update since August 2025

Proportionality continues to remain central to the PRA's approach for domestic lenders. Since the PRA's first response to the Committee's report, we have continued to make the prudential regime for domestic-focused firms more proportionate and more predictable while maintaining resilience. Our **Strong & Simple regime for Small Domestic Deposit Takers (SDDTs)** speaks directly to the Committee's recommendations on proportionality. In January 2026, we finalised the rules delivering a significantly simpler prudential regime for SDDTs. Simplifications related to liquidity and disclosure requirements were implemented in 2024, and the simplified capital regime for SDDTs will take effect on 1 January 2027. Over 65 banks and building societies have opted to become an SDDT to avail themselves of the benefits of the regime, out of around 80 firms that the PRA estimates are eligible.

We also held roundtables to seek feedback from mid-tier firms on the prudential regime. Key areas of concern included: uncertainty arising from Basel 3.1; challenges around gaining approval for the use of IRB models; perceived complexity of the PRA's Pillar 2A capital methodologies; and the MREL threshold.

Since August 2025, the PRA and the wider Bank have taken forward changes in each of these key areas of concern. For example, in January 2026 we finalised **Basel 3.1** rules that enhance the resilience of the banking sector and are appropriately tailored to the UK market, including in relation to lending to SMEs. These rules have provided firms with greater clarity on implementation timing, with the majority of the package taking effect from 1 January 2027. On IRB models, we published **DP1/25** in July 2025 to set out potential options for how the IRB approach could be made more accessible to medium-sized firms. We have been engaging actively with industry on our proposals, and are working to ensure that our reforms make a real difference to how easily firms can use internal models to calculate their capital requirements. We plan to publish a consultation paper on this topic in Q4 2026 / Q1 2027. We have also finalised Phase 1 of our Pillar 2A review. These steps to address key areas of concern for mid-tier firms build on changes in other areas that will benefit these firms, such as the SMCR and remuneration.

Additionally, from January 2026 **the Bank raised the indicative threshold for coming into scope of the MREL framework** from £15-25 billion to £25-40 billion in total assets. This provides smaller firms with additional room to grow before potentially being brought into scope, and the Bank has committed to updating the threshold every three years as necessary to make sure it keeps up with nominal growth. In addition, firms whose preferred resolution strategy is a transfer are no longer required to hold MREL above the minimum capital requirement set by the PRA, enhancing the proportionality of the resolution regime. This builds on the substantial transitional arrangements for firms that grow into MREL above the minimum capital requirement (those with a bail-in preferred resolution strategy).

As another example of proportionality that has been added into the prudential regime, in March 2026 we finalised our policy on raising the threshold at which firms come into scope of the **Resolution Assessment** reporting and disclosure rules from £50 billion to £100 billion in retail deposits. These changes maintain size-appropriate resolvability capabilities while recognising that smaller and mid-tier firms present lower risks to financial stability than the largest banks and building societies. In December 2025, we also withdrew the **Supervisory Statement (SS) 20/15** on supervising building societies' treasury and lending activities in full, removing an additional layer of building society-specific expectations that did not apply to banks. We expect that withdrawing these expectations will boost the ability of building societies to compete in the UK banking sector.

We have also taken forward important changes to the prudential framework for mortgage lending to provide firms with more flexibility while maintaining an appropriate risk appetite. Following the **Financial Policy Committee's recommendation**, we are **consulting** on removing the firm-specific 15% cap on high loan-to-income (LTI) lending and giving lenders more flexibility to set their own high-LTI strategies, aligned with their business models and risk appetite. The proposed approach would allow individual firms to increase their share of lending at high LTIs, while the PRA and FCA would aim to ensure that aggregate high-LTI lending remains consistent with the FPC's 15% limit. In the meantime, the PRA and FCA have offered interim approaches to allow lenders to disapply the 15% limit with immediate effect while the review is ongoing.

We have complemented these policy changes with more tailored support for firms as they grow. In October 2025, the PRA and FCA launched the joint **Scale-up Unit** to enhance engagement with fast-growing, innovative firms in three distinct sectors including banks and building societies, and smaller insurers that are already – or are looking to start – scaling up within their chosen markets. This builds on the success of the New Bank and Insurer Start-up Units. The Scale-up Unit provides a dedicated point of contact for firms looking to scale up and, over time, will use engagement with firms to identify common regulatory challenges and inform improvements across the broader sector. We announced the first cohort of banks and building societies in February 2026 and will be open to expressions of interest from a second cohort later this year.

We are taking forward work to ensure that regulatory thresholds continue to operate in a proportionate way as the economy grows. The PRA Rulebook contains a wide range of thresholds which determine the application of requirements to firms, including where a more proportionate treatment is available. We are therefore developing a systematic approach to indexing nominal thresholds to mitigate the risk of 'prudential drag' and to ensure firms do not become subject to disproportionate requirements over time. We intend to consult on the proposed approach later in 2026. We have already updated thresholds in areas such as MREL and the leverage ratio, and also reviewed and updated the deposit protection limit. This should help support a more proportionate framework and reduce the risk of regulatory thresholds constraining firms' ability to grow.

Ring-fencing will be a key focus for the PRA's work to ensure proportionality, though some PRA reforms in this area relate to other themes in this annex. Following the publication of the **Government's review of the ring-fencing regime** on 18 May, the PRA and the wider Bank will continue to work closely with HMT on a package of reforms. In particular, we will consult on allowing firms more flexibility to share operational resources across the ring-fence. We will seek to streamline requirements, which should support the SCGO without undermining financial stability. We will also review ring-fencing specific reporting requirements once the revised regime is in place – as part of our regular review of ring-fencing rules to ensure they are proportionate – and will report in 2028. Finally, the PRA and FPC will also review how ring-fencing interacts with certain capital requirements, including how the Basel 3.1 output floor and the leverage ratio are applied to banks in the regime.

Overall, these changes represent an extensive programme of reform to make the prudential framework for domestic lenders more proportionate while maintaining the resilience that underpins confidence in the UK financial system.

Theme 2: Capital requirements

Recommendations

- Paragraph 231 - *'This is not entirely within the control of the PRA. The Government should work with the Bank of England to review the cumulative impact that the regulatory capital requirements and MREL requirements have on lenders, specifically regarding the cost of lending. This should be done with a view to balancing financial stability and enabling both banks and building societies to lend for productive investment to support growth'.*
- Paragraph 254 - *'We are concerned by evidence which suggested that the UK applies higher risk weightings to lending than competing jurisdictions, such as the EU. The Government should commission the PRA to report on the UK's approach to capital requirements in comparison with competing jurisdictions, as well as to evidence why it considers the current rates to be appropriate'.*

PRA update since August 2025

The PRA's initial response to the Committee agreed on the importance of assessing whether the overall level of capital supports appropriate lending and economic growth, while reducing the likelihood and impact of financial crises. Aggregate capital levels have been broadly stable since 2019, when the post-global financial crisis bank capital framework was phased in.

Since then, in December 2025 the Financial Policy Committee (FPC) updated its assessment of the **appropriate benchmark level of capital requirements** for the UK banking system to give firms more certainty and confidence to use their capital resources to lend to UK households and businesses. Following its assessment of the appropriate capital requirements for the banking system, the Financial Policy Committee (FPC) concluded in the **December 2025 Financial Stability Report** (FSR) that the appropriate benchmark for system-wide Tier 1 capital requirements should be reduced by 1 percentage point to 13% of risk-weighted assets (equivalent to a CET1 ratio of around 11%). This updated assessment reflects improved risk measurement and a reduction in the systemic importance of some banks. It represents the FPC's judgement as to the sector-wide capital requirements that will best support long-term UK growth as measured through GDP.

The FPC and Prudential Regulation Committee (PRC) are also reviewing material areas of the capital framework, considering feedback from a wide range of stakeholders to ensure the framework is effective, efficient and proportionate. With the PRA and international authorities, the FPC is working to enhance the usability of regulatory buffers, and so reduce banks' incentive to have capital in excess of regulatory requirements. The FPC is also reviewing the implementation of the leverage ratio in the UK to ensure it functions as intended, and supports the development of a systematic approach for updating regulatory thresholds that define which parts of the regulatory framework apply to firms – discussed above. This work aims to strike the optimal balance to deliver resilience, growth and international competitiveness of the UK.

The FPC also provided analysis in the December 2025 FSR indicating that the level of risk-based capital requirements for large banks in the UK is comparable to that of the euro area, and lower than in the United States. UK requirements appear to be higher than other jurisdictions' for some more specific aspects and cohorts (particularly leverage ratio requirements for large domestically focused banks), though comparison across jurisdictions is challenging because of how different regulatory frameworks capture risks.

The FPC intends to provide a further update on this work, and the feedback it has received, in the next Financial Stability Report in July 2026.

Theme 3: Investment

Recommendations

- Paragraph 256 - *'We are concerned by the lack of data on the proportion of total lending made available for productive investment. The Government should work with the Bank of England to research what proportion of total lending is made available for productive investment'*.
- Paragraph 306 - *'Addressing the gap in growth funding will be vital if the UK is to take advantage of its strengths in IP generation for the benefit of economic growth, and resultant job and wealth creation. The Government must set out how the UK's financial services sector can provide more of this financing. The Government, the FCA, and the PRA should engage with industry to identify the key regulatory barriers in this space'*.

PRA update since August 2025

Supporting investment remains a major focus for our work. We agree that there is an evidence gap around the impact of regulation on the provision of finance for investment, and that a coordinated approach across public authorities will help strengthen the evidence base.

The question of how financial regulators support investment is a priority for researchers at the Bank of England. Recent research projects have investigated the **real economy effects of international bank lending**, **financing constraints for intangible intensive firms**, and **how capital requirements affect SME lending**. Other ongoing and planned research projects are looking at the way prudential rules affect how regulated firms support the real economy. We are also pursuing analytical work on the impact of regulation on credit supply and on the cost and availability of financial products to firms and households as part of the **Bank of England**'s **Agenda**

for Research for 2025-2028. We have already begun to strengthen our evidence in these areas and engaged with stakeholders to identify where frictions in the financial system may constrain the flow of finance into the economy.

In December 2025, the **FPC identified three areas of focus** for supporting the financial sector's contribution to sustainable economic growth including the supply of long-term finance for investment and high-growth firms' (HGFs) access to finance. The FPC's focus on HGFs reflects their large contribution to employment growth and their reliance on external finance. As part of this work, in October 2025 Bank and Treasury staff published a **literature review on barriers to investment in high-growth firms** and met with more than 50 financial sector, government and academic groups to further examine this. In 2026, the FPC will build on its findings and focus on the supply of long-term finance for investment, particularly for HGFs seeking to scale up, in line with the Chancellor's November 2025 **remit letter**. This work will include engaging with capital allocators to understand the barriers they face to investing in HGFs, and publishing research on the challenges facing HGFs.

On the insurance side, policy measures intended to support investment, and which have been progressed since August 2025, include:

- Launching the **Matching Adjustment Investment Accelerator** (MAIA) – mentioned above – to help the insurance industry deliver on its investment commitment to Government. We have received and approved 6 applications since launch.
- We are also seeking evidence and views on how to support **UK life insurers' access to alternative third-party capital** through a discussion paper published in November 2025.
- We have continued to work with HM Treasury and the National Wealth Fund (NWF). This supports the Government's objective to 'crowd in' investment by insurers into UK assets, taking advantage of the Solvency UK reforms. We have focused on developing a common understanding of the UK investment landscape, the features of NWF-supported investments relevant to insurers, and regulatory considerations. We will continue to actively engage as the NWF develops its approach and pipeline.
- Finally, we are designing a new, bespoke and proportionate UK regime for insurance captives which supports HM Treasury's plans to enhance the growth and international competitiveness of the UK insurance sector. We have convened subject expert groups to gather feedback for policy development and technical matters, and will consult on a proposed regime this summer, with the aim of implementing it for mid-2027.

Our extensive programme of banking reforms will also support the provision of finance, including to SMEs:

- In response to consultation feedback, we made targeted adjustments in the **final Basel 3.1 rules** published in January 2026, which will take effect from 1

January 2027. In particular, we adjusted our proposals in a way that is expected to reduce capital requirements for SME and infrastructure lending relative to the original proposals, including through adjustments to Pillar 2A requirements. These changes recognise the importance of SME and infrastructure lending in supporting economic growth. They will minimise potential disruption and any impact on the provision of lending resulting from the removal of the SME and infrastructure support factors under Pillar 1. In 2025, using available data and making certain reasonable assumptions, we estimated that total capital requirements for SME lending are expected to be slightly lower at an aggregate level across firms.

- In addition, we supported the launch of the **Office for Investment: Financial Services 'concierge service'** – including through staff secondments – in partnership with HM Treasury, the FCA and the City of London. The OFI:FS represents a useful step towards making the UK a more attractive destination for international investment. It offers early and clear bespoke guidance on PRA authorisation and requirements through a 'single front door' for international firms looking to establish or expand in the UK. We will continue supporting the service as it expands its offering.

Theme 4: Compliance costs

Recommendations

- Paragraph 62 - *'The FCA and the PRA should work with their respective CBA Panels to develop a rigorous approach to assessing the cumulative burden of compliance, accounting for monetary and resource demands'.*
- Paragraph 63 - *'To improve regulatory decision-making, we recommend that the FCA and the PRA, in conjunction with their respective CBA Panels, create a joint cost of compliance working group to study how the regulators may develop their understanding of cumulative compliance cost and integrate this into their CBA process'*.
- Paragraph 64 - *'Assessment of the costs and resource demands that regulatory reforms impose on firms should not be limited to the CBA carried out during the consultation period. We recommend that the FCA and the PRA include an assessment of actual costs imposed after the implementation of large-scale regulatory reforms as part of their post-implementation reviews'*.

PRA update since August 2025

Since the PRA's initial response, we have progressed work to significantly reduce administrative burdens on firms – a subset of operational compliance costs which relates to the 4. This work is in line with the Government's commitment to reduce these costs by 25% by the end of this Parliament. We are currently projecting a net reduction in administrative burdens of c.£100m during this Parliament. We will be publicly reporting our progress on reducing administrative burdens as part of our SCGO metrics. We have a pipeline of work to help reduce these burdens:

- We have already reduced insurance reporting requirements by around one third through Solvency II reforms to adapt the regime to the UK insurance market. We are also streamlining internal model approvals, all while maintaining policyholder protection and safety and soundness

- As discussed above, we have delivered work on the banking side to make the prudential regime for SDDTs more proportionate while maintaining resilience. These changes include reductions in regulatory reporting and the frequency with which SDDTs need to submit their assessments of their own capital and liquidity adequacy.

- We are streamlining banking reporting requirements more broadly, reducing administrative burden and improving the relevance, quality and timeliness of the data we collect. As part of the **Future Banking Data (FBD) programme** mentioned above, we are also launching a new communication portal to better gather data needed to support authorisations-related applications from firms. This should in time support PRA-regulated firms by reducing operational burden for both firms and the Bank, and improving data quality and user experience. The aim is to deliver tangible cost reductions in regulatory reporting while delivering the wider improvements discussed above.

- To reduce administrative burden on firms and barriers to participation for firms investing in securitisations, we are making requirements for the UK's securitisation framework less prescriptive and more proportionate. Our proposals primarily focused on the securitisation general requirements designed to address behavioural risks, and cover reforms relating to due diligence, risk retention, transparency, re-securitisation, and credit-granting requirements. The FCA published a parallel consultation to ensure a coherent approach across the two regulators' frameworks.

We have also continued to refine and improve our approach to assessing potential compliance costs as part of policy development. In April 2026, we published an update to our **public approach to cost benefit analysis (CBA)**, which incorporated feedback from the public and the CBA Panel. In parallel, we published a technical note outlining the standard assumptions and inputs that underpin the **PRA's Standard Cost Model** (SCM). The SCM provides a proportionate method for estimating the direct operational compliance costs or savings that firms may incur when regulatory requirements change. It forms part of the PRA's broader approach to CBA and complements other tools used to assess the impacts of regulatory proposals. We are welcoming feedback on the SCM to support its continuous improvement. In particular, we welcome evidence to inform the model's assumptions and benchmarks.

Theme 5: Operational effectiveness & authorisations

Recommendations

- Paragraph 92 - *'The FCA and PRA must work to reduce authorisation timelines. This should be accompanied by a renewed cultural focus on consistent improvement of operational efficiency across all levels of the organisation'*.
- Paragraph 93 - *'The Government should review the statutory operating service metrics for the FCA and PRA to ensure they are in line with comparative jurisdictions'*.
- Paragraph 94 - *'There is an apparent discrepancy between the progress that the FCA and PRA report on the efficiency of authorisations and the experience of firms going through those processes. The FCA and PRA should collect and publish further data in this regard'.*
- Paragraph 106 - *'The potential for regulatory and supervisory technology to automate compliance and improve the regulators' ability to fulfil their functions is compelling. The FCA and the PRA must review their operational processes and rule-making functions to explore how they might make better use of regulatory and supervisory technology'*.
- Paragraph 255 - *'The PRA should examine its process for approving IRB models and seek to make that process quicker and less costly for firms'*.

PRA update since August 2025

We agree that driving improvements in our operational effectiveness can support activity in the markets we regulate, and that efficient handling of regulatory processes can reduce operational cost for firms. We have continued to improve the operational effectiveness of our authorisations processes, recognising that efficient handling of regulatory transactions can reduce friction while preserving robust standards. As part of this, we continue to actively engage with industry and other jurisdictions to improve understanding of how our processes work.

Timelines for regulatory transactions remain a critical focus and have been reduced. In the year between March 2025 and February 2026, we reached 100% compliance across all existing statutory deadlines. In May 2026, HM Treasury confirmed it intends to legislate to shorten some statutory deadlines – including for new firm authorisations and permissions (from 6 and 12 months to 4 and 10 months respectively) and for senior manager approvals (from 3 to 2 months). We have committed to going faster than legislative deadlines for certain types of business which are more straightforward to assess and pose limited risks to our objectives. For example, we will accelerate approvals of more straightforward appointments under the SMR, and we will approve applications from Insurance Special Purpose Vehicles (ISPVs) within shorter timeframes.

We started reporting **performance against these new deadlines** from March 2026, covering the preceding year. We are already meeting these new deadlines in a majority of cases but continue to transition towards the new deadlines. In particular, some cases covered in this reporting period were assessed earlier in the year with processes designed around the old, longer statutory deadlines. We have already significantly reduced the average determination time for senior manager cases to around 30 days (down from 60 a year ago). We have also authorised the first firm via the wholesale insurer accelerated authorisation pathway, demonstrating our commitment to applying a faster and more proportional approach in cases where there is less risk to our objectives. We will continue to enhance the efficiency and speed of processes to operate consistently against the new timelines and will explore other opportunities to streamline authorisations. For example, HM Treasury plans to legislate to enable the PRA and FCA to introduce a more proportionate alternative to the certification regime and to reduce the number of senior managers that require pre-approval. As part of joint work to reduce the SM&CR regime's regulatory burden by 50%, the PRA and FCA will consult later in 2026 – subject to anticipated legislative reforms – on further reforms to take advantage of this legislative flexibility.

Our August 2025 response addressed FSRC's criticism of the number of insurance special purpose vehicles (ISPVs) approved in the UK compared to other jurisdictions. As of 1 January 2026, there were 31 active transactions in the UK, established through two existing vehicles, with a total initial funding of approximately USD 2.6 billion (GBP 2 billion). In the first four months of 2026, two new transactions from these vehicles have raised an additional USD 257 million (GBP 193 million). Each of these transactions was completed following a simple post-transaction notification process, rather than any form of pre-trade approval, which we consider to be an appropriate approach for this area. Additionally, we implemented both structural and process changes in July 2025 to make the UK a more attractive destination for ISPVs. These changes include an 'accelerated pathway' where ISPVs meeting the criteria can be authorised in around 10 working days instead of several weeks, facilitating transactions. We will continue to work with HM Treasury on further reforms to ensure the regulatory and legislative frameworks are aligned to enable an internationally competitive sector while advancing the PRA's objectives.

We continue to recognise and embrace the potential of regulatory and supervisory technology to improve supervision and policymaking. We are embedding regulatory technology and using AI to strengthen supervisory data analysis and to support better-informed, judgement-based supervision. Since August 2025, we have invested in staff-facing tools and wider digital capability to improve productivity. This includes adopting modern cloud-based collaboration solutions and rolling out AI assistants to deliver productivity gains in day-to-day processes including notetaking and coding. We supported this with training aligned to the Bank's new AI Policy and **AI Strategy**, alongside an increased emphasis on governance to ensure strong oversight of AI tools, including having a 'human in the loop'. We are now building bespoke AI solutions where needed. For example, we have rolled out an AI agent that can support teams in conducting cost-benefit analysis. We are also actively exploring the use of large language models to enhance supervisory tools, supporting tasks such as data extraction and **natural language querying**. As part of our continued effort to develop enhanced tools to support operational efficiencies, we plan to launch a new internal supervisory platform in 2026/27, bringing together information, tools, and analysis in one place for supervisors .

Building on the efficiency gains outlined above, we will continue to streamline operations and are currently well advanced in reducing our workforce by approximately 140 FTE, or just under 10%, this year. We are also focused on making sure that the PRA operates more efficiently and proportionately in how it supervises firms. We announced in January that we are moving **Periodic Summary Meetings** – formal internal reviews to consider potential risks posed by a regulated firm and to set the supervisory strategy for the coming period – to a two-year cycle for all firms, to make our engagement with firms more efficient for them and for us. This supports wider savings across the Bank to help deliver statutory objectives while investing in people, processes, technology and data.

Finally, we have updated our **process for IRB model approvals** discussed in the FSRC's recommendations. Our enhanced process for new IRB permission applications and permissions to make a material model change became effective for certain applications in January 2026. For example, for firms already using IRB, we have committed to enhancing pre-application engagement and to review complete applications for model changes within six months. For first-time applicants, we now provide dedicated support including named account managers. We also committed to a target of taking final decisions in eighteen months. These changes will support banks, and in particular mid-sized banks, in scaling up, by reducing some frictions without compromising standards.

Theme 6: Quality of supervision

Recommendations

- Paragraph 130 - *'The FCA and PRA must do more to improve supervisory staff's practical understanding of financial services firms. We recommend that the FCA and PRA explore developing a formal secondment system to both send supervisory staff out to regulated financial services firms, and to bring employees from regulated firms in. We recognise that there are practical issues to consider—regulatory capture must be avoided, and commercial confidentiality must be protected—but appropriate protections could be put in place'*.
- Paragraph 131 - *'The FCA and PRA should review the compensation they offer to staff with a view to introducing appropriate incentives to help to*

attract talent with a practitioner's background in regulated financial services sectors'.

- Paragraph 132 - *'The FCA and PRA must review how their supervisory staff are deployed to ensure greater consistency in the staffing of supervisory teams and to address reports of frequent rotation amongst supervisors'*.

PRA update since August 2025

High-quality supervision underpins both the PRA's objectives and firms' ability to operate with confidence. Since August 2025, we have continued to strengthen the quality, consistency and effectiveness of our supervision.

The **Firm Feedback Survey 2025** continues to show strong overall confidence in PRA supervision. 95% (over 98% in 2024) of respondents agreed or strongly agreed that their firm has an effective relationship with the PRA, and over 90% (over 95% in 2024) agreed that they have access to the right people and that supervisory communication is clear, timely and appropriate. While these results are slightly lower than in 2024, this can be partly attributed to the decision to include all credit unions in the exercise for the first time in 2025 (as opposed to some of them in past surveys). We understand that these survey results might be regarded with scepticism by some, given we are asking firms about ourselves – but we think nonetheless they provide some useful intelligence about firms' views and how they evolve through time.

In response to the Committee's recommendation to strengthen supervisors' practical understanding of firms, we continue to invest in supervisory capability through targeted secondments, recruitment of staff with industry experience, and the use of senior advisers with deep practitioner backgrounds. We already operate secondments to and from regulated firms, other regulators and central banks, but we have not moved to a formalised, large-scale industry secondment scheme. In our judgement, such an approach could raise material risks around conflicts of interest, regulatory capture and confidentiality. A selective approach, combined with strong internal capability-building, remains our preferred way to maintain supervisory expertise. Our approach to staff compensation has remained the same as we set out in August 2025. We continue to focus on a competitive overall proposition, reviewed annually as part of a cross-Bank benchmarking exercise, to help recruit and retain high-quality supervisory staff, rather than seeking to match private sector pay levels.

On the deployment of supervisors, we continue to monitor tenure, rotate managerial supervisors after a maximum of five years, and closely monitor the movement of staff at lower grades, in particular following the Bank's recent **Mutually Agreed Resignation (MAR) Scheme**. The PRA has also maintained focus on the development of key skills and experience including through a refreshed 'Regulatory Learning Framework', increased secondments, and the continuation of technical and non-technical learning and development, tailored to local areas.

We have set out above how we are investing in our systems, streamlining processes and making better use of data and technology to support more timely and effective supervision. Alongside these changes, we have introduced initiatives such as the Scale-Up Unit and supported the launch of the 'concierge service' discussed above in this annex, to provide a dedicated service and more tailored supervisory engagement for fast growing firms and international entrants.

Theme 7: Growth and performance metrics

Recommendations

- *Paragraph 331 - 'A comprehensive review and revision of the secondary objective metrics is required. This should be commenced as soon as possible after the publication of the regulators' second secondary objective progress reports, due by summer 2025. As part of this review, HM Treasury and the regulators should prioritise introducing more granularity to the metrics, ensuring there is enhanced transparency around the operational effectiveness of the regulators which better reflects the experience of firms of all sizes'.*
- Paragraph 333 - *'HM Treasury should undertake dedicated research, in collaboration with the FCA and PRA, on how the UK regulators' performance can be effectively measured against their international counterparts. Failing to do so will leave a significant gap in our understanding of how the international competitiveness element of the secondary objective is being advanced'*.

PRA update since August 2025

We remain committed to being transparent and accountable for our actions to advance our secondary objectives; metrics are an important component of this.

As set out in the previous response, our qualitative and quantitative SCGO metrics focus on factors within our control which are relevant to the objective. They are based on available research into the drivers of growth, incorporate stakeholder feedback, and were agreed with HM Treasury. In 2024, **TheCityUK found** that our metrics "provide world-leading transparency and accountability".

We continue to keep metrics under review to ensure they remain recognised as world-leading. Since the publication of the **PRA's second report on competitiveness and growth** in June 2025, we have reviewed the SCGO reporting metrics framework to ensure it remains targeted, evidence-based and meaningful, and enhanced it. We introduced three new metrics relevant to the SCGO and our operational effectiveness. They relate to administrative burden on firms, support for innovative and fast-growing firms, and the PRA's role in facilitating insurers' investment in the UK economy. In addition, we proactively sought feedback on our metrics and retired three metrics that feedback indicated were either not providing meaningful insight, or duplicated material that we publish elsewhere. The PRA's 2025/26 Annual Report contains further detail on the revised set of metrics.

More broadly, we recognise that the link between the prudential regulation of financial services and growth in the wider economy is not yet fully understood. We have various initiatives underway to further our understanding, including making growth and competitiveness priority topics in the **Bank of England's Agenda for Research for 2025-2028**. In this respect, we have commenced (or plan to launch) a number of research projects investigating how regulated entities support growth in the real economy and on how prudential requirements affect this SCGO 'transmission channel'.

To continue filling gaps in the research, we hosted a **research incubator** event in collaboration with the London School of Economics' Growth Lab in October 2025. Leading academics in the field of financial regulation, financial economics, and competition economics debated the complexity of measuring the impact of regulation on firms and on economic growth.

In parallel, we have continued to organise relevant research events. Previously, we had organised a **PRA conference** on the role of financial regulation in international competitiveness and growth (September 2023). Since our initial response, we have organised a joint **PRA–Warwick Business School conference** on financial regulation in support of UK growth (September 2025), and a **workshop on innovation, competitiveness and growth** with the University of Leeds' International Banking Institute (April 2026). We will also deliver an **annual conference on Financial Regulation, Innovation, and Growth** at the Bayes Business School with the International Finance and Banking Society (IFABS) in July 2026.

We continue to produce relevant research published in our **Staff Working Papers series**. In March 2026, we hosted an internal workshop bringing together internal and external members of senior committees and researchers from the Bank of England and academia to discuss findings from research projects undertaken by Bank researchers. Topics included trade barriers to banking services, the real-economy effects of international bank lending, financing constraints for intangible-intensive firms, cloud outsourcing by banks, and product innovation in mortgage markets. The discussions focused on drawing high-level insights from the research that are relevant to policymaking.

Understanding how the UK compares to other jurisdictions continues to be a key part of the PRA's policy approach and contributes to the UK's international thought-leadership on key issues. We will continue to engage with stakeholders to understand how international jurisdictions are performing, recognising that, as HM Treasury noted in 2023 "direct comparison with international counterparts is currently difficult, as other jurisdictions may not publish related data or published data may not be directly comparable".