Bank of England PRA

Paper 1: How to measure the contribution of prudential regulation to competitiveness and growth

Background working paper published by the PRA in support of the conference on the role of financial regulation in international competitiveness and economic growth conference 2023

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Executive summary

The Financial Services and Markets Act (FSMA) 2023 (hereafter, the Act) gives the PRA a new secondary objective, which requires the PRA to act, when it can, to facilitate the UK economy's international competitiveness and its growth over the medium to long term, subject to alignment with international standards. The secondary nature of the objective means that the PRA cannot advance it if it conflicts with its primary objectives on safety and soundness and policyholder protection. If different options are available that the PRA judges would equally advance its primary objectives, the PRA will choose the option that, having taken account of the relevant 'have regards', most appropriately promotes its secondary objectives.

The PRA will be proactive in the implementation of this new objective and is therefore further developing its view on how the objective should be interpreted as well as deepening its understanding of the best available research and evidence that links regulation, competitiveness and growth.

To this end, the PRA is hosting an international conference on Tuesday 19 September 2023 to explore the core linkages and relationships. This paper is one of two papers the PRA prepared as background to the conference discussions, and it covers initial perspectives on how to measure the PRA's progress against the new objective. The second paper sets out the PRA's interpretation of the objective, and the current related evidence as well as gaps in the academic literature.[1]

The PRA will report annually on how it has advanced the new objective over a 12-month period. We believe that the PRA should be judged against, and held accountable for, areas that are within its control. Within that, the PRA proposed a set of regulatory foundations that support its new objective which the PRA should be proactively strengthening. A corollary to this approach is that the PRA should only be held to account for metrics that it can directly control, as there are material risks associated with introducing targets or metrics outside of our control. At the same time, the PRA recognises the need to monitor and evidence awareness of competitiveness and growth indicators beyond those it can directly control.

[1] See conference paper 2 – The links between prudential regulation, competitiveness and growth.

One of the aims of this conference is to help the PRA make positive steps in the design of a set of information, some of which measure performance, which can be used to show its progress in meeting the new objective. This paper presents options of metrics that could be produced to support the regulatory foundations, highlighting their advantages and disadvantages.

Background

The Act received Royal Assent on 29 June 2023. In part, it repeals retained EU law in financial services and gives the PRA additional responsibilities and wider rule making powers. HM Treasury (HMT) views the Act as 'central to delivering the Government's vision to grow the economy and create an open, sustainable, and technologically advanced financial services sector' and 'bolsters the competitiveness of the UK as a global financial centre and delivers better outcomes for consumers and businesses'.[2]

The Act retains the PRA's general objective to promote the safety and soundness of the firms it regulates; specifically for insurers, to contribute to the securing of an appropriate degree of protection of those who are or may become insurance policyholders; and the current secondary objective to facilitate effective competition (hereafter, SCO). However, as part of the Act's emphasis on competitiveness and growth, the PRA has been given a new secondary competitiveness and growth objective (hereafter, SCGO). The SCGO is to facilitate, subject to alignment with international standards, the international competitiveness of the UK economy (including in particular the financial services sector through the contribution of PRA-authorised persons), and its growth over the medium to long term. The secondary nature of the SCGO means that the PRA cannot advance it if it conflicts with safety and soundness. If different options are available that the PRA judges would equally advance its primary objectives, the PRA will choose the option that, having taken account of the relevant 'have regards', most appropriately promotes its secondary objectives.

The PRA will be proactive in its approach to implementing the SCGO, including prioritising projects that seek to advance it.[3] To date, the contribution of prudential regulation to international competitiveness has not been a focus of research in academia or the regulatory community, so there is limited literature to draw on, although there is more research around the broader issue of the contribution of the financial sector to growth.

[2] Rocket boost for UK economy as Financial Services and Markets Bill receives Royal Assent: **www.gov.uk/government/news/rocket-boost-for-uk-economy-as-financial-services-and-markets-bill-receives-royal-assent**.

[3] The Prudential Regulation Authority's future approach to policy: **www.bankofengland.co.uk/prudential-regulation/publication/2022/september/pra-approach-to-policy**.

Against this backdrop, the implementation of the SCGO would benefit from developing a deeper understanding of questions including:

- what determines the contribution of finance medium and long-term growth; what we mean by the international competitiveness of an economy and how does finance contribute to it;
- what makes for a successful global financial centre and what contribution can prudential regulation make; and
- what are good metrics to measure this contribution to support PRA accountability.

This is why the PRA is hosting an international conference on Tuesday 19 September 2023, to explore the core linkages and relationships, which will enable it to better implement the objective.

This first paper discusses how to hold the PRA accountable for implementing the new objective. As part of this, the paper presents options of metrics around policies that harness the UK strengths as a global financial centre. In particular, the PRA's ability to maintain trust in the PRA and the UK prudential framework, to have effective regulatory processes and engagement, and to tailor PRA rules to UK circumstances. There is a second paper which covers the PRA's interpretation of the SCGO, and the current related evidence as well as gaps in the economic literature.[4]

The SCGO sits alongside the SCO, which came into force almost a decade ago. The PRA's experience with the SCO, should reduce some of the concerns raised by stakeholders on whether the PRA will be able to advance the new secondary objective without endangering the primary objectives of safety and soundness and protection of policyholders. Since its inception, the evidence has shown that the PRA has been able to successfully advance the SCO without undermining its primary objectives.[5] A good current example of the ability to implement policies that simultaneously meet both secondary and primary objectives, is the proposed Strong and Simple initiative policy targeted at an equally strong but less complex regulatory regime for small banks and building societies.[6]

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[4] See conference paper 2 – The links between prudential regulation, competitiveness and growth.

[5] Our secondary objectives: **www.bankofengland.co.uk/prudential-regulation/secondary-competition-objective**.

[6] This is changing the regulatory framework for smaller banks and building societies, which will mitigate the 'complexity problem' that can arise when the same prudential requirements are applied to all firms.

The PRA is confident that the SCGO will lead to significant changes in how we make rules, whilst maintaining the safety and soundness of PRA regulated firms and protection of policyholders.

By creating a framework that is specifically tailored for non-systemic domestic banks and building societies, the new policy will be able to simplify the prudential framework for these banks and building societies, while ensuring their resilience is maintained.

Our initial view to assess performance against the competitiveness and growth objective

The PRA is committed to enabling robust accountability on how it fulfils its statutory objectives, including the SCGO. The PRA will therefore provide full transparency on how individual policy judgements are reached, including through detailed explanations in our consultation papers (CPs) and Cost Benefit Analyses (CBAs). To complement on these policy specific assessments, the Act requires the PRA to submit two reports to HMT on how it has complied with its duty to advance the SCGO: one within 12 months of the SCGO coming into force, and the second within 24 months of it coming into force.

Regularly reported metrics, if appropriately designed, can improve the PRA's accountability in this area. The competitiveness and growth conference can help in making positive steps in the design of a set of information, some of which measure performance, which can be used to show the PRA's progress in meeting the new objective.

More granular information, including performance metrics, are important for accountability and transparency. There is evidence in the academic literature that these two principles, when implemented effectively, help ensure that regulation serves the public interest and is informed by the needs of those interested in and affected by regulation.[7] The National Audit Office (NAO) states that performance measurement is important in helping regulators to achieve their objectives, making efficient use of resources.[8] Moreover, the NAO sets out characteristics of good metrics for regulators. Metrics should be focused on the objectives, appropriate, balanced, robust, integrated

[7] Parker, D and Kirkpatrick, C (2012), Measuring regulatory performance. Available at: **https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=9e0fa608048b8952715b936de1470e82cd7164eb**.

[8] Performance-measurement-by-regulators: **www.nao.org.uk/wp-content/uploads/2016/11/Performance-measurement-by-regulators.pdf**.

and cost effective. Metrics should also be relevant, able to avoid perverse incentives, attributable, well-defined, timely, reliable, comparable, and verifiable.[9]

However, the business literature also identifies risks associated with the 'wrong' metrics. In particular, it is important to carefully consider the following possible unintended consequences:

- **Risks to the PRA's primary objectives:** The PRA's primary objectives are to maintain the safety and soundness of the financial system and ensure protection of policy holders. Introducing expectations or targets around specific metrics on our secondary objectives could impact our primary objectives, by providing the wrong incentives to policy makers. This could, in practice, elevate the status of the secondary objective beyond what Parliament intended. For example, setting a metric on financial firms' profitability to measure competitiveness, could lead the PRA to relax regulation to meet the target. This would in turn jeopardise safety and soundness.

- **Failures in accountability**: Providing quantitative information on activities that are not directly under the control of the PRA may provide useful context but does not inform accountability. For example, the PRA could decide to have a target for GDP to measure the new objective. If the target is met due to a surge in efficiency in the energy sector, the PRA would be judged positively for something it has not contributed to.

- **Risks of surrogation:** Risk of policy makers acting in a way that maximises the metrics selected but does not advance competitiveness and growth. For example, the regulator's international openness could be measured by tracking the number of meetings it has with regulators from other jurisdictions. In this case the regulator might have an incentive to increase the number of engagements only to improve the metric. It would be then arguable that this would translate in increased openness and in turn in an improvement in competitiveness and growth.[10]

[9] Performance-measurement-by-regulators: **www.nao.org.uk/wp-content/uploads/2016/11/Performance-measurement-by-regulators.pdf**.

[10] This article (**https://hbr.org/2019/09/dont-let-metrics-undermine-your-business)** published in the Harvard Business Review (2019) explains that all metrics are inherently imperfect because they tend to capture some underlying intangible goal. The main risk identified in the article is that employees of a business replace strategy with metrics and start acting in a way that maximises metrics but do not advance the company strategy. This is called surrogation and it is a common subconscious bias that has

For these reasons the PRA should be judged against, and held accountable for, the work is doing to harness the UK's strengths as a global financial centre. The PRA can achieve this by strengthening the regulatory foundations that support the new objective as well as the policy judgements it reaches to fulfil these. The selected metrics should be directly under the PRA's control and should inform whether the regulator is meeting its commitments to the competitiveness and growth objective which are:

- maintaining trust in the PRA and UK prudential framework;
- effective regulatory processes and engagement; and
- tailoring rules to UK circumstances.

At the same time, international competitiveness and growth are broad concepts that relate to the wider economy and not only to the regulatory space. Therefore, in addition to input metrics, it might be helpful for the PRA to monitor a range of **'tracking indicators'**. These are measures over which the PRA has very limited influence so they cannot be considered as metrics of performance. They are still helpful to monitor the developments in the economy and the financial sector from a competitiveness and growth perspective and are therefore relevant as context for the PRA's policymaking.

This paper presents options on both metrics (under each regulatory foundation) that could be helpful to monitor the PRA performance on the SCGO and 'tracking indicators' to provide relevant context. Some factors have been considered in developing these options:

- Feedback from the industry and the wider public, including through insights from the PRA's SCGO survey. The PRA continues to engage with HM Treasury on the recent *Financial Services Regulation: Measuring Success Call for Proposals.*
- Metrics and indicators that are publicly available.
- Cost and feasibility of producing additional metrics and indicators.
- Unintended consequences of publishing additional metrics and indicators.

been studied in both business and non-business settings. See for example Black, P W et al. (2012) Surrogation fundamentals: Measurement and cognition, Journal of Management Accounting Research, 34(1), pages 9-29; Choi, J, Hecht, G W and Tayler, W B (2013), Strategy selection, surrogation, and strategic performance measurement systems, Journal of Accounting Research, 51(1), pages 105-133.

It is worth highlighting that the SCGO reports that the PRA is required to produce will include some metrics and indicators, but also a narrative description on how the PRA has progressed the new objective. This is the same approach the PRA has taken on the SCO report, given quantitative metrics alone often do not provide enough information to assess the regulators' performance against its secondary objectives.[11]

Metrics

Maintaining trust in the PRA and UK prudential framework

The PRA can maintain trust by maintaining strong prudential standards that reduce the risk of financial instability. In fact, under the new objective, the PRA aims at setting standards that can boost the competitiveness of PRA-regulated firms, provided that such actions are consistent with not harming (and preferably advancing) the growth of the UK in the medium to long term. The calibration of standards needs to be appropriate: excessively high standards might not only hamper economic growth by constraining lending to the real economy, but also harm the competitiveness of the UK financial services sector by making it less attractive to firms.

It is hard to identify simple quantitative metrics that capture whether standards are calibrated appropriately. The PRA does this through careful Cost Benefit Analyses (CBAs), which are fully integrated in the policy making process. The PRA takes the assessment of costs and benefits on firms very seriously and provides information in a transparent fashion from the consultation stage.

Some stakeholders called for the publication of estimates of regulatory costs on firms, in particular by publishing the aggregate estimated costs calculated in CBAs of the policy proposals put forward in any given year. It is important for the regulator to consider the cost of new regulation on firms when making policy. There are pros and cons of producing aggregated measures of cost of several policies. On one hand it can help firms, which have finite budgets, to better plan for their compliance costs. High compliance costs could divert firms' funds from other activities, like improving products and services and therefore contributing to the competitiveness and growth of the economy. On the other hand, simply aggregating the costs of CBAs calculated for different regulations would not be an accurate metric to measure the 'overall compliance cost', primarily as different policies affect different populations. Moreover, they are difficult to interpret without also presenting the associated benefits. One possible option would be to include in the SCGO reports an overview (not an aggregated number) of the costs and benefits calculated in all the CBAs published

[11] Our secondary objectives: **www.bankofengland.co.uk/prudential-regulation/secondary-competition-objective**.

during the reporting period, including the links to the original documents. The PRA is setting up an independent CBA panel that will be able to consider efficient and feasible ways to report cost metrics. The Act requires the PRA to consult the panel and to respond to its recommendations.

Internationally recognised ratings of the UK in the IMF FSAP[12] and the BCBS RCAP[13] assessments can be used to track the provision of a trustworthy, stable regulatory environment, through the adoption of international standards by the UK. However, these ratings may not be directly comparable to other jurisdictions, or otherwise not capture UK domestic idiosyncrasies. Therefore, this information would need to be presented along with a qualitative description of the context.

Another way to quantify the regulator's performance on maintaining trust is through industry feedback. Each year, the PRA seeks input from firms on the effectiveness and quality of its supervisory framework through a survey.[14] It is worth considering options to utilise feedback scores to specific questions as metrics that can be tracked over time.[15] For example, tracking scores to questions like: 'The PRA is clear in its reasons for new and revised policy'. An alternative option is to augment the existing survey with the types of specific questions related to trust and more generally to competitiveness and growth that featured in the survey we ran ahead of the conference. Another course of action could be having a dedicated separate survey on the SCGO that would be targeted not only to industry but also to other stakeholders, including broader civil society.

Effective regulatory processes and engagement

The PRA can help harness UK's strengths as a global financial centre by providing effective regulatory processes and effective engagement aimed at making the UK an excellent place to do business. This means improving its operational efficiency,

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[12] International Monetary Fund, Financial Sector Assessment Program (FSAP): **www.imf.org/en/About/Factsheets/Sheets/2023/financial-sector-assessment-program-FSAP**.

[13] Basel Committee on Banking Supervision, Regulatory Consistency Assessment Programme (RCAP): **www.bis.org/bcbs/publ/d434.pdf**.

[14] Results of the firm feedback survey 2022: **www.bankofengland.co.uk/prudential-regulation/publication/2023/june/results-of-the-firm-feedback-survey-2022**.

[15] The Australian Prudential Regulation Authority (APRA) adopts this approach, using responses to their regular firms' survey as metrics embedded in their performance framework. However there is a risk of bias and of behavioural distortions from firms. Available at: **www.apra.gov.au/regulator-performance-framework**.

streamlining regulatory requests, improving the accessibility of its Rulebook and providing responsible openness.

The operational effectiveness of the regulator can encourage inward investments and exports. Moreover, research shows that the better functioning financial system fosters growth. The PRA has started publishing enhanced operational metrics which respond to calls from the industry for more transparency.[16] The PRA performance authorisations report is now published quarterly instead of yearly.[17] It provides additional information such as median, lower (25%) and upper (75%) quartile time to determination on new authorisations, cancellations, change in control, variation of permission, senior manage regime and passporting. Moreover, information is broken down by firm type.[18] It might be useful to present this information all in one place, in the context of the SCGO reporting. An option could be including information about the number of new authorisations and cancellations in the SCGO reports, in addition to providing links to the information already available in the performance authorisations reports. Another option is including the information both in the authorisations reports and the SCGO reports.

Some stakeholders called for a further expansion of the enhanced authorisation metrics, including additional detail on the timing of each stage of the authorisation process. The PRA is considering options in this space, but key challenges identified are that interim steps in the process can be subjective to define and interpret and differ across transactions. The PRA's key focus remains on providing individual firms with the certainty of a decision in a timely way, and it is possible that case progress is best addressed through ongoing dialogue with individual firms rather than aggregate statistics.

The PRA recognises that data and information requests can sometimes be burdensome for firms and can divert firms' resources from other activities, like improving products and innovating. An excessive burden from regulatory requests can make deter regulated firms from doing business in the UK. It is worth exploring the possibility to publish, as quantitative proxies for regulatory requests burden, the following additional metrics, for each area: [19]

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[16] Note that we publish this information to show operational performance and not our performance in meeting primary objectives.

[17] Authorisations: **www.bankofengland.co.uk/prudential-regulation/authorisations**.

[18] All firms, Deposit-taking firms, Insurance firms.

[19] Regulatory, product sales, statistics, stress testing, repeated supplementary collections.

- Number of data points collected annually from firms.
- Number of supplementary reporting templates.
- Number of regulatory returns templates.

However, in a world becoming increasingly digitalised, it might not be true that decreasing the amount of data points collected would support competitiveness and growth. Last year, a joint transformation programme was set up with the aim of ensuring that the Bank of England and the Financial Conduct Authority collect the data they need at the lowest possible cost to the industry.[20] This has involved more than 100 participants from over 40 regulated firms working together to develop solutions to current issues with data collection. Better data can improve CBAs, improve supervisory focus and create efficiencies in supervisory resources, especially in an environment where more advanced technology can be used to extract valuable information from large datasets. The PRA has been taking a number of data collection initiatives forward, including exploring the concept of a unified data collection portal for regulated firms to interact with regulators.[21] In this scenario, over time, metrics on the data collected and templates issued might become uninformative. An alternative option would be reporting how much data has been streamlined as part of the data transformation programme or other policies (eg, Solvency II).

An accessible PRA's Rulebook is another element that can make the UK an excellent place to do business for regulated firms. A study on textual complexity of banking rules carried out in 2021 shows that from 2007 to 2017 the network of prudential rules has become more complex.[22] One of the main drivers of complexity is the multiplicity of regulatory sources.

Under the scope of the Future Regulatory Framework Review (FRF), the PRA is using the ongoing transfer of provisions previously in EU legislation to the PRA Rulebook, as an opportunity to bring its policies together on one user-friendly website, streamline materials, and adopt a coherent approach to the structure and language used. As an

[20] Transforming data collection – an update on progress and plans for 2021: **www.fca.org.uk/publication/correspondence/dear-ceo-letter-transforming-data-collection.pdf**.

[21] Transforming data collection – an update on progress and plans for 2022: **www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2022/july/transforming-data-collection.pdf**.

[22] Bank of England Staff Working Paper No. 834: **www.bankofengland.co.uk/-/media/boe/files/working-paper/2019/the-language-of-rules-textual-complexity-in-banking-reforms.pdf**.

interim milestone, the PRA published in 2022 the PRA Policy Index[23]. This is an online resource that divides policies into sectors and topic areas. For each topic area, a dedicated webpage lists relevant policy material and provides quick access links, allowing firms to find applicable policies more easily.

It is therefore valuable exploring measures to track rulebook complexity. Some stakeholders have proposed for example to compare the PRA's rulebook size to that of other jurisdictions. This metric would have the benefit to be easy to understand, but it would be particularly resource intensive to produce. Moreover, comparisons with other countries could be misleading as different regulatory frameworks have been created to work in different regulatory contexts. The PRA published a study on the textual complexity of banking rules in 2021, that showed that one of the key drivers of complexity is the multiplicity of regulatory sources.[24] The authors used natural language processing and network analysis to calculate complexity measures of banking rules. This was a resource intensive process, which could not be repeated annually. However, other ways to apply this methodology to the entirety of the rulebook (not only banking) and repeat the exercise in the future could be explored. On the other hand, it is not clear whether a decrease in size of the rulebook can be associated with increased clarity of rules.

The streamlining of the PRA's Rulebook is linked to the transfer of European provisions. The PRA will seek to remove unnecessary rules inherited from the EU. The SCGO reports will include a considerable narrative description on how the PRA is doing that through its policy making functions, including specific examples where appropriate. In addition to this qualitative assessment, reporting on the following metrics could be explored:

- Percentage of inherited EU laws deleted and, where relevant, replaced by new legislation or PRA rules – progress against full implementation.
- Percentage of FRF Review measures in FSMA 2023 implemented.

These metrics would show how extensively the PRA is developing its policy approach. They would also demonstrate its progress in gaining full control over the regulatory framework.

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[23] Prudential and Resolution Policy Index: **www.bankofengland.co.uk/prudential-regulation/prudential-and-resolution-policy-index**.

[24] Bank of England Staff Working Paper No. 834: **https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2019/the-language-of-rules-textual-complexity-in-banking-reforms.pdf**.

The PRA can also help harness the strengths of the UK as a global financial centre by being open to international firms operating in the UK and UK firms operating overseas. This depends on strong supervisory coordination with home and host authorities and alignment with international standards in both the UK and relevant jurisdictions. In the PRA, this approach is called responsible openness. One way to measure responsible openness is to summarise the number of Memoranda of Understanding (MoUs) signed and the number of meetings of international standard setters attended by PRA staff during the reporting period.[25] The benefit of providing this information is demonstrating the PRA's engagement with overseas supervisors and involvement in international policy negotiations. However, it is important to note that the number of MoUs changes for a variety of reasons. The PRA seeks to establish supervisory cooperation/information sharing MoUs with third country authorities when branches and subsidiaries of third-country banks and insurers seek to establish themselves in the UK as well as when UK firms establish third-country branches and subsidiaries.[26]

In addition, the PRA may enter into new MoUs when other regulators make changes to their structure. The time it takes to establish a MoU can vary widely depending upon the speed at which professional secrecy equivalence can be determined and if so, the pace at which the counterparty engages in that and the MoU negotiation process. Similarly, the number of international standard setter meetings can vary from one year to the next. For example, during a crisis the PRA would attend more international meetings. To deal with this issue, these metrics could be presented in the SCGO reports along with a qualitative description of the context. For example, when reporting on number of meetings of international standard setters attended by PRA staff, the number and type of leadership positions of PRA staff in standard setting bodies could be included. A mix of quantitative and qualitative information could aid transparency, as a decrease or increase in one of these metrics per se is hard to interpret on their own in terms of responsible openness.

Tailoring PRA rules to the UK

The PRA believes there is value in tailoring the rules to the specificities of the UK financial sector. In particular, it is important for the regulator to be responsive to new developments and support safe innovation. The latter is an important driver for

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[25] Note that MoUs are already published on the Bank of England's website individually.

[26] We have 77 MoUs already in place, covering 55 countries (as well as EU authorities). Such MoUs are a legal requirement under FSMA and are predicated on the Bank determining that the prospective third country counterparty has a professional secrecy regime that is equivalent to the UK's (without a positive equivalence determination, there can be no MoU). Once established, the MoU provide the legal 'gateway', although MoUs themselves are not legally binding between the parties.

productivity improvements.[27] Effective innovation has to be industry-led and cannot be driven by regulators alone. Therefore, progress against this aim is inherently difficult to track. However, the PRA is committed to use its toolkit to promote, and where possible, measure innovation while maintaining safety and soundness.

An option for the PRA is to establish roundtables and other stakeholder engagement avenues for the industry to provide views on what the regulator can do to further foster safe innovation. The number of stakeholder engagements and their outcomes can be used as metrics against which the regulator can be accountable. However, this metric bears the surrogation risks mentioned above: the risk of the regulator acting in a way that maximises the metric (eg, setting up a large number of roundtables) but does not advance competitiveness and growth.

Tracking indicators

The 'Metrics' section above sets out options for reporting metrics which the PRA can directly control. This section covers broader macro-indicators of competitiveness and growth over which the PRA has limited direct influence. These can be helpful to better understand the developments of the UK economy and financial sector and compare them with those of other countries. However, as discussed before, they cannot be considered metrics of performance.

Indicators can be either 'absolute', eg, looking at their value for the UK only; or 'relative', eg, comparing their values to those of similar countries. There might be benefits in reporting some of these absolute and relative indicators in the SCGO reports, to better contextualise the PRA's functions. For example, it might be helpful reporting the following absolute indicators:

- Metrics related to foreign bank assets (eg, foreign financial sector total assets as % of the total financial sector assets in the UK economy; number of foreign banks; share of foreign assets held by UK financial sector firms, % of UK deposits from non-residents).
- Market share of new banks.
- Total volume of financial activity conducted globally by the world's top financial firms and what percentage is conducted in the UK.
- Size of financial sector.

[27] See PRA conference paper 2 – The links between prudential regulation, competitiveness and growth.

- Staff under the SMR regime (proxy for employment in financial sector).
- Growth of regulated entities over the previous three years.

And the following relative indicators:

- Foreign Direct Investment (aggregate or financial sector focused) as a percentage of GDP.
- Capital ratios and aggregate CET1 ratios.
- GFCI Index.[28]

There are a number of relevant sources for these indicators and some of these data series are already publicly available. For example, City of London publish, in collaboration with HMT, the State of the Sector report, an annual review of UK financial services.[29] On one hand, collecting all this information in one place, along with the right contextual information could improve transparency. On the other hand, there is a risk to duplicate work and to deviate, in the SCGO reports, from the question of accountability of the PRA's regulatory framework against the SCGO.

[28] The CGCI index is published bi-annually by Z/Yesn Group. It provides rankings for 111 financial centres, drawing on two separate sources of data - instrumental factors (external indices) and responses to an online survey.

[29] The State of the Sector - City of London: **www.cityoflondon.gov.uk/supporting-businesses/economic-research/research-publications/the-state-of-the-sector**.