Bank of England

Record of the Financial Policy Committee meetings on 4 and 8 April 2025

9 April 2025

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The Financial Policy Committee (FPC) was established under the Bank of England Act 1998, through amendments made in the Financial Services Act 2012. The legislation establishing the FPC came into force on 1 April 2013. The objectives of the Committee are to exercise its functions with a view to contributing to the achievement by the Bank of England of its Financial Stability Objective and, subject to that, supporting the economic policy of His Majesty's Government, including its objectives for growth and employment. The responsibility of the Committee, with regard to the Financial Stability Objective, relates primarily to the identification of, monitoring of, and taking of action to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. The FPC is a committee of the Bank of England.

The FPC's next meeting will be on 27 June 2025 and the record of that meeting will be published on 9 July 2025.

Record of the Financial Policy Committee meetings on 4 and 8 April 2025

Headline judgements and policy actions

- **The global risk environment has deteriorated, and uncertainty has intensified. A range of risky asset prices, led by those denominated in US dollars, have declined sharply. The probability of adverse events, and the potential severity of their impact, has risen.**

- **Several risks associated with the fragmentation of global trade in goods, and financial markets, have intensified. A major shift in the nature and predictability of global trading arrangements could harm financial stability by depressing growth. A further risk is a reduction in global co-operation, which could reduce resilience. Geopolitical tensions, and risks associated with sovereign debt pressures globally, have also risen. As the UK is an open economy with a large financial sector, global risks are particularly relevant to UK financial stability.**

- **US equities and the value of the US dollar had declined in Q1 as some investors reduced US dollar asset positioning. And following the US announcement on trade tariffs on 2 April, the prices of global equities, risky corporate credit, and commodities fell sharply. Market interest rates also fell and yield curves steepened. Market volatility rose significantly and the US dollar depreciated. Market functioning, in the light of exceptionally high volumes, has remained orderly. Notwithstanding these falls in asset prices, the risk of further sharp corrections remains high.**

- **Vulnerabilities in market-based finance previously identified by the FPC remain. The Bank will continue to monitor leverage and concentration in core markets as well as trading strategies that have the potential to amplify any stress.**

- **Alongside the increase in global risks, financial regulation is being debated actively across several jurisdictions. By promoting stability in a risky global environment, robust standards and a resilient financial system support growth and competitiveness – providing firms, customers, and counterparties with reassurance that they can do business safely and with confidence.**

- **The FPC maintains its judgement that the UK banking system has the capacity to support households and businesses, even if economic and financial conditions were to be substantially worse than expected.**

- **UK household and corporate borrowers have remained resilient in aggregate. However, global developments pose additional risks, particularly for some highly leveraged corporate borrowers relying on market-based finance.**

- **The FPC welcomes the recent work of the Financial Conduct Authority and Prudential Regulation Authority in relation to private market valuation practices and private equity related financing.** The Committee agrees that further work is needed to assess, and address if necessary, the potential system-wide vulnerabilities and contagion risks posed by private markets. While the dynamics in the sector have not led to instability so far, the outlook increases the risk that vulnerabilities will crystallise.

- **The FPC has maintained the UK countercyclical capital buffer (CCyB) rate at 2%. The UK banking sector is well capitalised. The FPC notes the increased uncertainty and deterioration in the risk environment, and will continue to monitor the resilience of the UK banking system to adverse outcomes, including through the 2025 Bank Capital Stress Test.**

- **A number of jurisdictions, including the UK and US, are in the process of putting in place regulatory regimes for stablecoins. The FPC will continue to monitor closely developments in stablecoins and the risks to UK financial stability associated with those. The interconnectedness of unbacked cryptoasset markets with the real economy and financial sector is growing but remains relatively limited.**

- **Artificial Intelligence (AI) brings potential benefits for productivity growth in the economy, but the use of new and advanced forms of AI may also pose financial stability risks that need to be managed.** Effective monitoring of AI-related risks is essential to understand use cases better and what risk mitigations might be warranted to enable safe innovation in support of sustainable growth. The FPC has published a Financial Stability in Focus to provide detail on its systemic risk assessment and approach to monitoring risks from AI.

- **The FPC discussed its approach to responding to the request from the Chancellor to assess and identify areas where there is potential to increase the ability of the financial system to contribute to sustainable economic growth without undermining financial stability.** The FPC will focus on supporting long-term productivity growth, seeking to identify areas where the financial sector could better support real economy activity in terms of the vital services that the sector provides. Robust prudential standards play a crucial role in promoting sustainable growth across financial cycles.

- At the FPC's meeting on 4 April, the Committee also welcomed:
  - **That the Contingent Non-Bank Financial Institution Repo Facility (CNRF) had opened for applications on 28 January 2025.**
  - **Plans by HM Treasury, the FCA and the Bank of England to support an industry recommendation to move to T+1 settlement in UK markets by 11 October 2027**. The FPC agreed that shortening the UK securities settlement cycle to T+1 would bring financial stability benefits from reduced counterparty credit risk in financial markets. The FPC is supportive of the UK authorities continuing their dialogue with regulators in other markets, including the EU and Switzerland, which are pursuing similar changes.

- **The FCA's policy statement, published on 5 February 2025, on reforming the commodity derivatives regulatory framework** that aims to mitigate the risk from concentrated positions in commodity markets.
- **The launch of the PRA's biennial Life Insurance Stress Test on 16 January 2025**.

Record of the Financial Policy Committee meetings on 4 and 8 April 2025

1. The Financial Policy Committee (FPC) seeks to ensure the UK financial system is prepared for, and resilient to, the wide range of risks it could face, so that it is able to absorb rather than amplify shocks, and serve UK households and businesses, thus supporting stability and long-term growth in the UK economy.

2. The Committee met on 4 and 8 April 2025[1] to agree its view on the outlook for UK financial stability. The FPC discussed the risks faced by the UK financial system and assessed the resilience of the system to those risks. On that basis, the Committee agreed its intended policy actions.

Global developments

3. The FPC noted that since the November 2024 Financial Stability Report (FSR), the global risk environment had deteriorated and uncertainty had intensified. A range of risky asset prices, led by those denominated in US dollars, had declined sharply. The probability of adverse events, and the potential severity of their impact, had risen.

4. Several risks associated with the fragmentation of global trade in goods, and financial markets, had intensified. A major shift in the nature and predictability of global trading arrangements could harm financial stability by depressing growth. A further risk was a reduction in global co-operation in tackling global challenges and shocks, which could reduce the resilience of the financial system. Geopolitical tensions, and risks associated with sovereign debt pressures globally, had also risen. As the UK was an open economy with a large financial sector, global risks were particularly relevant to UK financial stability.

5. Since the FPC's previous meeting on 15 November, global trade policy uncertainty had intensified and some risks had crystalised. The United States had made a wide range of tariff announcements on 2 April and some governments had responded with their own tariff announcements. This had contributed to a material increase in the risks to global growth and

[1] Judgements on the topics from 'Developments in unbacked cryptoasset and stablecoin markets' up to Annex 1 were taken on 4 April. The Committee met with the Prudential Regulation Committee (PRC) on 12 March to agree details of the 2025 Bank Capital Stress Test, including to agree the FPC's approach to IFRS 9 in the test. Judgements on all other topics in this Record were taken on 8 April.

a weakening of the central outlook, as well as increased uncertainty over the outlook for inflation globally.

6. Higher geopolitical tensions also created an environment of heightened risk of cyber-attacks, which could coincide with, and amplify, other stresses. This could increase operational risks in the financial system, which could disrupt the supply of financial services to UK households and businesses.

7. Public debt-to-GDP ratios had risen in many countries since the Covid pandemic, and were forecast to continue increasing. Developments since 2024 Q4 were likely to increase global public debt pressures by potentially reducing growth and increasing real interest rates through increased policy uncertainty. Risks associated with debt sustainability concerns, including sharp increases in government bond yields, could crystalise relatively quickly, particularly if accompanied by rapid capital outflows. Increased debt levels and servicing costs for governments as debt was refinanced could also reduce their capacity to respond to future shocks. Higher government bond yields would also increase the cost of borrowing and refinancing of debt for households and businesses. The FPC stressed the importance of banks and other financial firms factoring these risks into their internal risk management and stress testing.

8. Alongside the increase in global risks, the appropriate degree of financial regulation was being debated actively across a number of jurisdictions. The FPC noted that robust regulatory standards and international co-operation to limit regulatory arbitrage, to improve transparency, and prevent and respond to shocks were important for sustainable economic growth.

Developments in financial markets and market-based finance vulnerabilities

9. The FPC noted that moves in financial markets had reflected significant policy announcements by several governments globally since the FPC's Q4 meeting. Volatility in equity and bond markets had increased significantly. Although some price moves had been sharp, margin calls had risen appreciably, and volumes had been exceptionally high, market functioning had remained orderly.

10. Trades made following the US election on 4 November 2024 – where being long US equities, the US dollar, and cryptocurrencies had initially performed well – had largely been unwound by the end of March, as some investors had, at the margin, rebalanced their portfolios away from US assets. The S&P 500 index had fallen by 10% between its mid-February peak and the end of Q1. US capital markets had seen very significant capital inflows over recent years from global investors resulting in comparatively crowded positioning in trades benefitting from increases in the value of US equities and the US dollar. Some of

this positioning had unwound over February and March. This was consistent with European equity indices moving higher, and the dollar depreciating against sterling and the euro.

11. The US announcement on trade tariffs on 2 April had caused the prices of global equities, risky corporate credit, and commodities to fall sharply. Market interest rates also fell. The VIX and MOVE implied volatility indices rose significantly, and the US dollar depreciated. Overall, market functioning, in the light of exceptionally high volumes, had remained orderly.

12. Market expectations of near-term policy interest rates and government bond yields had also fallen in response to the US announcement. Market expectations of near-term policy rates in the US, euro area and UK were lower than in Q4. 10-year US government bond yields were also lower than at the time of the November FSR. 10-year UK gilts yields were slightly above where they had been in Q4, as were yields on longer-dated gilts as the yield curve had steepened.

13. Geopolitical developments earlier in the quarter had led to expectations of higher bond issuance in some European countries to support defence spending. This had been particularly notable in Germany, where 10-year government bond yields had risen 30bps in a single day in early March, linked to the announcement of government plans for significant reforms of the country's fiscal rules.

14. Notwithstanding the recent fall in market interest rates, an increase in risk premia on US assets could put upward pressure on US borrowing costs, which would have a knock-on impact across a range of markets, for example affecting UK corporates that borrow in dollars. The consequences for other sovereign borrowing costs, which had tended to be correlated with US interest rates, would be a key uncertainty in this scenario.

15. Overall, despite recent market moves, measures of risk premia remained relatively tight in historical terms across some risky asset classes. The risk of a further sharp correction being triggered had risen due to global developments. Meanwhile, vulnerabilities in market-based finance previously identified by the FPC remained. These could amplify market price corrections and potentially affect the availability and cost of credit in the UK.

16. The FPC noted that asset managers' long positions and hedge funds' short positions in US Treasury futures remained large but had declined ahead of the sharp moves in financial markets since 2 April. Market intelligence had suggested that hedge funds active in the cash-future basis trade had been responding predominantly to a narrowing of the difference between the price of cash bonds and bond futures, although the reduction could also indicate a reduction in risk appetite on the part of funds.

17. More broadly, market intelligence suggested that some hedge funds had, in part, de-risked their portfolios ahead of US tariff announcements on 2 April, and so were less impacted by subsequent price volatility. While the margin calls faced by funds following 2

April had been significant, they had so far been able to meet them without taking actions which would further amplify the market volatility.

18. Finally, the FPC noted that markets had remained orderly during a 30-basis point increase in gilt yields over an 11-day period in early January, which had been triggered by fiscal news in the US and Europe, corporate hedging, and some market re-assessment of policy rate expectations. There was no evidence of stress or amplification in non-bank financial institutions active in UK markets.

UK household and corporate debt vulnerabilities

19. The FPC noted that, before the 2 April US tariff announcement, the Monetary Policy Committee (MPC) had expected UK growth to be subdued in the near-term. UK inflation was expected to peak at around 3¾% in 2025 Q3, before falling back thereafter. The MPC had cut Bank Rate by 25 basis points to 4.5% in February 2025, and the market-implied path of Bank Rate suggested further cuts of around 75 basis points by the end of 2025.

20. UK household and corporate borrowers had been resilient in aggregate. However, global developments posed additional risks, particularly for some highly leveraged corporate borrowers relying on market-based finance.

21. The aggregate UK household debt-to-income ratio had continued to decline in 2024 Q4 and was at its lowest level since 2001 Q4. The aggregate mortgage-debt servicing ratio was expected to increase by slightly less than at the time of the November FSR, with the measure expected to continue to remain well below the 1990s and global financial crisis (GFC) peaks. The aggregate share of UK mortgage lending at high loan to income (LTI) ratios had increased to 7.8% in 2024 Q4, from 7% in Q3. But this remained well below the FPC's flow limit of 15%, in part because current levels of mortgage interest rates limited the affordability of repayments for many prospective high LTI borrowers at origination and under higher stressed rates. Mortgage and consumer credit arrears remained low.

22. Aggregate measures of UK corporate debt remained significantly below their pandemic peaks. Corporate profits edged down through 2024 following strong growth in 2023, while debt remained broadly flat.

23. UK bank exposures to UK SMEs were relatively small. But given SMEs' lower levels of resilience on average, and the fact that they accounted for a large share of UK employment, they had the potential amplify shocks in a downturn. The FPC noted that most SME debt was on floating rates and borrowers would have directly benefited from the 75bps of Bank Rate cuts since the MPC started cutting Bank Rate in August 2024. But weak demand and rising payroll costs were weighing on confidence amongst those firms. Corporate insolvencies

remained somewhat elevated but were lower than recent peaks and were mostly among micro-SMEs with 1 or zero employees and with little or no bank debt.

24. Corporate bond market issuance remained strong in Q1 and bank risk appetite for corporate lending, as measured by the Bank's Credit Conditions Survey (CCS), had been stable. Since 2 April, however, corporate credit spreads had started to widen. If investor risk appetite deteriorated further, or if interest rates remained higher for longer than markets expected, refinancing challenges facing some highly leveraged corporates could increase. Private equity firms and their portfolio companies might be particularly affected by such developments, given their typically higher levels of leverage, relatively greater reliance on riskier forms of borrowing than other corporates, and their global investor base (see Private Markets section below).

UK banking sector resilience and credit conditions

25. The FPC maintained its judgement that the UK banking system had the capacity to support households and businesses, even if economic and financial conditions were to be substantially worse than expected.

26. The UK banking system remained well capitalised and had high levels of liquidity. Major UK banks' asset quality remained strong, with little change in the share of loans that had experienced a significant increase in credit risk in Q4.

27. Major UK banks continued to report robust earnings, with underlying returns on tangible equity at 13.4% for 2024, and net interest margins remained at around their long-run average.

28. Adjustment by banks to the normalisation of central bank balance sheets had continued as the extraordinary measures put in place following the GFC and Covid pandemic were unwound. The FPC noted that banks should continue to factor these trends into their liquidity management and planning.

29. The FPC judged that, overall, credit conditions had continued to reflect the macroeconomic outlook. In its assessment of what had driven changes in credit conditions, the FPC considered a range of factors. These included the quantity, quality and price of credit available; indicators of the macroeconomic environment; indicators of demand and supply of credit from the Bank's CCS; supervisory intelligence; and intelligence from the Bank's agents. In 2024 Q4, there had been an increase in demand for mortgage lending and a slight easing in availability relative to Q3. SME lending availability had also eased a little, but conditions were reported by the Bank's agents to remain tighter than normal for these borrowers. Banks reported that large corporate demand for credit had declined, whilst

availability remained broadly unchanged. The FPC would monitor closely how credit conditions responded to global developments.

The UK countercyclical capital buffer rate

30. The FPC discussed its setting of the UK countercyclical capital buffer (CCyB) rate. The Committee's principal aim in setting the CCyB rate was to help ensure that the UK banking system was better able to absorb shocks without an unwarranted restriction in essential services, such as the supply of credit, to the UK real economy. Setting the UK CCyB rate enabled the FPC to adjust the capital requirements of the UK banking system to the changing scale of risk of losses on banks' UK exposures over the course of the financial cycle. The approach therefore included an assessment of financial vulnerabilities and banks' capacity to absorb such losses, including the potential impact of shocks.

31. In considering the appropriate setting of the UK CCyB rate, the FPC discussed its judgements around underlying vulnerabilities that could amplify economic shocks. The likelihood and potential impact of global shocks severely impacting UK financial conditions had increased. But those indicators directly relevant to banks' UK exposures, to which the UK CCyB rate was applied, including household debt-to-income, corporate gross debt to earnings and domestic credit growth, continued to be around or below long-term averages. The UK banking system was well capitalised, and its resilience continued to be supported by relatively strong asset quality. Banks were not restricting lending to protect their capital positions. The FPC judged that overall, credit conditions had continued to reflect the macroeconomic outlook.

32. In view of these considerations, the FPC decided to maintain the UK CCyB rate at 2%. Maintaining a neutral setting of the UK CCyB rate in the region of 2% would help to ensure that banks continued to have capacity to absorb unexpected future shocks without restricting lending in a counterproductive way.

33. The FPC noted the increased uncertainty and the deterioration in the risk environment. It also noted that global developments had the potential to reduce domestic resilience. It would continue to monitor the situation closely, and stood ready to increase the UK CCyB rate should a larger bank capital buffer be appropriate given the potential impact on UK exposures of future global shocks. As it had done previously, the FPC also stood ready to cut the UK CCyB rate should risks to UK economic and financial conditions appear to be materialising such that the banking system was likely to restrict lending by more than was warranted by the macroeconomic environment.

Bank Capital Stress Test 2025

34. The FPC welcomed the launch of the **2025 Bank Capital Stress Test** on 24 March 2025. The exercise would assess the resilience of the UK banking system to deep simultaneous recessions in the UK and global economies, large falls in asset prices, higher global interest rates, and a stressed level of misconduct costs. The hypothetical stress scenario in the test was designed to be severe but plausible and related to the financial cycle in a countercyclical way. The stress scenario was not a forecast of macroeconomic and financial conditions – in other words, it was not a set of events that was expected, or likely, to materialise. Rather, as in previous concurrent stress test scenarios, it was intended to be a coherent 'tail risk' scenario designed to be severe and broad enough to allow the FPC and Prudential Regulation Committee (PRC) to assess the resilience of UK banks to a range of adverse shocks. It was distinct from scenarios that the MPC may use to illustrate the uncertainties around its forecasts.

35. This would be the first stress test since the end of transitional arrangements for the International Financial Reporting Standard 9 (IFRS 9) accounting standard, introduced in 2018. The FPC had previously judged that the change in accounting standards should not lead to an unwarranted increase in capital requirements for the UK banking system. In this context, the Bank had reviewed the calibration of the stress test and was implementing a number of changes relative to previous concurrent stress tests. These changes, made alongside the end of IFRS 9 transitional arrangements, were designed to be consistent with an unchanged FPC and PRC risk tolerance for the resilience of the UK banking system.

36. The FPC agreed that the impact of these changes to the 2025 Bank Capital Stress Test would be considered by the FPC when forming a view on resilience and by the PRA in applying supervisory judgement around the calibration of PRA buffers. The Bank intended to use this year's test to assess the impact of the changes and inform future stress tests. The results of the test would be published in 2025 Q4.

Developments in unbacked cryptoasset and stablecoin markets

37. Over the past year, both the unbacked cryptoasset and stablecoin markets had increased in size and activity.

38. A number of jurisdictions, including the UK and US, were developing stablecoin regulatory regimes. In the UK, the Bank and Financial Conduct Authority (FCA) were developing regimes for systemic and non-systemic stablecoins to ensure appropriate resilience. A key determinant of the resilience of stablecoins was the liquidity, credit and market risks of their backing assets, which were in place to ensure that redemptions can be met in a timely manner at par, even in periods of stress. Greater issuance of sterling offshore stablecoins with inappropriate backing assets, or backing assets on which the risk is poorly managed, could be vulnerable to greater risk of fire-sales of backing assets, with implications

for core financial markets in the UK. Even with appropriate regulation, greater use of stablecoins denominated in foreign currencies could make some economies vulnerable to currency substitution and other macro financial implications.

39. Should stablecoin use go beyond crypto settlement, there could be implications for retail and wholesale cross-border payments. For retail flows, stablecoins could see greater household and SMEs use for cross-border payments, which may result in currency substitution. For wholesale flows, settlement outside of central bank money could increase counterparty credit risk and make it harder to moderate increased volatility in cross-border flows through central bank liquidity facilities.

40. The systemic risks that the FPC had previous identified in relation to unbacked cryptoassets had not materialised, but their size and interconnectedness with the financial system had continued to grow. A number of jurisdictions were designing and implementing regulatory regimes for unbacked cryptoassets. Further growth of the unbacked cryptoasset sector was likely in the US, following the launch of a task force to develop a regulatory framework for unbacked cryptoassets. The FPC would continue to monitor developments in the unbacked cryptoasset sector and its interconnectedness with the financial sector and real economy.

41. The FPC supports international efforts to manage the risks posed by unbacked cryptoassets and stablecoins including the FSB's recommendations on the regulation, supervision and oversight of the cryptoasset activities and markets.

Contributing to sustainable economic growth

42. In the **FPC Remit letter,** published in November 2024, the Chancellor requested that "as part of its work in 2025, the Committee should assess and identify areas where there is potential to increase the ability of the financial system to contribute to sustainable economic growth without undermining financial stability".

43. When considering what action could be taken to improve the capacity of the financial system to contribute to growth, the FPC agreed it should focus on improvements to the long-term productive growth capacity of the economy. This was more beneficial for long-run economic welfare – and therefore financial stability – than short-term increases in output, which risk creating unsustainable and destabilising bubbles that could fuel financial crises with material scarring impacts on the economy.

44. The Committee would also consider analysis to identify areas where the financial sector could better support real economy activity in terms of the vital services that the sector provides. When barriers to access to finance were identified, for example the supply of debt or equity finance to high potential SMEs looking to scale up, or to the supply of long-term capital for productive investment, the Committee would consider what actions might improve

the flow or type of finance that reaches those areas. The Committee acknowledged the need to build on work already undertaken through the HM Treasury, Bank of England and FCA-led Productive Finance Working Group, as well as the PRA's engagement with HM Treasury, the National Wealth Fund and the insurance industry on potential investment opportunities. In addition, the FPC agreed that it, and the Bank more generally, had a role to play facilitating the safe adoption of technological innovations in payments, financial market infrastructure and AI that could deliver benefits to resilience and support sustainable growth.

45. The Committee agreed that the increased resilience in the banking sector and the adoption of robust international standards since the GFC were essential to the Committee's ability to protect and enhance the financial stability of the UK, and thus support growth. Strong standards and a resilient financial system also supported the UK's competitiveness by providing firms, customers and counterparties with reassurance that they can do business in the UK with confidence. However, the FPC also judged that for the same level of overall resilience, there may be ways to simplify and improve the efficiency of regulatory interventions. The Committee noted the work being undertaken by the PRA and FCA to support sustainable economic growth consistent with their respective objectives.

46. The Committee asked staff to undertake further work to meet the request set out in the Remit letter on sustainable economic growth and to update the Committee over the course of the year as needed.

47. The Committee also discussed the effective functioning of its existing policies. In relation to the current operation of its loan-to-income (LTI) flow limit, which limited the number of mortgages that could be extended at LTI ratios at or greater than 4.5, the Committee noted that most large lenders were currently materially below the 15% threshold, but their high LTI shares could increase if they changed their approach to testing individual borrower affordability. The FPC was supportive of lenders making use of their individual LTI flow limits consistent with their own risk limits and business models. In support of this, the FPC would consider whether there were any impediments to using those limits for those lenders that wished to. The FPC had previously simplified its housing tools by removing its affordability test, having concluded that its LTI flow limit, alongside the FCA's mortgage conduct of business (MCOB) responsible lending rules, ought to deliver the appropriate level of resilience to the UK financial system. In **March 2025** the FCA had reminded lenders of the flexibility in its interest rate 'stress test' rule (part of its MCOB responsible lending rules) and considering the effect of future rate rises on mortgage affordability. Some lenders had adjusted their approaches as a result.

48. The FPC had also decided in November 2024 to raise the de minimis threshold of the flow limit. The joint PRA and FCA **consultation** on this change was published on 3 April 2025.

Artificial intelligence

49. The Committee discussed the adoption of Artificial Intelligence (AI) across the financial system. It noted that as a general-purpose technology, AI had the potential to bring productivity gains to many economic sectors and support long-term productive economic growth. AI was already helping many financial institutions to automate and optimise their internal processes and to enhance their interactions with customers. The Committee recognised that a likely area of development over the coming years was advanced forms of AI increasingly helping to inform firms' core financial decisions, for example credit and insurance underwriting, potentially shifting the allocation of capital.

50. The FPC judged that AI could bring potential benefits but the use of new and advanced forms of AI could also pose financial stability risks. For example, more advanced AI-based risk allocation or trading-strategies could lead to firms taking increasingly correlated positions and acting in a similar way during a stress, thereby amplifying shocks. In addition, a reliance on a small number of providers for a given service could lead to systemic risks in the event of disruptions to them, especially if it was not feasible to migrate rapidly to alternative providers.

51. The FPC considered these risks from the perspective of ensuring that the opportunities from AI were taken up in a way that was safe and conducive to sustainable growth, and therefore beneficial to how the financial sector supported households and businesses in the long term.

52. The Committee noted that advanced AI had new and distinct features and a potentially rapid pace of development, and there was therefore a high degree of uncertainty over how the technology and its use in the financial system would evolve. Rapid and unforeseen shifts in the implications of AI for financial stability were possible. Given this, the Committee agreed its approach to monitoring AI risks needed to be flexible, forward looking and targeted on the most relevant potential risks.

53. The Committee agreed that effective monitoring of AI-related risks was essential in allowing it to understand what risk mitigations (in addition to existing measures) might be warranted to enable safe innovation in support of sustainable growth, and, if so, when this might become appropriate.

54. The FPC agreed to publish a **Financial Stability in Focus** alongside this Record that would provide more detail on its systemic risk assessment and approach to monitoring risks from AI.

The resilience of market-based finance

Leverage in NBFIs

55. The FPC noted that hedge funds had been playing a more important role in gilt trading volumes over time. They were responsible for 27% of weekly dealer-client volumes thus far in 2025, compared to around 17% in 2018. Hedge funds played an important role in intermediating between different types of market participants, thus improving market liquidity and efficiency in good times. However, their use of leverage, if not properly managed, could amplify shocks and cause a jump-to-illiquidity.

56. The FPC discussed the use of leveraged strategies in UK government bond markets. Since the start of 2024, leverage in cash gilt markets, as measured by net dealer lending and net repo borrowing by leveraged investors in the Sterling Money Market dataset, had been increasing.

57. The FPC noted that much of the recent increase in leverage could be accounted for by hedge fund net gilt repo borrowing, which had increased from £4 billion at the start of 2024 to £61 billion as of March 2025. This was within the top percentile of the historical distribution of hedge fund net positioning (going back to 2017), with much of the borrowing concentrated in a small number of funds.[2] In some sectors, such as LDI, leverage had decreased following the FPC's recommendation that these funds increase their resilience to interest rate shocks substantially.

58. The Committee agreed that these trends were not specific to the UK, as increased hedge fund activity and repo borrowing had been a theme in government bond markets in other jurisdictions. Increased repo borrowing could be used to hold sovereign debt outright or to trade the relative value of these bonds versus other asset classes. In the US, hedge fund repo borrowing to finance US Treasury cash-futures basis trade positions had been elevated in recent years. Other central banks, including the Bank of Canada and the European Central Bank, had also highlighted the use of repo leverage to finance basis trades in government bond markets. Any forced or rapid unwinding of leveraged positions, particularly when concentrated, could amplify price shocks and create financial stability risks. For example, the unwind of the US Treasury cash futures basis trade had previously contributed to dysfunction in the US Treasury market in March 2020.

59. The FPC agreed it was important for the Bank to monitor leverage and concentration in core markets as well as highly leveraged trading strategies that had the potential to amplify any stress. The Bank did this using position-level datasets as well as market intelligence, and system-wide exercises such as the **system-wide exploratory scenario** (SWES). The FPC judged that the nexus between high leverage, concentrated positioning, and interconnections between markets and participants was challenging for authorities to monitor

[2] The Bank has been collecting comprehensive information on short-term money market activity via the Sterling Money Market (SMM) data collection since July 2016.

comprehensively. This was primarily due to a lack of timely, risk-focused data covering all market participants as a result of the cross-border nature of risks and participants in core markets. Due to the pace of changes in market structure and the increasing role of NBFI leverage in core markets, the FPC emphasised the need for enhanced surveillance of leverage risks and international collaboration to address cross-border issues. The FSB's work on NBFI leverage and data was an important step in this direction. The FPC welcomed the FSB's recent **consultation report** on NBFI leverage.

60. The Committee also noted that on 10 December 2024 the FSB published eight recommendations as part of its final report on **Liquidity Preparedness for Margin and Collateral Calls**. The FPC welcomed this work to improve the liquidity preparedness of non-bank market participants. It judged the recommendations to be an important step towards enhancing financial stability and reducing pro-cyclical behaviour of market participants during times of market-wide stress.

The Contingent Non-Bank Financial Institution Repo Facility

61. The FPC welcomed that the **Contingent Non-Bank Financial Institution Repo Facility** (CNRF) had opened for applications on 28 January. The Committee encouraged eligible counterparties to sign up to the facility. Broad participation would help to ensure the new facility was effective at tackling any future episodes of severe dysfunction in the UK gilt market that could threaten UK financial stability.

Securities settlement

62. The Committee welcomed plans by HM Treasury, the FCA and the Bank to support an industry recommendation to move to T+1 settlement in UK markets by 11 October 2027. The Committee agreed that shortening the UK securities settlement cycle to T+1 would bring financial stability benefits from reduced counterparty credit risk in financial markets. Moving to T+1 should also catalyse financial market automation, making markets more efficient and resilient, supporting growth. The FPC agreed it was important that firms and settlement infrastructures had robust plans for an orderly transition in October 2027. The FPC was supportive of the UK authorities continuing their dialogue with regulators in other markets, including the European Union and Switzerland, which were pursuing similar changes.

Commodity Derivatives Regulatory Regime

63. The FPC had noted in its **July 2022 Record** that potential risks in commodity markets could propagate and amplify macroeconomic shocks, given interconnections with the wider financial system. As such, the FPC welcomed the FCA's **policy statement**, published on 5 February, on reforming the commodity derivatives regulatory framework which aimed to mitigate the risk from concentrated positions in these markets. This followed a HM Treasury commitment at Mansion House 2024 to give the FCA fuller powers of direction in relation to the reporting of over-the-counter (OTC) positions. The framework included provisions for

position limits, enhanced OTC reporting capabilities, and information sharing between the relevant exchanges and central counterparties.

Private markets

64. The FPC had previously noted in its **June 2024 Record** that private equity (PE) had grown rapidly in the period of low interest rates and now played a significant role in financing UK businesses. The long-term nature of capital investments into PE permitted fund managers to act less cyclically, which could reduce the volatility of financing flows in macroeconomic downturns. However, higher rates and subdued economic growth could lead to increased refinancing challenges and reduced performance. This, combined with the widespread use of leverage within PE firms and their portfolio companies, and the current subdued level of IPO activity, made them particularly exposed to tighter financing conditions.

65. The FPC noted that the extent of transparency around asset valuations, overall levels of leverage, and the complexity and interconnectedness of the sector continued to make assessing the financial stability risks presented by private markets challenging. It judged that improved transparency over valuation practices and overall levels of leverage, along with improved risk management practices among borrowers and lenders, would help to reduce vulnerabilities in the sector. The FPC was updated on the outcome of regulatory work to address some of these issues, including:

- The **FCA's review** of *Private Market Valuation Practices*, which focused on the robustness of firms' valuation processes and governance, and was published on 05 March 2025; and

- The PRA's work to address the shortcomings as set out in the **Dear CRO letter** *Thematic review of private equity related financing activities* published on 23 April 2024 and in the **Insurance Priorities Letter** published on 09 January 2025, which would help address some of the vulnerabilities at the intersection of private equity and life insurance sectors noted in the November 2024 Record.

66. The FPC welcomed the work of the FCA and PRA. It agreed these would help address conduct concerns and improve investor protections, raise risk management standards, and help mitigate some of the risks from private markets. The FPC judged that further work was needed to assess, and address if necessary, the broader structural and system-wide vulnerabilities presented by private markets. This would build on the work conducted in 2024 to assess system-wide risks, interconnections, and contagion risks relating to the private market ecosystem – and evaluate their potential impact on the real economy.

67. The FPC noted that while the dynamics in the sector had not led to instability so far, risks had increased. Following the US announcement on trade tariffs on 2 April, share prices of some of the largest private equity fund managers headquartered in the US had also fallen by

more than the S&P 500 US equity index. Heightened global uncertainty and perceived higher economic risk could translate into tightened financing conditions for business, as well as impacting exit opportunities for investors in an already subdued IPO market. Such developments had the potential to interact with the vulnerabilities identified by the FPC around high leverage, valuations uncertainty, credit market interconnections and the exposure of insurers. In addition, these vulnerabilities could amplify shocks to highly indebted UK corporates or investor confidence and potentially affect UK financial stability.

O-SII consultation paper

68. In November 2024, the FPC had announced its intention to consult on proposals to amend the framework used to determine Other systemically important institutions (O-SII) capital buffer rates. The FPC published a **Consultation Paper (CP)** on these proposals on 28 March 2025, with the consultation period due to close on 30 May 2025. The CP explained the Committee's proposal to index the O-SII buffer thresholds based on the 20% cumulative growth in nominal GDP between 2019 and 2023. The FPC also proposed to assess the thresholds as part of its future regular reviews of the framework and update them in line with nominal GDP growth as appropriate. The Committee noted that these proposals would provide greater headroom below a threshold for firms to grow without being subject to higher capital requirements, thereby supporting the FPC's secondary objective of supporting the economic policy of the government, which includes facilitating UK economic growth. At the same time, they would ensure that the overall resilience of the system remained aligned with the original framework, preventing undue tightening, in accordance with FPC's primary financial stability objective.

Life Insurance Stress Test

69. The Committee welcomed the launch of the PRA's biennial **Life Insurance Stress Test** on 16 January 2025. It noted that the objectives of the exercise were to: assess sector and firm resilience to severe but plausible events; strengthen market understanding and discipline through individual firm publication; and improve insight into risk management vulnerabilities. The PRA would share the findings of the exercise with the Committee in due course.

The following members of the Committee were present at the 4 and 8 April Policy meetings:

Andrew Bailey, Governor

Nathanaël Benjamin

Colette Bowe

Sarah Breeden

Jon Hall

Randall Kroszner

Clare Lombardelli

Liz Oakes

Dave Ramsden

Nikhil Rathi[3]

Carolyn Wilkins

Sam Woods[4]

Gwyneth Nurse attended as the Treasury member in a non-voting capacity.

In accordance with the relevant provisions of the Bank of England Act 1998:

- Jon Hall had notified the Committee of his shareholding at Guardtime (a blockchain based information security provider). It was agreed that he would recuse himself from discussions on cryptoassets, including stablecoins, and that he would not receive the related papers.
- Under the same provisions, Liz Oakes had notified the Committee of her position as an independent non-executive director on the boards of ecommerce payment businesses of the private equity investor Advent International, which has a majority shareholding in Mangopay. It was agreed that she would recuse herself from discussions on payment systems and stablecoins, including – on this occasion – the Committee’s discussion on cryptoassets, and that she would not receive the related papers.

[3] Nikhil Rathi was unavoidably unable to attend the meeting with the PRC on 12 March to agree the approach to the 2025 Bank Capital Stress Test. He communicated his views to the Governor beforehand.

[4] Sam Woods was unavoidably unable to attend the meeting on 8 April. He communicated his views to the Governor beforehand.

Annex 1: Financial Policy Committee policy decisions

Outstanding FPC Recommendations and Directions (as at the date of the FPC's meetings on 4 and 8 April 2025)

On 23 March 2023, the FPC made the recommendation (23/Q1/2) that:

- The Pensions Regulator (TPR) should have the remit to take into account financial stability considerations on a continuing basis. This might be achieved, for example, by including a requirement to have regard to financial stability in its objectives, which should be given equal weight alongside other factors to which TPR is required to have regard. The FPC noted that in order to achieve this, TPR would need appropriate capacity and capability.

On 15 November 2024, the FPC made the recommendation (24/Q4/1) that:

- The Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA) should ensure that mortgage lenders do not extend more than 15% of their total number of new residential mortgages at loan to income ratios at or greater than 4.5. This Recommendation applies to all lenders which extend residential mortgage lending in excess of £150 million per annum. The Recommendation should be implemented as soon as is practicable.

Other FPC policy decisions which remain in place

The following text sets out previous FPC decisions, which remain in force, on the setting of its policy tools. The calibration of these tools is kept under review.

Countercyclical capital buffer rate

The FPC agreed to maintain the UK CCyB rate at 2% on 8 April 2025, unchanged from its 15 November 2024 meeting. This rate is reviewed on a quarterly basis. The UK has also reciprocated a number of foreign CCyB rate decisions – for more details see the Bank of England **website**. Under PRA rules, foreign CCyB rates applying from 2016 onwards will be automatically reciprocated up to 2.5%.

Leverage Ratio

In September 2021, the FPC finalised its review of the UK leverage ratio framework, and issued a Direction and Recommendation to implement the outcome of the review as set out in its **October 2021 Record**.

In October 2022, in line with its statutory obligations, the FPC completed its annual review of its Direction to PRA. The FPC revoked its existing Direction to the PRA in relation to the leverage ratio regime, and issued a new Direction on the same terms as in September 2021 with the addition of discretion for the PRA to set additional conditions to the central bank reserves exclusion.

The full text of the FPC's Direction to the PRA on the leverage ratio is set out in the Annex of the **October 2022 Record**, together with the original Recommendation (now implemented).

The PRA has published its **approach** to implementing this Direction and Recommendation.

The FPC is required to and has continued to review its leverage ratio Direction annually, most recently in 2024 Q3.